Basic Financial Statements and Supplementary Information

Virginia Commonwealth University Health System Authority
(A Component Unit of Virginia Commonwealth University)
June 30, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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

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Report of Independent Auditors

The Board of Directors
Virginia Commonwealth University Health System Authority

Opinion

We have audited the financial statements of the enterprise fund of Virginia Commonwealth University Health System Authority (the Authority), a component unit of Virginia Commonwealth University, which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the enterprise fund of the Authority at June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

As discussed in Note 2 to the financial statements, in the fiscal year ended June 30, 2023, the Authority adopted new accounting guidance for its method for accounting for subscription-based information technology arrangements as a result of the adoption of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective July 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Authority’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal-control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis on pages 4 through 16, the Schedule of Employer Contributions, the Schedule of Authority’s Share of Net Pension Liability, the Schedule of Authority’s Share of Net OPEB Liability Health Insurance Credit Program, and the Schedule of Authority’s Share of Net OPEB Liability Pre-Medicare Retiree Healthcare on pages 82 through 85, respectively, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 financial statements, and other knowledge we obtained during our audit of the 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.

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Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the Authority's 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 86 through 88 and the Combining Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund, included on page 89, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

October 5, 2023

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, 2023, 2022 and 2021. Please read it in conjunction with the Authority's basic financial statements, which begin on page 17. As discussed in Note 1(v) to the basic financial statements, effective July 1, 2022 the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Implementation of this standard resulted in restatements to the balances and activity as of and for the year ended June 30, 2022.

Financial Statement Overview

The financial statements herein are composed 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 Medical College of Virginia 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, 2023 and 2022, into its financial statements for the years then ended. The Authority's reporting entity includes VCUMC, MCV Associated Physicians (MCVAP), Community Memorial Hospital, Inc. and subsidiaries (CMH), VCU Health Tappahannock Hospital (TAPP), VCU Health Children's Services at Brook Road (Children's), Virginia Children's Care Network, LLC (VCCN), VCU Health Ambulatory Surgical Center, LLC (ASC), University Health Services, Inc. and subsidiaries (UHS) and Aries Insurance Services, Ltd. (ARIES). The Clinical Enterprise includes VCUMC, MCV Associated Physicians (MCVAP), Community Memorial Hospital, Inc. and subsidiaries (CMH), VCU Health Tappahannock Hospital (TAPP), VCU Health Children's Services at Brook Road (Children's), Virginia Children's Care Network, LLC (VCCN), VCU Health Ambulatory Surgical Center, LLC (ASC) and University Health Services, Inc.

June 30, 2023 Compared to June 30, 2022

Financial Highlights

- The Authority's net position increased by $84,163, or 2.9%, 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 $313,281, or 11.7%, from prior year. The Authority continued to recover from the impact of COVID-19 in FY2023 and operationalized new facilities for the health system positively impacting patient service revenue. Regulatory changes and governmental reduction acts have significant effects on VCUMC's reimbursement rates given its high mix of government payors.

- The Authority reported an operating income for the year ended June 30, 2023, of $9,159, a $58,051 increase from operating loss of $48,892 for the year ended June 30, 2022, primarily driven by strong patient revenue and strong diligence managing operational expenses. The Clinical Enterprise had an increase of $56,458 in operating loss/income over prior year as a result of this year's results of operations.

- The major capital expenditures for the Authority in 2023 related to the completion of a new pediatric inpatient hospital 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. The adult outpatient building completed construction in 2022.

- In March 2020, the World Health Organization (WHO) declared the novel coronavirus disease (COVID-19) a pandemic. Since that time, 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. In May 2023, WHO declared an end to the COVID-19 public health emergency.

- As a result of COVID-19 impacts, the Authority recognized revenue of $3,737 and $22,334 from the CARES Act and other federal grants during the years ended June 30, 2023 and 2022, respectively. These items are included in non-operating revenues on the statement of revenues, expenses and changes in net position.

- Reflected in non-operating revenues and (expenses) in the financial statements for the year is income from equity method investments of $5,400 and $17,709 for the years ended June 30, 2023 and 2022, respectively. In FY2023, the Authority sold the remaining 20% ownership in Virginia Premier resulting in $61,231 gain from the sale, which is recorded in other nonoperating expenses, net. Additional information is available in Note 3 of the basic financial statements. Equity method investments totaled $3,068 as of June 30, 2023. During FY2023, the Authority terminated and defeased all obligations of the Authority under a Deed of Lease dated July 15, 2021. In connection with the transaction, the Authority was required to pay $72,998, which is also recorded in other nonoperating expenses, net.

- During FY2023, VCUHSA adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs) (GASB Statement No. 96). GASB Statement No. 96 establishes a single model for SBITA accounting based on the principle that SBITAs are financings of the right-to-use an underlying asset.

(Continued)

(in thousands)

Under this Statement, VCUHSA was required to recognize a SBITA liability and an intangible right-to-use SBITA asset for certain of its SBITAs that were previously reported as operating expense under the previous accounting standards. As a result of the adoption of GASB Statement No. 96, amounts for the fiscal year ended June 30, 2022, reflect a retrospective increase of $33,251 for the recognition of the right-to-use assets included in capital assets, net with a corresponding increase in SBITA obligations. Implementation of this standard resulted in a decrease of $1,807 to the net position as of June 30, 2022, in the Authority's basic financial statements.

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 $2,979,428 as of June 30, 2023. Of this net position 44.7% ($1,331,799) are related to capital assets, 0.9% ($27,288) are restricted funds, and the remaining 54.4% ($1,620,341) 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 2023	June 30 2022
Current assets	$ 881,953	$ 915,282
Capital assets, net	1,814,802	1,796,405
Other noncurrent assets	1,558,474	1,570,755
Total assets	4,255,229	4,282,442
Deferred outflows of resources	22,947	26,575
Total assets and deferred outflows of resources	$ 4,278,176	$ 4,309,017
Current liabilities	$ 439,533	$ 483,069
Long-term liabilities	809,382	877,378
Total liabilities	1,248,915	1,360,447
Deferred inflows of resources	49,833	53,305
Total liabilities and deferred inflows of resources	$ 1,298,748	$ 1,413,752
Net position:		
Net investment in capital assets	$ 1,331,799	$ 1,289,168
Restricted – expendable	4,653	5,768
Restricted – nonexpendable	22,635	21,935
Unrestricted	1,620,341	1,578,394
Total net position	$ 2,979,428	$ 2,895,265

(in thousands)

Table 2

Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30	
	2023	**2022**
Operating revenues:		
Net patient service revenue	$ 3,000,353	$ 2,687,072
Other contract revenue	21,490	26,705
Other operating revenue	29,198	31,043
Total operating revenues	3,051,041	2,744,820
Operating expenses:		
Salaries, wages and employee benefits	1,703,534	1,503,330
Purchased services	338,494	334,340
Supplies	706,356	638,843
Depreciation and amortization	120,949	134,487
Other operating expenses	172,549	182,712
Total operating expenses	3,041,882	2,793,712
Operating income (loss)	9,159	(48,892)
Net nonoperating revenues (expenses)	91,239	(185,757)
Excess/(deficiency) of revenues over expenses before other changes in net position	100,398	(234,649)
Other changes in net position, net	(16,235)	(17,813)
Increase/(decrease) in net position	84,163	(252,462)
Beginning net position	2,895,265	3,147,727
Ending net position	$ 2,979,428	$ 2,895,265

The Authority's operating revenue increased by 11.2% ($306,221) over the prior year. This increase in revenues resulted from increased patient volumes. The Clinical Enterprise had an increase of $308,882, or 10.9%, in total operating revenues over prior year as a result of this year's results of operations.

Total operating expenses increased 8.9% ($248,170). Personnel costs are the largest single cost of the Authority in 2023, comprising 56% of operating costs in 2023. An increase in personnel-related costs of $200,204, or 13.3%, from prior year reflects salary and contract labor expenses required to meet market demands and the required staff levels to meet both quality and volume initiatives. The Clinical Enterprise had a net increase of $252,424, or 8.7%, in total operating expenses over prior year as a result of this year's results of operations.

(in thousands)

Capital Asset and Debt Administration

Capital Assets

The Authority's net capital assets increased by $18,397, or 1.0%, over prior year amounts.

Table 3

**Virginia Commonwealth University
Health System Authority**

Capital Assets

	2023	2022
Land	$ 25,468	$ 25,468
Land improvements	6,984	6,984
Buildings and fixed equipment	2,068,752	1,651,901
Moveable equipment	992,967	918,193
Construction in progress	109,592	482,085
Leased assets	71,698	70,442
SBITA assets	56,679	44,256
	3,332,140	3,199,329
Accumulated depreciation and impairment	(1,517,338)	(1,402,924)
Total capital assets, net	$ 1,814,802	$ 1,796,405

(Continued)

(in thousands)

Table 4

Virginia Commonwealth University Health System Authority

Schedule of Additions and Retirements

	2023	2022
Capital assets – net, beginning of year	$ 1,796,405	$ 1,492,151
Additions	125,799	378,233
Additions, leased assets	1,592	16,252
Additions, SBITA assets	12,423	44,256
Disposals, net of accumulated depreciation	(468)	–
Depreciation, current fiscal year	(120,949)	(134,487)
Capital assets – net, end of year	$ 1,814,802	$ 1,796,405

Capital asset additions during fiscal year 2023 and 2022 are composed of:

	Year Ended June 30	
	2023	2022
Adult outpatient facility	$ 3,189	$ 40,746
Children's outpatient facility	78,065	147,818
Major renovation projects	8,599	42,419
Purchase and replacement of moveable equipment	19,320	65,195
New building purchase and construction	2,020	13,858
Investments in information system infrastructure, business systems and equipment	14,606	68,197
Leased assets	1,592	16,252
SBITA assets	12,423	44,256
Total capital asset additions	$ 139,814	$ 438,741

The Authority has a five-year capital plan, which includes a capital projection of $100,000 of expenditures in fiscal year 2024.

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

(in thousands)

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

	June 30	
	2023	**2022**
General Revenue Bonds Series 2021	$ 62,714	$ 66,086
General Revenue Bonds Series 2017	188,190	193,050
Premium – Bonds Series 2017	14,420	15,628
General Revenue Bonds Series 2014	165,000	200,000
General Revenue Bonds Series 2013	110,870	112,180
Note payable	100,000	100,000
Capital leases	–	144
CMH USDA loan	60,975	61,851
CMH First Citizens loan	359	2,473
Leased assets liability	47,338	56,140
SBITA assets liability	26,123	30,554
Total	$ 775,989	$ 838,106

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

(Continued)

June 30, 2022 Compared to June 30, 2021

Financial Highlights

- The Authority's net position decreased by $252,462, or 8.0%, 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 $243,500, or 10.0%, from prior year. Recovering from the impact of COVID-19 had 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 payors.

- The Authority reported an operating loss for the year ended June 30, 2022, of $48,892, a $56,347 decrease from operating income of $7,455 for the year ended June 30, 2021, primarily driven by continued impacts from COVID-19, high contract labor costs and increased operational expenses with implementation of major information system infrastructure. The Clinical Enterprise had a decrease of $65,059 in operating loss/income over prior year as a result of this year's results of operations.

- The major capital expenditures for the Authority in 2022 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. Since that time, 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 $22,334 and $55,254 from the CARES Act and other federal grants during the years ended June 30, 2022 and 2021, respectively. These items are included in non-operating revenues on the statement of revenues, expenses and changes in net position.

- During FY2022, VCUHSA adopted GASB Statement No. 87, *Leases* (GASB Statement No. 87). GASB Statement No. 87 establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. Under this Statement, VCUHSA was required to recognize a lease liability and an intangible right-to-use lease asset for certain of its leases that were previously reported as operating leases under the previous accounting standards. As a result of the adoption of GASB Statement No. 87, amounts for the fiscal year ended June 30, 2021, reflect a retrospective increase of $45,412 for the recognition of the right-to-use assets included in capital assets, net with a corresponding increase in Lease obligations. Implementation of this standard resulted in a decrease of $602 to the net position as of June 30, 2021, in the Authority's basic financial statements.

(Continued)

(in thousands)

- Reflected in non-operating revenue in the financial statements for the year is income from equity method investments of $17,709 and $16,945 for the years ended June 30, 2022 and 2021, respectively. Equity method investments totaled $59,012 as of June 30, 2022.

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 $2,895,265 as of June 30, 2022. Of this net position 44.5% ($1,289,168) are related to capital assets, 1.0% ($27,703) are restricted funds and the remaining 54.5% ($1,578,394) 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	
	2022	**2021**
Current assets	$ 915,282	$ 805,243
Capital assets, net	1,796,405	1,492,151
Other noncurrent assets	1,570,755	2,188,043
Total assets	4,282,442	4,485,437
Deferred outflows of resources	26,575	38,939
Total assets and deferred outflows of resources	$ 4,309,017	$ 4,524,376
Current liabilities	$ 483,069	$ 494,937
Long-term liabilities	877,378	849,024
Total liabilities	1,360,447	1,343,961
Deferred inflows of resources	53,305	32,688
Total liabilities and deferred inflows of resources	$ 1,413,752	$ 1,376,649
Net position:		
Net investment in capital assets	$ 1,289,168	$ 1,011,791
Restricted – expendable	5,768	5,768
Restricted – nonexpendable	21,935	26,321
Unrestricted	1,578,394	2,103,847
Total net position	$ 2,895,265	$ 3,147,727

(in thousands)

Table 2

Virginia Commonwealth University
Health System Authority

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30	
	2022	**2021**
Operating revenues:		
Net patient service revenue	$ 2,687,072	$ 2,443,572
Other contract revenue	26,705	35,225
Other operating revenue	31,043	19,768
Total operating revenues	2,744,820	2,498,565
Operating expenses:		
Salaries, wages and employee benefits	1,503,330	1,426,787
Purchased services	334,340	203,185
Supplies	638,843	562,743
Depreciation and amortization	134,487	106,906
Other operating expenses	182,712	191,489
Total operating expenses	2,793,712	2,491,110
Operating (loss) income	(48,892)	7,455
Net nonoperating revenues (expenses)	(185,757)	514,843
(Deficiency)/excess of revenues over expenses before other changes in net position	(234,649)	522,298
Other changes in net position, net	(17,813)	(4,196)
(Decrease)/increase in net position	(252,462)	518,102
Beginning net position	3,147,727	2,629,625
Ending net position	$ 2,895,265	$ 3,147,727

The Authority's operating revenue increased by $246,255 over the prior year. This increase in revenues resulted from increased patient volumes with lower COVID-19 impacts year over year. The Clinical Enterprise had an increase of $264,022, or 10.3%, in total operating revenues over prior year as a result of this year's results of operations.

Total operating expenses increased 12.1% ($302,602). Personnel costs are the largest single cost of the Authority in 2022, comprising 53.8% of operating costs in 2022. An increase in personnel-related costs of $76,543, or 5.4%, from prior year reflects salary and contract labor expenses required to meet market demands and the required staff levels to meet both quality and volume initiatives. The Clinical Enterprise had a net increase of $329,081, or 12.9%, in total operating expenses over prior year as a result of this year's results of operations.

(in thousands)

Capital Asset and Debt Administration

Capital Assets

The Authority's net capital assets increased by $304,254, or 20.4%, over prior year amounts.

Table 3

Virginia Commonwealth University
Health System Authority

Capital Assets

	2022	2021
Land	$ 25,468	$ 25,468
Land improvements	6,984	7,199
Buildings and fixed equipment	1,651,901	1,256,176
Moveable equipment	918,193	752,083
Construction in progress	482,085	670,903
Leased assets	70,442	54,190
SBITA assets	44,256	–
	3,199,329	2,766,019
Accumulated depreciation and impairment	(1,402,924)	(1,273,868)
Total capital assets, net	$ 1,796,405	$ 1,492,151

(in thousands)

Table 4

Virginia Commonwealth University
Health System Authority

Schedule of Additions and Retirements

	2022	2021
Capital assets – net, beginning of year	$ 1,492,151	$ 1,136,815
Additions	378,233	390,869
Additions, leased assets	16,252	54,190
Additions, SBITA assets	44,256	–
Additions, purchase of TAPP assets, net of depreciation	–	17,098
Disposals, net of accumulated depreciation	–	85
Depreciation, current fiscal year	(134,487)	(106,906)
Capital assets – net, end of year	$ 1,796,405	$ 1,492,151

Capital asset additions during fiscal year 2022 and 2021 are composed of:

	Year Ended June 30	
	2022	2021
Adult outpatient facility	$ 40,746	$ 126,333
Children's outpatient facility	147,818	101,856
Major renovation projects	42,419	57,871
Purchase and replacement of moveable equipment	65,195	20,428
New building purchase and construction	13,858	11,453
Investments in information system infrastructure, business systems and equipment	68,197	72,928
Leased assets	16,252	54,190
SBITA assets	44,256	–
	$ 438,741	$ 445,059

The Authority has a five-year capital plan, which includes a capital projection of $156,000 of expenditures in fiscal year 2022.

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

(Continued)

(in thousands)

Debt

Table 5

Virginia Commonwealth University
Health System Authority

Debt

	June 30	
	2022	**2021**
General Revenue Bonds Series 2021	$ 66,086	$ 66,086
General Revenue Bonds Series 2017	193,050	194,745
Premium – Bonds Series 2017	15,628	16,874
General Revenue Bonds Series 2014	200,000	200,000
General Revenue Bonds Series 2013	112,180	113,445
General Revenue Bonds Series 2011	–	3,025
Note payable	100,000	–
Capital leases	144	1,044
CMH USDA loan	61,851	62,697
CMH First Citizens loan	2,473	4,524
Leased assets liability	56,140	50,800
SBITA liability	30,554	–
Total	$ 838,106	$ 713,240

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)

Statements of Net Position – Enterprise Fund

June 30, 2023
(In thousands)

	June 30	
	2023	**2022**
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	$ 321,578	$ 290,513
Restricted cash	137	157
Patient accounts receivable, net	381,652	441,481
Settlements due from third-party payors	38,578	41,747
Other accounts receivable	49,064	48,447
Due from related parties	190	2,351
Current portion of assets whose use is designated	7,400	7,400
Supplies and other current assets	83,354	83,186
Total current assets	881,953	915,282
Capital assets:		
Land	25,468	25,468
Depreciable capital assets, net	1,607,926	1,205,149
Construction in progress	109,592	482,085
Leased assets, net	41,537	50,452
SBITA assets, net	30,279	33,251
Total capital assets, net	1,814,802	1,796,405
Other assets:		
Assets whose use is restricted	39,523	39,414
Assets whose use is designated, less current portion	1,436,501	1,396,092
Long-term investments	57,106	51,420
Equity method investments	3,068	59,012
Other assets	22,276	24,817
Total other assets	1,558,474	1,570,755
Total assets	4,255,229	4,282,442
Deferred outflows of resources:		
Deferred loss on debt refunding	20,057	22,033
Pension and postretirement related deferred outflows	2,890	4,542
Total deferred outflows of resources	22,947	26,575
Total assets and deferred outflows of resources	$ 4,278,176	$ 4,309,017

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

Statements of Net Position – Enterprise Fund (Continued)
(In thousands)

	June 30	
	2023	**2022**
Liabilities, deferred inflows of resources and net position		
Current liabilities:		
Current portion of long-term debt	$ 11,200	$ 12,675
Current portion of lease obligations	9,299	10,524
Current portion of SBITA obligations	14,724	13,515
Trade accounts payable	132,160	133,392
Settlements due to third-party payors	124,841	112,095
Accrued salaries, wages and employee benefits	67,519	87,824
Accrued leave	40,859	38,223
Accrued interest payable	12,667	10,482
Current portion of estimated workers’ compensation claims	1,100	1,150
Current portion of estimated losses on malpractice claims	6,300	6,250
Other accrued liabilities	18,864	56,939
Total current liabilities	439,533	483,069
Other liabilities:		
Long-term debt, less current portion	691,328	738,737
Long-term lease obligations	38,040	45,616
Long-term SBITA obligations	11,399	17,039
Estimated workers’ compensation claims	6,343	7,854
Estimated losses on malpractice claims	23,737	21,082
Fair value of hedging derivatives	13,193	20,500
Net pension and postretirement liability	19,573	20,987
Other liabilities	5,769	5,563
Total liabilities	1,248,915	1,360,447
Deferred inflows of resources:		
Change in fair value of interest rate swap	17,183	9,876
Pension and postretirement related deferred inflows	15,235	24,465
Right to use leases	17,415	18,964
Total deferred inflows of resources	49,833	53,305
Total liabilities and deferred inflows of resources	1,298,748	1,413,752
Net position:		
Net investment in capital assets	1,331,799	1,289,168
Restricted:		
Expendable	4,653	5,768
Nonexpendable permanent endowment	22,635	21,935
Unrestricted	1,620,341	1,578,394
Total net position	2,979,428	2,895,265
Total liabilities, deferred inflows of resources and net position	$ 4,278,176	$ 4,309,017

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	
	2023	**2022**
Operating revenues:		
Net patient service revenue	$ 3,000,353	$ 2,687,072
Other contract revenue	21,490	26,705
Other operating revenue	29,198	31,043
	3,051,041	2,744,820
Operating expenses:		
Salaries and wages	1,369,554	1,217,774
Employee benefits	333,980	285,556
Purchased services	338,494	334,340
Supplies	706,356	638,843
Other expenses	172,549	182,712
Provision for depreciation and amortization	120,949	134,487
	3,041,882	2,793,712
Operating income/(loss)	9,159	(48,892)
Nonoperating revenues and (expenses):		
Investment income/(expense)	117,596	(196,635)
Interest expense	(32,445)	(28,570)
Other nonoperating expense, net	(19,175)	(16,644)
Income from equity method investments	5,400	17,709
CARES Act and other COVID-19 revenue	3,737	22,334
Donations and gifts, net	16,126	16,049
Nonoperating revenues and (expenses), net	91,239	(185,757)
Income/(loss) before other revenues, expenses, gains and losses	100,398	(234,649)
Change in beneficial interest in trusts	703	(4,386)
Other	(16,938)	(13,427)
Increase/(decrease) in net position	84,163	(252,462)
Net position at beginning of year	2,895,265	3,147,727
Net position at end of year	$ 2,979,428	$ 2,895,265

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	
	2023	**2022**
Operating activities		
Cash received from third-party payors and patients	$ 3,074,996	$ 2,751,369
Cash paid to employees and employee benefits	(1,732,213)	(1,516,513)
Cash paid to suppliers	(1,217,409)	(1,135,549)
Other operating cash payments	(3,530)	(3,161)
Other operating cash receipts	49,669	24,718
Net cash provided by operating activities	171,513	120,864
Noncapital financing activities		
Donations and gifts, net	16,126	16,049
Transfers to affiliates	(16,939)	(13,427)
Accelerated Medicare advance repayments	(26,679)	(133,347)
CARES Act federal funding and Virginia Coronavirus Relief Fund funding	1,814	17,291
Net cash used in noncapital financing activities	(25,678)	(113,434)
Capital and related financing activities		
Purchases of capital assets	(115,900)	(361,921)
Proceeds from note payable	–	100,000
Principal paid on long-term debt	(47,675)	(9,782)
Principal paid on lease liabilities	(10,394)	(9,747)
Principal paid on SBITA liabilities	(16,854)	(13,702)
Cash paid for interest	(29,493)	(27,091)
Cash paid to terminate real estate lease	(74,360)	–
Other financing cash flows	(4,027)	(2,046)
Net cash used in financing cash flows	(298,703)	(324,289)
Investing activities		
Interest and dividends on investments	10,111	4,032
Purchases of investments	(112,683)	(191,691)
Proceeds from sales of investments	182,528	540,851
Net proceeds from sale of Virginia Premier Health Plan	88,601	–
Dividends from investment in Virginia Premier Health Plan	18,600	25,600
Equity contributions on joint venture	5,400	–
Net cash provided by investing activities	192,557	378,792
Net increase in cash and cash equivalents	39,689	61,932
Cash and cash equivalents at beginning of year	302,362	240,430
Cash and cash equivalents at end of year	$ 342,051	$ 302,362
Reconciliation of cash and cash equivalents at end of year to the basic statements of net position – enterprise fund:		
Cash and cash equivalents	$ 321,578	$ 290,513
Restricted cash	137	157
Assets whose use is restricted	20,336	11,692
Total cash and cash equivalents	$ 342,051	$ 302,362

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	
	2023	**2022**
Reconciliation of operating income to net cash provided by operating activities:		
Operating income/(loss)	$ 9,159	$ (48,892)
Depreciation and amortization	120,949	134,487
Loss on disposal of capital assets	74	–
Change in:		
Patient A/R	59,829	5,341
Third-party settlements	14,815	56,780
Other A/R	(3,530)	(3,161)
Due to/from affiliates	2,161	(3,566)
Supplies and other assets	4,025	(7,729)
Accounts payable	(10,738)	31,343
Accrued salaries	(20,305)	(23,606)
Accrued leave	2,636	(1,125)
Workers' comp accrual	(1,561)	(2,153)
Malpractice accrual	2,705	(2,814)
Other liabilities	(8,708)	(14,041)
Net cash provided by operating activities	$ 171,513	$ 120,864
Supplemental disclosure of cash flow information		
Supplemental schedule of non-cash operating activity:		
Capital asset purchases in trade accounts payable	$ 9,506	$ 16,314
Lease receivable	18,462	19,701
Deferred inflows of resources – leases	17,415	18,964
Supplemental schedule of non-cash capital and related financing activity:		
Lease assets	$ 1,592	$ 16,252
Lease liabilities	1,592	15,087
SBITA assets	12,423	44,256
SBITA liabilities	12,423	44,256

See accompanying notes to basic financial statements.

(1) Reporting Entity

Virginia Commonwealth University Health System Authority (the Authority or VCUHSA) 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, Inc. and subsidiaries (CMH), VCU Health Tappahannock Hospital (TAPP), VCU Health Children's Services at Brook Road (Children's), Virginia Children's Care Network, LLC (VCCN), VCU Health Ambulatory Surgical Center, LLC (ASC), University Health Services, Inc. and subsidiaries (UHS) and Aries Insurance Services, Ltd (ARIES). Each of these is considered a component unit 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. The VCUMC campus includes the Children's Hospital of Richmond and the Adult Outpatient Pavilion, both located in downtown Richmond.

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 (CMHP) is a component unit of CMH and operates outpatient clinics in South Hill, Clarksville and Chase City, Virginia. CMHP is organized as a single member limited liability company, of which CMH is the sole member. CMHP is disregarded for tax purposes. 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 as a single member limited liability company in the Commonwealth of Virginia. It 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 satisfaction, and expanding opportunities for quality, safety, research and education.

ASC was created in May 2021 as a single member limited liability company in the Commonwealth of Virginia. ASC was created to provide ambulatory surgical services to preserve and restore the health of patients in the Richmond community, Virginia and beyond.

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. UHS is the sole member of UHS Professional Education Programs, Inc. (UHS PEP), which was also created in 1995 for the purpose of providing educational programs for VCUMC physicians and other physicians within and outside 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 financial statements as of June 30, 2022 include the Authority's equity interest investments with Virginia Premier Health Plan, Sheltering Arms Institute, Health at Home, LLC and HealthEco CPP SPV I, LLC. During fiscal year 2023, the remaining equity interest in Virginia Premier was sold. The financial statements as of June 30, 2023 include the Authority's equity interest investments with 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 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 are in accordance with U.S. generally accepted accounting principles applicable to a proprietary fund of a government unit, promulgated by the Governmental Accounting Standards Board. The financial statement presentation and significant accounting policies adopted by the Authority conform to general practice within the governmental healthcare industry, as published by the American Institute of Certified Public Accountants in its audit and accounting guide, *Health Care Organizations*.

(b) Enterprise Fund Accounting

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

(c) Cash Equivalents

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

(d) Investments and Investment Income

Investments in marketable debt and equity securities are carried at fair value based on quoted market prices. Investments in nonreadily determinable securities, including investment companies and limited partnerships, are accounted for at fair value using net asset value (NAV) as a practical expedient based on the underlying net asset value of the investment. Changes in market conditions and the economic environment may significantly impact the investments' net asset value and the carrying value of the Authority's interest. The Authority's ownership structure does not provide for control over the related investees and the Authority's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Individual investment holdings within the nonreadily determinable investments include non-marketable and market traded debt, equity and real asset securities and interests in other alternative investments. The Authority may be exposed indirectly to securities lending, short sales of securities, and trading in futures and forward contracts, options and other derivative products. Such investments often have liquidity restrictions under which the Authority's capital may be divested only at specified times. Financial information used by the Authority to evaluate its nonreadily determinable investments is provided by the investment manager or general partner and includes 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.

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.

At June 30, 2022, the Authority's 45% ownership interest in the Sheltering Arms Corporation joint venture (Rehab JV), 20% ownership interest in Virginia Premier, 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. During fiscal year 2023, the Authority sold the 20% ownership interest in Virginia Premier. The agreement includes calculations associated with claims through December 2025. All other ownership interests remain consistent as of June 30, 2023.

The Authority reviews the carrying value of its equity method 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, 2023 and 2022, the Authority determined that no such factors existed with respect to those investments.

(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 $137,960 and $184,238 at June 30, 2023 and 2022, 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 Children's Hospital 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 $19,866 and $19,162 are restricted by donors for VCUMC in perpetuity and are included in assets whose use is restricted at June 30, 2023 and 2022, 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 or impaired, at fair value at the date of donation or impairment, respectively. 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. 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. During fiscal year 2023, VCUHSA conducted a study to reassess the estimated remaining useful lives of its buildings, building improvements, equipment and IT assets. As a result of this study, VCUHSA prospectively adjusted the estimated remaining useful lives of these assets effective July 1, 2022, which resulted in a reduction to depreciation expense of $41,300 in 2023.

(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. VCUHSA 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 qualified as cash flow hedges are recorded as deferred inflows or outflows on the accompanying statements of net position.

(k) Lease Obligations and Right-to-Use Lease Assets

Effective July 1, 2021, VCUHSA adopted GASB Statement No. 87, *Leases* (GASB Statement No. 87). GASB Statement No. 87 establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. GASB Statement No. 87 requires a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions. As such, VCUHSA recognized a lease obligation and right-to-use asset for agreements whereby VCUHSA obtains the right to the present service capacity of the underlying asset and the right to determine the nature and manner of use of the underlying assets for a period of one year or greater.

VCUHSA is a lessee for non-cancellable leases. The lease obligations represent the net present value of payments expected to be made during the lease term, and VCUHSA then reduces the liability by the principal portion of the lease payments. VCUHSA monitors changes in circumstances that would require a re-measurement of a lease. Most of the leases include one or more options to renew, and have terms that range from 3 to 15 years. The exercise of renewal options is at the discretion of VCUHSA. VCUHSA excluded the options from the measurement since VCUHSA is not reasonably certain it will exercise options to extend the leases. Lease payments are apportioned between interest expense and the principal based on the effective interest method.

The right-to-use asset is measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date and adjusted for certain costs. The right-to-use lease assets and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. Such amortization is included as an amortization expense in the accompanying statements of revenues, expenses and changes in net position.

(l) Subscription Based Information Technology Arrangements (SBITA)

In fiscal year 2023, VCUHSA adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs) (GASB Statement No. 96). GASB Statement No. 96 establishes a single model for SBITA accounting and that a SBITA would result in a right-to-use intangible subscription asset and a corresponding subscription liability. The statement also defines a SBITA and provides the criteria for outlays other than subscription payments, including implementation costs of a SBITA. As such, VCUHSA recognized a subscription obligation and a right-to-use intangible subscription asset for agreements whereby VCUHSA obtains the right to the present service capacity of the underlying assets for a period greater than one year.

The adoption of this statement resulted in VCUHSA reporting an increase in subscription obligations and the related right-to-use assets for SBITAs that were previously reported as outflows of resources under the previous accounting standards. The statement of net position at June 30, 2022 was restated to reflect an increase of approximately $33,251, for the recognition of the right-to-use intangible subscription assets included in capital assets, net with a corresponding increase in SBITA obligations of $30,544. Implementation of this standard resulted in a decrease of $1,807 to the net position as of June 30, 2022 in the Authority's basic financial statements.

VCUHSA's SBITA obligations represent the net present value of payments expected to be made during the subscription term, and VCUHSA then reduces the liability by the principal portion of the subscription payment. VCUHSA monitors changes in circumstances that would require a re-measurement of a SBITA. Some of the SBITAs include options to renew and have terms that range from 2 to 5 years. The exercise of renewal options is at the discretion of VCUHSA. VCUHSA excluded the options from measurement since VCUHSA is not reasonably certain it will exercise the options to extend the SBITAs. Subscription payments are apportioned between interest expense and the principal based on the effective interest method. The right-to-use intangible asset is measured as the sum of the initial subscription liability amount, adjusted for payments made to the SBITA vendor before commencement of the subscription term and capitalizable implementation costs. The right-to-use intangible subscription assets are amortized using the straight-line method over the subscription term. Such amortization is included as an amortization expense in the accompanying statements of revenues, expenses and changes in net position.

(m) Accrued Leave

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

(n) 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.

(o) 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.

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.

(p) 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 $56,255 and $49,546 at June 30, 2023 and 2022, respectively, and are included in unrestricted net position in the accompanying statements of net position.

(q) Operating Revenues and Expenses

The Authority's statements of revenues, expenses and changes in net position distinguish 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 amounts received as grants from various federal and state agencies and are reported as nonoperating revenues.

(r) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under payment agreements with third-party payors, 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, including final settlements and updated cost report estimates, was to increase the Authority's net patient service revenue by approximately $44,823 and $79,889 in 2023 and 2022, respectively. Estimated settlements due to and from third-party payors include amounts that are currently under appeal with various federal and state agencies.

Net patient service revenue includes an estimate of uncollectible charges which is a deduction from gross revenue. The Authority's estimated cost associated with these charges is approximately $126,273 and $90,169 for the years ended June 30, 2023 and 2022, respectively.

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

Anthem – Inpatient acute care services rendered to Anthem subscribers are paid at prospectively determined rates per discharge or discounted rates. Outpatient services rendered to Anthem subscribers are 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, 2014.

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 $753,896 and $679,811 in 2023 and 2022, respectively. The Authority's Medicaid cost reports have been audited by the Medicaid program representative through June 30, 2019.

(s) *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 $19,189 and $39,662 for the years ended June 30, 2023 and 2022, respectively.

(t) *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, TAPP, VCCN, ASC 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.

(u) Use of Estimates

The preparation of financial statements in accordance 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.

(v) 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 prior method were not reported as assets and liabilities 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 (1) enhances comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model and (2) enhances 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 became effective for reporting periods beginning after June 15, 2021. As of July 1, 2021, the Authority adopted GASB Statement No. 87, *Leases*. Implementation of this standard resulted in a decrease of $602 to net position as of June 30, 2021, in the Authority's financial statements. The effects on balances for the lease obligations and right-to-use lease asset are further described under Note 1(k).

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 became effective for reporting periods beginning after December 15, 2020. The requirements of this Statement are applied prospectively. The Authority adopted this statement in fiscal year 2022, which resulted in no capitalized interest costs for the construction remaining on several large projects in the current year, whereas similar costs had been capitalized in the prior year.

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. The Authority adopted the final portions of this guidance during the year ended June 30, 2023. There was no material impact on the financial statements as a result of adoption.

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* (adopted in fiscal year 2022)
- 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
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

The Authority adopted the final portions of this guidance during the year ended June 30, 2022. There was no material impact on the financial statements as a result of adoption.

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 was expected to cease to exist in its current form at the end of 2022. 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, 2022. There was no material impact on the financial statements as a result of adoption.

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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Implementation of this standard resulted in a decrease of $1,807 to net position as of June 30, 2022, in the Authority's financial statements. The effects on balances for the SBITA obligations and right-to-use asset are further described under Note 6.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of certain exchange or exchange-like financial guarantees within the scope of Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, as amended, related to the focus of the government-wide financial statements

- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- Terminology used in Statement 53 to refer to resource flows statements

The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

- The requirements related to leases, PPPs and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The Authority adopted certain portions of this guidance for the year ended June 30, 2023. There was no material impact on the financial statements as a result of adoption.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections.* This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferably should be based on the qualitative characteristics of financial reporting — understandability, reliability, relevance, timeliness, consistency and comparability. This Statement also addresses corrections of errors in previously issued financial statements. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences.* This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The Authority is in the process of evaluating the impact of this Statement on its basic financial statements.

(w) 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. In May 2023, the WHO declared an end to the COVID-19 public health emergency.

Throughout fiscal years 2022 and 2023, 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 $146,860 from various provisions in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of which approximately $3,737 and $22,334 has been recognized as nonoperating revenue in the 2023 and 2022 statements of revenues, expenses and changes in net position, respectively. 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 received approximately $180,032 of Medicare advance payments as part of the CMS Accelerated and Advance Payments Program during fiscal year 2020, which were recorded with a corresponding liability. Repayment of the advanced funds began in fiscal year 2021; the Authority has paid all remaining balances as of June 30, 2023.

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. During fiscal years 2020 to 2023, VCUHSA experienced multiple waves of patients due to variants of the COVID-19 virus. This impacted operations overall as the health system balanced the patient needs, staffing and volumes during the fiscal year. COVID-19 continues and could still negatively affect the operating margins and financial results of the Authority. Although, the public health emergency has been ended, 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 provided for deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. At June 30, 2023, the Authority had paid the remaining deferral amounts in full.

(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, 2023 and 2022, the carrying values of the Authority's cash and cash equivalent deposits totaled $321,578 and $290,513, 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, 2023 and 2022, the Authority had $31,394 and $25,286, 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, 2023 and 2022, the Authority had $126,420 and $117,763, respectively, in fixed income investments, whose value could fluctuate over time due to interest rate fluctuations.

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

At June 30, 2023, the credit quality ratings for the Authority's fixed income investments were 44% AAA (asset-backed securities, money market funds, corporate bonds and mortgage-backed securities), 5% AA (asset-backed securities and corporate bonds), 30% A (asset-backed securities, corporate and municipal bonds) and 21% below A (asset-backed securities and corporate bonds).

(In thousands)

At June 30, 2022, the credit quality ratings for the Authority's fixed income investments were 44% AAA (asset-backed securities, money market funds, corporate bonds and mortgage-backed securities), 5% AA (asset-backed securities and corporate bonds), 31% A (asset-backed securities, corporate and municipal bonds) and 20% below A (asset-backed securities and corporate bonds).

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

	June 30	
	2023	**2022**
Enterprise funds:		
Assets whose use is restricted:		
Externally restricted:		
By donors	$ 20,442	$ 19,684
Under bond indenture	14,022	13,886
Held by Children's Hospital Foundation	5,059	5,844
	39,523	39,414
Assets whose use is designated for:		
Medical malpractice	30,037	27,332
Innovation fund	5,828	5,601
Community Partnership fund	6,456	6,456
Workers' compensation	7,443	9,004
Auto, general and miscellaneous professional liability insurance	5,397	4,679
Capital acquisition	9,521	82,987
Quasi-endowment	1,379,219	1,267,433
	1,443,901	1,403,492
Other investments	57,106	51,420
Total	$ 1,540,530	$ 1,494,326

(In thousands)

As of June 30, 2023 and 2022, investments (including assets whose use is restricted and designated) and deposits consist of and mature, as applicable, as follows:

		Investment Maturities (in Years)			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More Than 10**
2023					
Investments:					
U.S. Treasury notes	$ 13,175	$ 4,623	$ 6,031	$ 113	$ 2,408
Asset-backed securities	59,540	–	21,729	5,409	32,402
Agency-backed mortgages	14,149	1,359	1,184	102	11,504
Money market funds	20,573	20,573	–	–	–
Corporate bonds and notes and municipal securities	39,556	10,630	19,066	4,561	5,299
Beneficial interest in perpetual Trust	19,866	N/A	N/A	N/A	N/A
Beneficial interest in Children's Hospital Foundation	5,059	N/A	N/A	N/A	N/A
Index funds	45,767	N/A	N/A	N/A	N/A
Marketable equity securities	42,180	N/A	N/A	N/A	N/A
Investment companies	1,259,031	N/A	N/A	N/A	N/A
Real estate	1,298	N/A	N/A	N/A	N/A
	1,520,194	37,185	48,010	10,185	51,613
Deposits:					
Cash	20,336	–	–	–	–
	$ 1,540,530	$ 37,185	$ 48,010	$ 10,185	$ 51,613

		Investment Maturities (in Years)			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More Than 10**
2022					
Investments:					
U.S. Treasury notes	$ 14,349	$ 3,282	$ 6,824	$ 908	$ 3,335
Asset-backed securities	53,346	172	20,667	3,072	29,435
Agency-backed mortgages	10,297	1,228	81	144	8,844
Money market funds	21,952	21,952	–	–	–
Corporate bonds and notes and municipal securities	39,771	12,520	17,748	4,852	4,651
Beneficial interest in perpetual trust	19,162	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	40,302	N/A	N/A	N/A	N/A
Marketable equity securities	34,696	N/A	N/A	N/A	N/A
Investment companies	1,241,853	N/A	N/A	N/A	N/A
Real estate	1,062	N/A	N/A	N/A	N/A
	1,482,634	39,154	45,320	8,976	46,265
Deposits:					
Cash	11,692	–	–	–	–
	$ 1,494,326	$ 39,154	$ 45,320	$ 8,976	$ 46,265

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

(In thousands)

In FY2023 and FY2022, the equity method investments had income/(loss) as reflected below:

	2023	2022
Virginia Premier	$ 5,400	$ 17,714
Sheltering Arms Institute	–	–
Health at Home, LLC	–	(5)
HealthEco CPP SPV I, LLC	–	–
Total	$ 5,400	$ 17,709

As of June 30, 2023 and 2022, the equity method of investments had balances of:

	2023	2022
Virginia Premier	$ –	$ 55,944
Sheltering Arms Institute	260	260
Health at Home, LLC	1,808	1,808
HealthEco CPP SPV I, LLC	1,000	1,000
Total	$ 3,068	$ 59,012

In fiscal year 2023, Virginia Premier paid an extraordinary distribution to its shareholders. VCUHSA's share of the dividend was $18,600. Also in fiscal year 2023, the Authority sold the remaining 20% ownership in Virginia Premier resulting in $61,231 gain from the sale. The sale agreement includes reconciliation of actuarial estimates through December 2025.

(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.

(In thousands)

- Level 3: Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. Level 3 fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparable, discounted cash flow models and fund manager estimates.

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

The Authority has the following recurring fair value measurements as of June 30, 2023:

	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Beneficial trust	$ 19,866	$ –	$ –	$ 19,866
Equity interest in Children's:				
Hospital Foundation	5,059	–	–	5,059
Debt securities:				
U.S. Treasury notes	13,175	13,175	–	–
Asset-backed securities	59,540	–	59,540	–
Agency-backed mortgages	14,149	–	14,149	–
Corporate bonds and notes	39,430	–	39,430	–
Municipal securities	126	–	126	–
Total debt securities	126,420	13,175	113,245	–
Equity securities:				
Consumer discretionary	3,438	3,438	–	–
Consumer staples	961	961	–	–
Financials	8,351	8,351	–	–
Health care	2,292	2,292	–	–
Industrials	8,382	8,382	–	–
Information technology	10,734	10,734	–	–
Energy	1,540	1,540	–	–
Material	796	796	–	–
Telecommunication	5,686	5,686	–	–
Total equity securities	42,180	42,180	–	–
Real estate investment trusts	1,298	1,298	–	–
Equity mutual funds and ETFs	44,291	44,291	–	–
Fixed income bond funds	1,476	1,476	–	–
Money market funds	20,573	20,573	–	–
Total investments by fair value level	261,163	122,993	113,245	24,925

(In thousands)

(Continued)

	Total	Level 1	Level 2	Level 3
Investments measured at NAV:				
Equity long only hedge funds	$ 184,715	$ –	$ –	$ –
Equity long/short hedge funds	63,106	–	–	–
Event-driven hedge funds	12,628	–	–	–
Relative value/credit	1,744	–	–	–
Opportunistic/macro	1	–	–	–
Absolute strategies funds	53,239	–	–	–
Multi-strategy investment fund	763,095	–	–	–
Private investments	180,503	–	–	–
Total	1,259,031	–	–	–
Bond funds	–	–	–	–
Total investments measured at NAV	1,259,031	–	–	–
Total investments	$ 1,520,194	$ 122,993	$ 113,245	$ 24,925
Liabilities:				
Investment derivative instruments:				
Hedging derivatives	$ 13,193	$ –	$ 13,193	$ –

	June 30, 2023 Fair Value	Unfunded Commitments	Redemption Notice Period	
Investments measured at NAV:				
Equity long only hedge funds (a)	$ 184,715	$ –	Daily-Monthly Quarterly-Annually	14-90 days
Equity long/short hedge funds (b)	63,106	–	Quarterly-Semi-annually-Annually	45-90 days
Event-driven hedge funds (c)	12,628	–	Annually	60-90 days
Relative value/credit (d)	1,744	–	N/A	N/A
Opportunistic/macro (e)	1	–	N/A	N/A
Absolute strategies funds (f)	53,239	–	Quarterly-Semi-annually-Annually	60-180 days
Private investments (g)	180,503	106,355	N/A	N/A
Multi-strategy investment fund (h)	763,095	–	Quarterly	120 days
Bond funds (i)	–	–	Monthly-Quarterly	10-60 days
Total investments measured at NAV	$ 1,259,031	$ 106,355		

(In thousands)

The Authority has the following recurring fair value measurements as of June 30, 2022:

	Total	Level 1	Level 2	Level 3
Investments by fair value level:				
Beneficial trust	$ 19,162	$ –	$ –	$ 19,162
Equity interest in Children's:				
Hospital Foundation	5,844	–	–	5,844
Debt securities:				
U.S. Treasury notes	14,349	14,349	–	–
Asset-backed securities	53,346	–	53,346	–
Agency-backed mortgages	10,297	–	10,297	–
Corporate bonds and notes	39,638	–	39,638	–
Municipal securities	133	–	133	–
Total debt securities	117,763	14,349	103,414	–
Equity securities:				
Consumer discretionary	2,748	2,748	–	–
Consumer staples	980	980	–	–
Financials	8,042	8,042	–	–
Health care	2,082	2,082	–	–
Industrials	5,634	5,634	–	–
Information technology	7,901	7,901	–	–
Energy	759	759	–	–
Material	1,117	1,117	–	–
Telecommunication	5,433	5,433	–	–
Total equity securities	34,696	34,696	–	–
Real estate investment trusts	1,062	1,062	–	–
Equity mutual funds and ETF's	38,550	38,550	–	–
Fixed income bond funds	1,752	1,752	–	–
Money market funds	21,952	21,952	–	–
Total investments by fair value level	240,781	112,361	103,414	25,006

(In thousands)

(Continued)

	Total	Level 1	Level 2	Level 3
Investments measured at NAV:				
Equity long only hedge funds	$ 164,434	$ –	$ –	$ –
Equity long/short hedge funds	62,108	–	–	–
Event-driven hedge funds	13,546	–	–	–
Relative value/credit	2,285	–	–	–
Opportunistic/macro	22	–	–	–
Absolute strategies funds	115,206	–	–	–
Multi-strategy investment fund	682,561	–	–	–
Private investments	190,078	–	–	–
Total	1,230,240	–	–	–
Bond funds	11,613	–	–	–
Total investments measured at NAV	1,241,853	–	–	–
Total investments	$ 1,482,634	$ 112,361	$ 103,414	$ 25,006
Liabilities:				
Investment derivative instruments:				
Hedging derivatives	$ 20,500	$ –	$ 20,500	$ –

	June 30, 2022 Fair Value	Unfunded Commitments	Redemption Notice Period	
Investments measured at NAV:				
Equity long only hedge funds (a)	$ 164,434	$ –	Daily-Monthly Quarterly-Annually	14-90 days
Equity long/short hedge funds (b)	62,108	–	Quarterly-Semi-annually-Annually	45-90 days
Event-driven hedge funds (c)	13,546	–	Annually	60-90 days
Relative value/credit (d)	2,285	–	N/A	N/A
Opportunistic/macro (e)	22	–	N/A	N/A
Absolute strategies funds (f)	115,206	–	Quarterly-Semi-annually-Annually	60-180 days
Private investments (g)	190,078	105,058	N/A	N/A
Multi-strategy investment fund (h)	682,561	–	Quarterly	120 days
Bond funds (i)	11,613	–	Monthly-Quarterly	10-60 days
Total investments measured at NAV	$ 1,241,853	$ 105,058		

(a) Equity long only hedge funds

These investments are composed 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.

(b) Equity long/short hedge funds.

These investments are composed 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 five managers.

(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 one manager.

(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 is in liquidation with no ability to accelerate redemptions.

(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 six 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 seven managers, three of which are focused on private real estate, and four 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

Composed of vehicles that invest in fixed income securities. There are no investments currently in this asset class.

(In thousands)

(5) Capital Assets

Capital assets and changes thereto, as of and for the year ended June 30, 2023, consisted of the following:

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Non depreciable assets:					
Land	$ 25,468	$ –	$ –	$ –	$ 25,468
Construction in progress	482,085	126,000	(498,493)	–	109,592
	507,553	126,000	(498,493)	–	135,060
Depreciable assets:					
Land improvements	6,984	–	–	–	6,984
Buildings and fixed equipment	1,651,901	43	416,870	(62)	2,068,752
Moveable equipment	918,193	(244)	81,623	(6,605)	992,967
Leased land and building	68,579	1,592	–	(336)	69,835
Leased equipment	1,863	–	–	–	1,863
Subscription-based IT arrangements	44,256	12,423	–	–	56,679
Less: impairment loss	(6,138)	(5,664)	–	–	(11,802)
Accumulated depreciation	(1,365,791)	(89,458)	–	6,274	(1,448,975)
Accumulated depreciation, leased assets	(19,990)	(10,432)	–	261	(30,161)
Accumulated depreciation, subscription-based IT arrangements	(11,005)	(15,395)	–	–	(26,400)
	1,288,852	(107,135)	498,493	(468)	1,679,742
Total capital assets, net	$ 1,796,405	$ 18,865	$ –	$ (468)	$ 1,814,802

(In thousands)

Capital assets and changes thereto, as of and for the year ended June 30, 2022, consisted of the following:

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Non depreciable assets:					
Land	$ 25,468	$ –	$ –	$ –	$ 25,468
Construction in progress	670,903	378,243	(567,061)	–	482,085
	696,371	378,243	(567,061)	–	507,553
Depreciable assets:					
Land improvements	7,199	–	–	(215)	6,984
Buildings and fixed equipment	1,256,176	–	396,438	(713)	1,651,901
Moveable equipment	752,083	(10)	170,623	(4,503)	918,193
Leased land and building	52,327	16,252	–	–	68,579
Leased equipment	1,863	–	–	–	1,863
Subscription-based IT arrangements	–	44,256	–	–	44,256
Less: impairment loss	(6,138)	–	–	–	(6,138)
Accumulated depreciation	(1,258,952)	(112,270)	–	5,431	(1,365,791)
Accumulated depreciation, leased assets	(8,778)	(11,212)	–	–	(19,990)
Accumulated depreciation, subscription-based IT arrangements	–	(11,005)	–	–	(11,005)
	795,780	(73,989)	567,061	–	1,288,852
Total capital assets, net	$ 1,492,151	$ 304,254	$ –	$ –	$ 1,796,405

(In thousands)

(6) Long-Term Debt

Long-term debt, and changes thereto, as of and for the year ended June 30, 2023, is summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2021 Bonds	$ 66,086	$ –	$ (3,372)	$ 62,714	$ 3,464
Series 2017 Bonds	193,050	–	(4,860)	188,190	5,110
Premium – Series 2017 Bonds	15,628	–	(1,208)	14,420	–
Series 2014 Bonds	200,000	–	(35,000)	165,000	–
Series 2013 Direct Placement Bonds	112,180	–	(1,310)	110,870	1,360
Note payable	100,000	–	–	100,000	–
Capital leases	144	–	(144)	–	–
CMH USDA loan	61,851	–	(876)	60,975	907
CMH First Citizens loan	2,473	–	(2,114)	359	359
Lease obligations	56,140	1,592	(10,394)	47,338	9,299
Subscription-based IT obligations	30,554	12,423	(16,854)	26,123	14,724
Total long-term debt	$ 838,106	$ 14,015	$ (76,132)	$ 775,989	$ 35,223

Long-term debt, and changes thereto, as of and for the year ended June 30, 2022, is summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2021 Bonds	$ 66,086	$ –	$ –	$ 66,086	$ 3,372
Series 2017 Bonds	194,745	–	(1,695)	193,050	4,860
Premium – Series 2017 Bonds	16,874	–	(1,246)	15,628	–
Series 2014 Bonds	200,000	–	–	200,000	–
Series 2013 Direct Placement Bonds	113,445	–	(1,265)	112,180	1,310
Series 2011 Bonds	3,025	–	(3,025)	–	–
Note payable	–	100,000	–	100,000	–
Capital leases	1,044	–	(900)	144	144
CMH USDA loan	62,697	–	(846)	61,851	875
CMH First Citizens loan	4,524	–	(2,051)	2,473	2,114
Lease obligations	50,800	15,087	(9,747)	56,140	10,524
Subscription-based IT obligations	–	44,256	(13,702)	30,554	13,515
Total long-term debt	$ 713,240	$ 159,343	$ (34,477)	$ 838,106	$ 36,714

In June 2022, VCUMC entered into a $100,000 term loan with a financial institution maturing in September 2023. The interest rate is fixed at 3.41% payable semiannually in January and July. Principal balances may be paid at any time subject to a make-whole provision. In June 2023, this loan was extended to a new maturity in July 2025. The interest rate on this loan will convert to variable in September 2023. Interest will be calculated based on the Secured Overnight Financing Rate index (SOFR) and payable monthly.

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 $3,235 in July 2023 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 $1,875 in July 2023 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%. The $35,000 due January 2024 was escrowed in advance and thus defeased in June 2023. The escrow was gross funded with cash from the Authority and requires no further cash flows to service the debt. The defeasance was executed to avoid inclusion of the January 2024 principal payment in current debt balances as of June 30, 2023.

In June 2013, VCUMC issued $190,315 of variable rate direct placement bonds, consisting of Series 2013A bonds totaling $69,450 and Series 2013B bonds 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 (1.79% at June 30, 2022). The original direct placement bonds for Series 2013B bonds were purchased by a financial institution with an initial maturity of June 2023. The 2013B Direct Placement Bonds were extended in June 2023 with the same financial institution to a new maturity in July 2025 and the interest rate was converted to a calculation based on the SOFR index (5.09% at June 30, 2023). The Series 2013 Direct Placement Bonds are subject to mandatory sinking fund, optional and extraordinary redemption with principal amounts varying between $1,360 in July 2023 and $15,700 at maturity in July 2037. In June 2021, VCUMC refinanced the Series 2013A bonds with Series 2021A bonds ($57,250) and Series 2021B bonds ($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 bonds 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 $2,539 in July 2023 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 $4,999 and $5,515 at June 30, 2023 and 2022, respectively. The remaining Series 2011 Bonds principal balance of $3,025 was paid 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 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 bonds. The unamortized balance is $15,059 and $16,518 at June 30, 2023 and 2022, respectively.

In July 2018, CMH entered into parity loan agreements aggregating $75,000 with the United States Department of Agriculture (USDA) and First Citizens 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.

VCUHSA leases property and equipment as part of their operations. Lease terms range up to 3 to 20 years. Terms of the leases vary by each lease; however, each lease provides for a monthly lease payment subject to an escalation on the anniversary date of the agreement. The liabilities are measured at the present value of payments expected to be made during the lease term. The present value of payments expected to be made during the lease term is calculated using the discount rate implicit in the lease agreement and if unavailable, the Authority uses its internal borrowing rate. As of June 30, 2023 and 2022, lease obligations were $47,338 and $56,140, respectively.

VCUHSA contracts for SBITAs as part of their operations. Arrangement terms range from 2 to 5 years. The exercise of renewal options is at the discretion of VCUHSA. VCUHSA excluded the options from measurement since VCUHSA is not reasonably certain it will exercise the options to extend the SBITAs. Subscription payments are apportioned between interest expense and the principal based on the effective interest method. The right-to-use intangible asset is measured as the sum of the initial subscription liability amount, adjusted for payments made to the SBITA vendor before commencement of the subscription term and capitalizable implementation costs. The right-to-use intangible subscription assets are amortized using the straight-line method over the subscription term. Such amortization is included as an amortization expense in the accompanying statements of revenues, expenses and changes in net position. As of June 30, 2023 and 2022, SBITA obligations were $26,123 and $30,554, respectively.

The Authority holds a line of credit with Wells Fargo in the amount of $100,000, which expired in July 2023. The line of credit was extended in June 2023 to a new expiration in July 2024. As of June 30, 2023 and 2022, the line had no outstanding balance.

(In thousands)

A summary of future principal requirements of long-term debt as of June 30, 2023 follows:

Fiscal year:	Series 2021 Bonds	Series 2017 Bonds	Series 2014 Bonds	Direct Placement Bonds	2023 Note Payable	CMH Loans	Lease Obligations	SBITA	Total
2024	$ 3,464	$ 5,110	$ –	$ 1,360	$ –	$ 1,266	$ 9,299	$ 14,724	$ 35,223
2025	7,682	5,365	–	1,355	–	939	7,322	8,167	30,830
2026	7,926	5,640	–	1,465	100,000	972	7,183	2,236	125,422
2027	8,194	5,910	–	1,525	–	1,007	6,580	996	24,212
2028	8,439	6,205	–	1,605	–	1,043	5,872	–	23,164
2029–2033	27,009	36,055	–	30,685	–	5,797	11,082	–	110,628
2034–2038	–	44,695	–	72,875	–	6,904	–	–	124,474
2039–2043	–	47,205	–	–	–	8,223	–	–	55,428
2044–2048	–	26,085	165,000	–	–	9,793	–	–	200,878
2049–2053	–	5,920	–	–	–	11,662	–	–	17,582
2054–2058	–	–	–	–	–	13,728	–	–	13,728
2059–2060	–	–	–	–	–	–	–	–	–
Total	$ 62,714	$ 188,190	$ 165,000	$ 110,870	$ 100,000	$ 61,334	$ 47,338	$ 26,123	$ 761,569

A summary of estimated future interest requirements of long-term debt based on effective rates as of June 30, 2023 follows:

Fiscal year:	Series 2021 Bonds	Series 2017 Bonds	Series 2014 Bonds	Direct Placement Bonds	2022 Note Payable	CMH Loans	Lease Obligations	SBITA	Total
2024	$ 870	$ 8,008	$ 8,177	$ 5,052	$ 5,202	$ 2,121	$ 816	$ 369	$ 30,615
2025	757	7,740	8,177	4,989	5,790	2,087	669	177	30,386
2026	641	7,458	8,177	4,921	–	2,054	535	74	23,860
2027	520	7,163	8,177	4,851	–	2,019	409	10	23,149
2028	396	6,853	8,177	4,777	–	1,984	292	–	22,479
2029–2033	405	29,125	40,887	21,180	–	9,335	342	–	101,274
2034–2038	–	20,257	40,887	6,978	–	8,228	–	–	76,350
2039–2043	–	10,464	40,887	–	–	6,909	–	–	58,260
2044–2048	–	3,433	4,091	–	–	5,339	–	–	12,863
2049–2053	–	–	–	–	–	3,470	–	–	3,470
2054–2058	–	–	–	–	–	1,243	–	–	1,243
2059–2060	–	–	–	–	–	–	–	–	–
Total	$ 3,589	$ 100,501	$ 167,637	$ 52,748	$ 10,992	$ 44,789	$ 3,063	$ 630	$ 383,949

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 and 2014 Bonds. For the years ended June 30, 2023 and 2022, VCUMC transferred approximately $22,902 and $22,895 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 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, 2023 and 2022 was approximately $32,445 and $28,570, respectively. For the years ended June 30, 2023 and 2022, the Authority paid approximately $29,493 and $27,003, respectively, for interest. This was inclusive of $1,318 and $4,065 for the years ended June 30, 2023 and 2022, respectively, of interest paid related to the interest rate swap agreements (Note 7). As discussed in Note 1, due to the adoption of GASB Statement No. 89, beginning July 1, 2021, interest was no longer capitalized on construction in progress.

(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, 2023 and 2022 was $110,870 and $112,180, respectively. VCUMC pays a fixed rate of 3.84% and the counterparty pays 67% of 30-day LIBOR (3.52% and 1.20% as of June 30, 2023 and 2022, respectively). The payments are settled monthly. Payments or receipts under the terms of the swap are recorded as interest expense. At June 30, 2023 and 2022, the fair value of the swaps was a liability of $13,193 and $20,500, respectively, and is included in the accompanying statements of net position. For the years ended June 30, 2023 and 2022, the change in fair value of the swaps was ($7,307) and ($16,849), respectively, and is reported as a deferred outflow/inflow of resources. Beginning July 1, 2023, the counterparty swap payments will be paid at 67% of SOFR.

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.

(8) Commitments

During fiscal year 2023, the Authority undertook a transaction to terminate and defease all obligations of the Authority under a Deed of Lease dated July 15, 2021. In connection with the transaction, the Authority was required to pay $72,998, which is reflected in other nonoperating expense, net on the statements of revenues, expenses and changes in net position – enterprise fund.

Estimated costs to complete construction in progress for capital assets at June 30, 2023 and 2022 for the Authority are approximately $100,000 and $156,000, respectively. Commitments primarily relate to major renovations of existing facilities, purchase of medical equipment, information system infrastructure and various other projects.

(In thousands)

(9) 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.

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

	2023	2022	2021
Balance at beginning of year	$ 3,379	$ 3,225	$ 3,023
Malpractice claims expense, net of actuarial adjustments	486	339	412
Malpractice claims settled	(380)	(185)	(210)
Balance at end of year	$ 3,485	$ 3,379	$ 3,225

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, 2023, 2022 and 2021.

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, 2023, 2022 and 2021 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, 2023, 2022 and 2021.

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.

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, 2023, 2022 and 2021 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, 2023, 2022 and 2021 is significant.

UHS and VCCN

UHS and VCCN obtain general liability insurance coverage through ARIES. Coverage was provided for 2023, 2022 and 2021 for UHS and 2023 and 2022 for VCCN. Management does not believe the amount of liability for any claims incurred but unreported for these entities as of June 30, 2023, 2022 and 2021 is significant.

ASC

ASC obtained general and health professional liability insurance coverage through ARIES. Coverage was provided for 2023 and 2022. Management does not believe the amount of liability for any claims incurred but unreported for ASC as of June 30, 2023 and 2022 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.

(In thousands)

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

	2023	2022	2021
Balance at beginning of year	$ 23,953	$ 26,921	$ 23,180
Malpractice claims expense, net of actuarial adjustments	4,759	5,931	5,220
Malpractice claims settled	(2,160)	(8,899)	(1,479)
Balance at end of year	$ 26,552	$ 23,953	$ 26,921

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, 2023, 2022 and 2021.

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.

(In thousands)

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

	2023	2022	2021
Balance at beginning of year	$ 3,325	$ 4,973	$ 6,915
Workers' compensation expense, net of actuarial adjustments	12	(1,193)	(1,820)
Workers' compensation claims settled	(60)	(455)	(122)
Balance at end of year	$ 3,277	$ 3,325	$ 4,973

The Authority believes that its financial position would not be materially affected by the difference between the amounts recorded and the ultimate cost related to asserted or unasserted claims, if any, at June 30, 2023, 2022 and 2021.

Changes in ARIES' estimated losses on workers' compensation claims for the years ended June 30, 2023 and 2022, as a result of this arrangement were as follows:

	2023	2022
Balance at beginning of year	$ 5,679	$ 6,184
Workers' compensation expense, net of actuarial adjustments	(71)	449
Workers' compensation claims settled	(1,442)	(954)
Balance at end of year	$ 4,166	$ 5,679

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.

(In thousands)

(10) Net Patient Service Revenue

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

	2023	2022
VCUHSA gross charges:		
Inpatient	$ 5,078,274	$ 4,568,182
Outpatient	5,229,161	4,865,230
Less uncompensated care:	(70,659)	(53,621)
Total VCUHSA gross patient service revenue	10,236,776	9,379,791
Less contractual allowances, and uncollectible amounts	(7,236,423)	(6,692,719)
Total net patient service revenue	$ 3,000,353	$ 2,687,072

(11) 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. The lease obligations and associated right-to-use asset are measured and reported on the accompanying statements of net position in conformance with GASB Statement No. 87, which is further discussed in Note 1(k).

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. VCU refinanced the parking deck debt during fiscal year 2022. At June 30, 2023, VCUMC's remaining commitment through 2028 is approximately $2,167.

(In thousands)

Payments under the affiliation and lease agreements with VCU for the years ended June 30, 2023 and 2022, which are included in purchased services and other expenses on the accompanying statements of revenues, expenses and changes in net position, were as follows:

		2023		2022
Payments by VCU to VCUMC:				
Operation and maintenance	$	13	$	18
Rent on short-term space		165		165
Total payments by VCU to VCUMC	$	178	$	183
Payments by VCUMC to VCU:				
Massey Cancer Center	$	6,000	$	6,000
Graduate education services		734		694
Nonphysician clinical support		6,633		6,658
Administrative support		23,389		21,283
Health Innovation Consortium		–		666
Rent on short-term space		1,209		1,126
Principal and interest on parking deck debt		29		–
Total payments by VCUMC to VCU	$	37,994	$	36,427

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

		2023		2022
Due from (to) Virginia Commonwealth University	$	190	$	2,351

(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 $53 and $331 to MCVAP for the years ended June 30, 2023 and 2022, 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 2023 and 2022, VCUMC paid approximately $75,326 and $73,214 in COSA payments, respectively.

VCUMC allocated MCVAP approximately $95,617 and $106,909 in shared services in fiscal year 2023 and fiscal year 2022, respectively.

VCUMC leases clinical and administrative facilities to various MCVAP departments. Rental income related to these facilities totaled approximately $322 and $279, respectively, for the years ended June 30, 2023 and 2022.

(d) UHS

VCUMC leases clinic office space from UHS under operating leases. Rental expense under these leases was $2,385 and $2,276 during the years ended June 30, 2023 and 2022, respectively.

VCUMC allocated to UHS approximately $49 and $4,211 in shared services in fiscal year 2023 and fiscal year 2022, respectively.

(e) CMH

VCUMC allocated to CMH approximately $25,461 and $22,486 in shared services in fiscal year 2023 and fiscal year 2022, respectively.

(f) Children's

VCUMC allocated Children's approximately $3,898 and $4,718 in shared services in fiscal year 2023 and fiscal year 2022, respectively.

(g) TAPP

VCUMC allocated TAPP approximately $8,032 and $2,457 in shared services in fiscal year 2023 and fiscal year 2022, respectively.

(h) ASC

VCUMC allocated ASC approximately $1,128 in shared services in fiscal year 2023. In fiscal year 2022, VCUMC did not allocate any shared services to ASC in the fiscal year, its first year of operations.

Activity between VCUMC and MCVAP, UHS, CMH, Children's, TAPP and ASC is eliminated in the accompanying financial statements.

(12) 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.

(13) 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, 2022, 161 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.

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% of covered employee compensation for employees in the Plan, for the years ended June 30, 2023 and 2022. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. 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 $1,745 and $2,058 for the years ended June 30, 2023 and 2022, respectively.

3) Net Pension Liability

VCUMC reported a liability of $14,769 and $15,054 for its proportionate share of the Net Pension Liability for the years ended June 30, 2023 and 2022, respectively. The Net Pension Liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. 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, 2022, relative to the total of the actuarially determined employer contribution for all participating employers. At June 30, 2022, VCUMC's proportion of the VRS Plan was 0.33% as compared to 0.42% at June 30, 2021.

(In thousands)

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

For the year ended June 30, 2023, VCUMC recognized pension benefit of $4,579. Since there was a change in proportionate share between June 30, 2021 and June 30, 2022, a portion of the pension expense was related to deferred amounts from changes in proportion and differences between employer contributions and the proportionate share of employer contributions. Beginning with the June 30, 2022 measurement date, the difference between expected and actual contributions is included with the pension expense calculation.

At June 30, 2023, VCUMC reported deferred outflows of resources and deferred inflows of resources related to the VRS Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ –	$ 977
Net difference between projected and actual earnings on pension plan investments	–	2,153
Change in assumptions	593	–
Changes in proportion and differences between employer contributions and proportionate share of contributions	–	7,054
Employer contributions subsequent to the measurement date	1,745	–
Total	$ 2,338	$ 10,184

Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling $1,745 will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. The net deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2024	$ (4,979)
2025	(3,499)
2026	(2,131)
2027	1,018
2028	–
	$ (9,591)

(In thousands)

5) Actuarial Assumptions

The total pension liability for the VRS Plan was based on an actuarial valuation as of June 30, 2021, 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, 2022.

Inflation	2.5%
Salary increases, including inflation	3.5%–5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates:

Pre-Retirement:	PUB-2010 Amount Weighted General Employee Rates projected generationally; females set forward 2 years.
Post-Retirement:	PUB-2010 Amount Weighted General Healthy Retiree Rates projected generationally; 110% of rates for females.
Post-Disablement:	PUB-2010 Amount Weighted General Disabled Rates projected generationally; males and females set forward 3 years.
Beneficiaries:	PUB-2010 Amount Weighted General Contingent Annuitant Rates projected generationally; 110% of rates for males and females.
Mortality Improvement:	Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates.

(In thousands)

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, 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 PUB-2010 public sector mortality tables. For future mortality improvements, replace load with a modified mortality improvement scale MP-2020
Retirement Rates	Adjusted rates to better fit experience, changed final retirement from 75 to 80
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rates	No change

6) Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS – Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP – Private Investment Partnership	3.00%	6.55%	0.20%
Total	100.00%		5.33%
Inflation			2.50%
			7.83%

(In thousands)

The above allocation provides a one-year return of 7.83%. 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 6.72%, including expected inflation of 2.50%. On October 10, 2019, 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 at that time, providing a median return of 7.11%, including expected inflation of 2.5%.

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, 2022, 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, 2022, 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:

	1% Decrease	Discount rate	1% Increase
Net pension liability	$ 25,240	$ 14,769	$ 6,090

9) Net State Employee VRS Liability and State Employee VRS Fiduciary Net Position

Detailed information about the VRS Fiduciary Net Position is available in the separately issued VRS 2022 Annual Report. A copy of the 2022 VRS Annual Report 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.

(In thousands)

(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 Section 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, 2023 and 2022 were approximately $39,670 and $37,531, 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, 2023 and 2022 were $21 and $21, respectively.

(In thousands)

(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 $28,583 and $24,686 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022 were approximately $6,834 and $8,717, respectively.

(d) CMH and CMHP

Employees of CMH participate in the VCUHS 401(a) Plan and retirement plan expense was approximately $2,382 and $2,466 for the years ended June 30, 2023 and 2022, respectively. Providers who are employees of CMHP participate in the MCVAP 401(a) Retirement Plan; plan expenses for the years ended June 30, 2023 and 2022 were approximately $1,099 and $1,118, respectively.

(e) 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.

The Pension Plan's fair value of plan assets of $13,139 and $12,110 as of June 30, 2023 and 2022, respectively, is recorded in net pension liability on the accompanying statements of net position. The Pension Plan's liability of $13,597 and $12,433 as of June 30, 2023 and 2022, 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 $499 and $509 for the years ended June 30, 2023 and 2022, respectively.

(14) 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 toward the cost of a qualified, single coverage health insurance premium for retirees. 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, 2022, 354 employees remain enrolled in the HIC Plan. The Commonwealth, not VCUMC, has overall responsibility for the HIC Plan.

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, 2023 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, 2021. 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 $323 and $398 for the years ended June 30, 2023 and 2022, respectively.

(In thousands)

3) Net HIC OPEB Liability

At June 30, 2023 and 2022, VCUMC reported a liability of $3,881 and $4,566, respectively, for its proportionate share of the HIC Plan OPEB liability. The Net HIC Plan OPEB Liability was measured as of June 30, 2022 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, 2021 and rolled forward to the measurement date of June 30, 2022. 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, 2022, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2022, VCUMC's proportion of the HIC Plan was 0.47% as compared to 0.54% at June 30, 2021.

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

For the year ended June 30, 2023, VCUMC recognized HIC Plan expense of ($424). Since there was a change in proportionate share between measurement dates, a portion of the VRS HIC Plan Net OPEB expense was related to deferred amounts from changes in proportion and differences between actual and expected contributions.

At June 30, 2023, 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	$ –	$ 231
Net difference between projected and actual investment earnings on State HIC OPEB plan investments	–	2
Change in assumptions	128	2
Changes in proportion share	–	1,918
Employer contributions subsequent to the measurement date	323	–
Total	$ 451	$ 2,153

(In thousands)

Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling $323 will be recognized as a reduction of the net HIC Plan liability in the year ending June 30, 2024. 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:		
2024	$	(692)
2025		(576)
2026		(394)
2027		(231)
2028		(128)
Thereafter		(4)
	$	(2,025)

5) Actuarial Assumptions

The total HIC OPEB liability for the HIC Plan was based on an actuarial valuation as of June 30, 2021, 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, 2022.

Inflation	2.5%
Salary increases, including inflation	3.50% – 5.35%
Investment rate of return	6.75%, net of plan investment expense, including inflation

Mortality rates:

Pre-Retirement:	PUB-2010 Amount Weighted General Employee Rates projected generationally; females set forward 2 years
Post-Retirement:	PUB-2010 Amount Weighted General Healthy Retiree Rates projected generationally; 110% of rate for females
Post-Disablement:	PUB-2010 Amount Weighted General Disabled Rates projected generationally; males and females set forward 3 years

(In thousands)

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, 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 PUB-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
Retirement Rates	Adjusted rates to better fit experience; changed final retirement from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

6) Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target 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%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS – Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP – Private Investment Partnership	3.00%	6.55%	0.20%
Total	100.00%		5.33%
Inflation			2.50%
			7.83%

(In thousands)

The above allocation provides a one-year return of 7.83%. 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 6.72%, including expected inflation of 2.50%. On October 10, 2019, 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 at that time, providing a median return of 7.11%, including expected inflation of 2.50% asset allocation.

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, 2022, 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, 2022, 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	$ 4,285	$ 3,881	$ 3,414

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

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2022 Annual Report. A copy of the 2022 VRS Annual Report 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, 2022, 187 employees remain enrolled in the Retiree Healthcare Plan through the State Health Benefits Program.

The Retiree Healthcare Plan is administered by the Department of Human Resource Management.

2) Contributions

After retirement, VCUMC no longer subsidizes the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

3) Retiree Healthcare OPEB Liabilities

At June 30, 2023 and 2022, VCUMC reported a liability of $924 and $1,367, respectively, for its proportionate share of the total Retiree Healthcare OPEB Liability. The Retiree Healthcare OPEB liability was measured as of June 30, 2022 and was determined by an actuarial valuation as of June 30, 2022. 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, 2022, VCUMC's proportion of the Retiree Healthcare Plan was 0.25% as compared to 0.30% at June 30, 2021.

(In thousands)

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, 2023, VCUMC recognized Retiree Healthcare Plan expense of ($1,158). At June 30, 2023, 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	$ –	$ 422
Change in assumptions	–	855
Changes in proportion share	–	1,621
Amounts associated with transactions subsequent to the measurement date	101	–
Total	$ 101	$ 2,898

Deferred outflows of resources related to employer contributions subsequent to the measurement date totaling $101 will be recognized as a reduction of the net Retiree Healthcare Plan liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Retiree Healthcare OPEB are as follows:

Year ended June 30:	
2024	$ (1,108)
2025	(766)
2026	(512)
2027	(340)
2028	(172)
Thereafter	–
	$ (2,898)

(In thousands)

5) Actuarial Assumptions

The total Retiree Healthcare OPEB liability was based on an actuarial valuation as of June 30, 2021. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare cost trend rates used were 8.00% 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, 2022 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, closed
Effective Amortization Period	5.86 years
Discount Rate	3.54%
Projected Salary Increases	5.35% -3.5%
Medical Trend Under 65	Medical & Rx: 8.00% to 4.5% Dental: 4.0%
Year of Ultimate Trend	2033

Mortality rates:	Mortality rates vary by participant status and gender
Pre-Retirement:	PUB-2010 Benefits Weighted General Employee Rates projected generationally with a Modified MP-2021 Improvement Scale; females set forward 2 years
Post-Retirement:	PUB-2010 Benefits Weighted General Disabled Rates projected generationally with a Modified MP-2021 Improvement Scale; 110% of rates for females
Post-Disablement:	PUB-2010 Benefits Weighted General Disabled Rates projected generationally with a Modified MP-2021 Improvement Scale; males and females set forward 3 years

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date, which is June 30, 2022.

(In thousands)

The following assumptions were updated since the June 30, 2021 valuation based on recent experience:

- Retiree Participation – reduced the rate from 40% to 35%

Retiree participation was based on a blend of recent experience and the prior year assumptions.

The trend rates were updated based on economic conditions as of June 30, 2022. Additionally, the discount rate was decreased from 2.16% to 3.54% based on the Bond Buyers GO 20 Municipal Bond Index as of June 30, 2023.

There were no plan changes in the valuation since the prior year.

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 3.54%, as well as what the Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.54%) or one percentage point higher (4.54%) than the current rate:

	1% Decrease	Discount rate	1% Increase
Retiree Healthcare OPEB Liability	$ 975	$ 924	$ 873

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 8.00% 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 (7.00% decreasing to 3.50%) or one percentage point higher (9.00% decreasing to 5.50%) than the current rate:

	1% Decrease (7.00% decreasing to 3.50%)	Trend Rate (8.00% decreasing to 4.50%)	1% Increase (9.00% decreasing to 5.50%)
Retiree Healthcare OPEB Liability	$ 841	$ 924	$ 1,019

(In thousands)

(15) Concentration of Credit Risk

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

	2023	2022
Anthem	24%	28%
Medicaid	17%	14%
Medicare	18%	17%
Other	41%	41%
	100%	100%

Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 24% and 26%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2023. Revenue from the Medicare and Medicaid/Indigent programs accounted for approximately 23% and 26%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2022. 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.

(In thousands)

(16) Condensed Combining Information

(a) Condensed Statement of Net Position

	At June 30, 2023										
	VCU Medical Center	**MCV Associated Physicians**	**Community Memorial Hospital**	**Tappahannock Hospital**	**ASC**	**VCCN**	**Children's Services at Brook Road**	**University Health Services**	**Aries Insurance Captive**	**Eliminations**	**Total**
Assets											
Current assets	$ 1,165,954	$ 111,339	$ 33,237	$ 9,311	$ 3,176	$ 81	$ 5,002	$ 7,560	$ 7,471	$ (461,178)	$ 881,953
Capital assets	1,642,780	21,334	84,014	19,935	17,350	–	6,487	22,902	–	–	1,814,802
Other assets	1,354,454	90,229	21,157	110	–	–	5,083	1,221	86,220	–	1,558,474
Total assets	4,163,188	222,902	138,408	29,356	20,526	81	16,572	31,683	93,691	(461,178)	4,255,229
Deferred outflows of resources											
Total deferred outflows of resources	22,947	–	–	–	–	–	–	–	–	–	22,947
Total assets and deferred outflows of resources	$ 4,186,135	$ 222,902	$ 138,408	$ 29,356	$ 20,526	$ 81	$ 16,572	$ 31,683	$ 93,691	$ (461,178)	$ 4,278,176
Liabilities											
Current liabilities	$ 369,836	$ 375,594	$ 56,582	$ 18,009	$ 29,565	$ 1,161	$ 23,088	$ 18,784	$ 8,092	$ (461,178)	$ 439,533
Other liabilities	711,324	7,019	60,084	1,484	–	–	458	–	29,013	–	809,382
Total liabilities	1,081,160	382,613	116,666	19,493	29,565	1,161	23,546	18,784	37,105	(461,178)	1,248,915
Deferred inflows of resources											
Total deferred inflows of resources	49,833	–	–	–	–	–	–	–	–	–	49,833
Net position											
Net investment in capital assets	1,231,978	12,239	22,681	18,161	17,350	–	6,488	22,902	–	–	1,331,799
Restricted:											
Expendable	–	–	2,853	–	–	–	1,800	–	–	–	4,653
Nonexpendable	19,866	–	93	–	–	–	2,676	–	–	–	22,635
Unrestricted	1,803,298	(171,950)	(3,885)	(8,298)	(26,389)	(1,080)	(17,938)	(10,003)	56,586	–	1,620,341
Total net position	3,055,142	(159,711)	21,742	9,863	(9,039)	(1,080)	(6,974)	12,899	56,586	–	2,979,428
Total liabilities, deferred inflows of resources and net position	$ 4,186,135	$ 222,902	$ 138,408	$ 29,356	$ 20,526	$ 81	$ 16,572	$ 31,683	$ 93,691	$ (461,178)	$ 4,278,176

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY

(A Component Unit of Virginia Commonwealth University)

Notes to Basic Financial Statements (Continued)

June 30, 2023 and 2022
(In thousands)

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

	Year Ended June 30, 2023										
	VCU Medical Center	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	ASC	VCCN	Children's Services at Brook Road	University Health Services	Aries Insurance Captive	Eliminations	Total
Operating revenues	$ 2,351,075	$ 550,539	$ 136,951	$ 58,015	$ 17,112	$ –	$ 20,855	$ 4,690	$ 17,087	$ (105,283)	$ 3,051,041
Operating expenses excluding depreciation and amortization	2,076,074	674,861	167,295	59,448	17,163	549	20,435	4,021	6,370	(105,283)	2,920,933
Provision for depreciation and amortization	101,926	4,076	9,990	1,682	1,980	–	560	735	–	–	120,949
Operating income (loss)	173,075	(128,398)	(40,334)	(3,115)	(2,031)	(549)	(140)	(66)	10,717	–	9,159
Nonoperating revenue and expenses, net	36,357	53,450	(1,604)	1,992	–	–	(1,571)	–	2,615	–	91,239
Change in beneficial interest in trusts	703	–	–	–	–	–	–	–	–	–	703
Other	(2,197)	(16,938)	2,197	–	–	–	–	–	–	–	(16,938)
Increase (decrease) in net position	207,938	(91,886)	(39,741)	(1,123)	(2,031)	(549)	(1,711)	(66)	13,332	–	84,163
Net position at beginning of year	2,847,204	(67,825)	61,483	10,986	(7,008)	(531)	(5,263)	12,965	43,254	–	2,895,265
Net position at end of year	$ 3,055,142	$ (159,711)	$ 21,742	$ 9,863	$ (9,039)	$ (1,080)	$ (6,974)	$ 12,899	$ 56,586	$ –	$ 2,979,428

(In thousands)

(c) Condensed Statement of Cash Flows

	Year Ended June 30, 2023									
	VCU Medical Center	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	ASC	VCCN	Children's Services at Brook Road	University Health Services	Aries Insurance Captive	Total
Net cash provided by (used in):										
Operating activities	$ 136,511	$ 18,110	$ 7,363	$ 3,204	$ 315	$ –	$ 1,570	$ 119	$ 4,321	$ 171,513
Noncapital financing activities	(7,234)	(13,949)	(2,175)	(2,533)	–	–	213	–	–	(25,678)
Capital and related financing activities	(285,970)	(4,229)	(5,788)	(671)	(315)	–	(1,730)	–	–	(298,703)
Investing activities	197,220	1,193	(1,532)	–	–	–	–	–	(4,324)	192,557
Net increase (decrease) in cash and cash equivalents	40,527	1,125	(2,132)	–	–	–	53	119	(3)	39,689
Cash and cash equivalents at beginning of year	286,893	212	14,075	1	–	–	127	584	470	302,362
Cash and cash equivalents at end of year	$ 327,420	$ 1,337	$ 11,943	$ 1	$ –	$ –	$ 180	$ 703	$ 467	$ 342,051

Required Supplementary Information and
Supplementary Information as of and
For the Year Ended June 30, 2023

Schedule 1

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

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

(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%
2022	2,490	2,490	–	18,944	13.14%
2023	2,058	2,058	–	15,256	13.49%

Schedule is intended to show information for 10 years. 2015 was the first fiscal year for presentation, additional years will be included as they become available.

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

See accompanying report of independent auditors.

Schedule 2

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

Schedule of Authority's Share of Net Pension Liability
(unaudited-see accompanying Report of Independent Auditors)

(In thousands)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employer's proportion of the net pension liability	0.94%	0.87%	0.79%	0.74%	0.67%	0.60%	0.50%	0.42%	0.33%
Employer's proportionate share of the net pension liability	$ 52,598	$ 53,472	$ 52,121	$ 43,367	$ 36,496	$ 37,635	$ 36,297	$ 15,054	$ 14,769
Employer's covered payroll	$ 41,277	$ 38,331	$ 34,988	$ 32,650	$ 24,978	$ 24,562	$ 21,602	$ 18,944	$ 15,256
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%	79.47%	96.81%
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%	86.44%	83.26%

Schedule is intended to show information for 10 years. 2015 is the first fiscal year for presentation, additional years will be included as they become available.

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

See accompanying report of independent auditors.

Schedule 3

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

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

(In thousands)

	2018	2019	2020	2021	2022	2023
Employer's proportion of the net HIC OPEB	0.90%	0.82%	0.69%	0.62%	0.54%	0.47%
Employer's proportionate share of the net HIC OPEB liability	$ 8,180	$ 7,495	$ 6,374	$ 5,655	$ 4,566	$ 3,881
Employer's covered payroll	$ 47,624	$ 42,435	$ 49,072	$ 45,133	$ 41,381	$ 36,087
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%	11.03%	10.75%
Plan fiduciary net position as a percentage of the total HIC OPEB liability	8.03%	9.51%	10.56%	12.02%	19.75%	21.52%

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

Schedule 4

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

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

(In thousands)

	2018	2019	2020	2021	2022	2023
Employer's proportion of the net Retiree Healthcare Plan OPEB	0.47%	0.43%	0.39%	0.35%	0.30%	0.25%
Employer's proportionate share of the net Retiree Healthcare Plan OPEB liability	$ 6,164	$ 4,348	$ 2,655	$ 1,988	$ 1,367	$ 924
Employer's covered payroll	$ 20,660	$ 18,552	$ 18,309	$ 22,472	$ 20,981	$ 18,239
Employer's proportionate share of the net Retiree Healthcare Plan OPEB liability as a percentage of its covered payroll	29.84%	23.44%	14.50%	8.85%	6.51%	5.07%

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

Schedule 5

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY

(A Component Unit of Virginia Commonwealth University)

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

June 30, 2023
(In thousands)

	VCU Medical Center	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	ASC	VCCN	Children's Services at Brook Road	University Health Services	Aries Insurance Captive	Eliminations	Total
Assets											
Current assets:											
Cash and cash equivalents	$ 310,548	$ 14	$ 9,668	$ 1	$ –	$ –	$ 178	$ 704	$ 465	$ –	$ 321,578
Restricted cash	–	20	115	–	–	–	2	–	–	–	137
Patient accounts receivable, net	298,004	57,944	13,908	7,239	3,176	–	1,381	–	–	–	381,652
Settlements due from third-party payors	4,886	26,276	3,861	266	–	–	3,289	–	–	–	38,578
Other accounts receivable	39,213	9,602	63	6	–	–	32	148	–	–	49,064
Due from related parties	434,996	16,832	2,807	–	–	–	50	6,683	–	(461,178)	190
Current portion of assets whose use is designated	400	–	–	–	–	–	–	–	7,000	–	7,400
Supplies and other current assets	77,907	651	2,815	1,799	–	81	70	25	6	–	83,354
Total current assets	1,165,954	111,339	33,237	9,311	3,176	81	5,002	7,560	7,471	(461,178)	881,953
Capital assets:											
Land	18,007	–	1,614	3,047	–	–	55	2,745	–	–	25,468
Depreciable capital assets, net	1,456,051	11,816	81,493	14,627	17,350	–	6,432	20,157	–	–	1,607,926
Construction in progress	107,284	755	907	646	–	–	–	–	–	–	109,592
Leased assets, net	31,159	8,763	–	1,615	–	–	–	–	–	–	41,537
Subscription-based IT arrangements	30,279	–	–	–	–	–	–	–	–	–	30,279
Total capital assets, net	1,642,780	21,334	84,014	19,935	17,350	–	6,487	22,902	–	–	1,814,802
Other assets:											
Assets whose use is restricted	33,888	–	576	–	–	–	5,059	–	–	–	39,523
Assets whose use is designated, less current portion	1,297,040	90,229	20,118	–	–	–	–	–	29,114	–	1,436,501
Long-term investments	–	–	–	–	–	–	–	–	57,106	–	57,106
Equity method investments	2,068	–	–	–	–	–	–	1,000	–	–	3,068
Other assets	21,458	–	463	110	–	–	24	221	–	–	22,276
Total other assets	1,354,454	90,229	21,157	110	–	–	5,083	1,221	86,220	–	1,558,474
Total assets	4,163,188	222,902	138,408	29,356	20,526	81	16,572	31,683	93,691	(461,178)	4,255,229
Deferred outflows of resources											
Deferred loss on debt refunding	20,057	–	–	–	–	–	–	–	–	–	20,057
Pension and post-retirement related deferred outflows	2,890	–	–	–	–	–	–	–	–	–	2,890
Total deferred outflows of resources	22,947	–	–	–	–	–	–	–	–	–	22,947
Total assets and deferred outflows of resources	$ 4,186,135	$ 222,902	$ 138,408	$ 29,356	$ 20,526	$ 81	$ 16,572	$ 31,683	$ 93,691	$ (461,178)	$ 4,278,176

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, 2023
(In thousands)

	VCU Medical Center	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	ASC	VCCN	Children's Services at Brook Road	University Health Services	Aries Insurance Captive	Eliminations	Total
Liabilities, deferred inflows of resources and net position											
Current liabilities:											
Current portion of long-term debt	$ 9,934	$ –	$ 1,266	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 11,200
Current portion of lease obligations	6,934	2,076	–	289	–	–	–	–	–	–	9,299
Current portion of SBITA obligations	14,724	–	–	–	–	–	–	–	–	–	14,724
Trade accounts payable	117,701	8,626	3,083	1,768	385	15	401	24	157	–	132,160
Settlements due to third-party payors	118,441	5,306	1,094	–	–	–	–	–	–	–	124,841
Accrued salaries, wages and employee benefits	50,505	15,992	882	141	–	–	(1)	–	–	–	67,519
Accrued leave	30,914	9,356	589	–	–	–	–	–	–	–	40,859
Accrued interest payable	12,593	11	61	2	–	–	–	–	–	–	12,667
Due to related parties	–	325,352	47,904	15,260	29,173	1,146	22,661	18,747	935	(461,178)	–
Current portion of estimated workers' compensation claims	100	–	–	–	–	–	–	–	1,000	–	1,100
Current portion of estimated losses on malpractice claims	300	–	–	–	–	–	–	–	6,000	–	6,300
Other accrued liabilities	7,690	8,875	1,703	549	7	–	27	13	–	–	18,864
Total current liabilities	369,836	375,594	56,582	18,009	29,565	1,161	23,088	18,784	8,092	(461,178)	439,533
Other liabilities:											
Long-term debt, less current portion	631,260	–	60,068	–	–	–	–	–	–	–	691,328
Long-term lease obligations	29,537	7,019	–	1,484	–	–	–	–	–	–	38,040
Long-term SBITA obligations	11,399	–	–	–	–	–	–	–	–	–	11,399
Estimated workers' compensation claims	3,177	–	–	–	–	–	–	–	3,166	–	6,343
Estimated losses on malpractice claims	3,185	–	–	–	–	–	–	–	20,552	–	23,737
Fair value of hedging derivatives	13,193	–	–	–	–	–	–	–	–	–	13,193
Net pension and postretirement liability	19,573	–	–	–	–	–	–	–	–	–	19,573
Other liabilities	–	–	16	–	–	–	458	–	5,295	–	5,769
Total liabilities	1,081,160	382,613	116,666	19,493	29,565	1,161	23,546	18,784	37,105	(461,178)	1,248,915
Deferred inflows of resources											
Change in fair value of interest rate swap	17,183	–	–	–	–	–	–	–	–	–	17,183
Pension and post-retirement related deferred inflows	15,235	–	–	–	–	–	–	–	–	–	15,235
Right to use lease assets	17,415	–	–	–	–	–	–	–	–	–	17,415
Total deferred inflows of resources	49,833	–	–	–	–	–	–	–	–	–	49,833
Total liabilities and deferred inflows of resources	$ 1,130,993	$ 382,613	$ 116,666	$ 19,493	$ 29,565	$ 1,161	$ 23,546	$ 18,784	$ 37,105	$ (461,178)	$ 1,298,748

Schedule 5

VIRGINIA COMMONWEALTH UNIVERSITY
HEALTH SYSTEM AUTHORITY

(A Component Unit of Virginia Commonwealth University)

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

June 30, 2023
(In thousands)

	VCU Medical Center	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	ASC	VCCN	Children's Services at Brook Road	University Health Services	Aries Insurance Captive	Eliminations	Total
Net position											
Net position:											
Net investment in capital assets	$ 1,231,978	$ 12,239	$ 22,681	$ 18,161	$ 17,350	$ –	$ 6,488	$ 22,902	$ –	$ –	$ 1,331,799
Restricted:											
Expendable	–	–	2,853	–	–	–	1,800	–	–	–	4,653
Nonexpendable permanent endowment	19,866	–	93	–	–	–	2,676	–	–	–	22,635
Unrestricted	1,803,298	(171,950)	(3,885)	(8,298)	(26,389)	(1,080)	(17,938)	(10,003)	56,586	–	1,620,341
Total net position	3,055,142	(159,711)	21,742	9,863	(9,039)	(1,080)	(6,974)	12,899	56,586	–	2,979,428
Total liabilities, deferred inflows of resources and net position	$ 4,186,135	$ 222,902	$ 138,408	$ 29,356	$ 20,526	$ 81	$ 16,572	$ 31,683	$ 93,691	$ (461,178)	$ 4,278,176

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, 2023
(In thousands)

	VCU Medical Center	MCV Associated Physicians	Community Memorial Hospital	Tappahannock Hospital	ASC	VCCN	Children's Services at Brook Road	University Health Services	Aries Insurance Captive	Eliminations	Total
Operating revenues:											
Net patient service revenue	$ 2,326,341	$ 443,230	$ 136,363	$ 57,343	$ 17,111	$ –	$ 19,965	$ –	$ –	$ –	$ 3,000,353
Contract revenue from MCVH	–	81,244	–	–	–	–	–	–	–	(81,244)	–
Other contract revenue	–	21,490	–	–	–	–	–	–	–	–	21,490
Other operating revenue	24,734	4,575	588	672	1	–	890	4,690	17,087	(24,039)	29,198
	2,351,075	550,539	136,951	58,015	17,112	–	20,855	4,690	17,087	(105,283)	3,051,041
Operating expenses:											
Salaries and wages	820,295	444,173	72,698	18,487	4,055	210	9,190	446	–	–	1,369,554
Employee benefits	217,412	91,517	17,328	5,660	1,466	49	2,847	148	–	(2,447)	333,980
Purchased services	367,731	12,491	20,967	9,407	220	2	1,372	1,236	6,312	(81,244)	338,494
Supplies	649,520	7,923	22,568	15,621	9,480	–	1,236	8	–	–	706,356
Other expenses	21,116	118,757	33,734	10,273	1,942	288	5,790	2,183	58	(21,592)	172,549
Provision for depreciation and amortization	101,926	4,076	9,990	1,682	1,980	–	560	735	–	–	120,949
	2,178,000	678,937	177,285	61,130	19,143	549	20,995	4,756	6,370	(105,283)	3,041,882
Operating income (loss)	173,075	(128,398)	(40,334)	(3,115)	(2,031)	(549)	(140)	(66)	10,717	–	9,159
Nonoperating revenues and (expenses):											
Investment income	105,906	7,122	1,953	–	–	–	–	–	2,615	–	117,596
Interest expense	(30,039)	(159)	(2,202)	(45)	–	–	–	–	–	–	(32,445)
Other nonoperating (expense) income, net	(60,892)	43,498	2	–	–	–	(1,783)	–	–	–	(19,175)
Income from equity method investments	5,400	–	–	–	–	–	–	–	–	–	5,400
CARES ACT and other COVID-19 revenue	3,390	–	(1,690)	2,037	–	–	–	–	–	–	3,737
Donations and gifts, net	12,592	2,989	333	–	–	–	212	–	–	–	16,126
Nonoperating revenues and (expenses), net	36,357	53,450	(1,604)	1,992	–	–	(1,571)	–	2,615	–	91,239
Income/(loss) before other revenues, expenses, gains and losses	209,432	(74,948)	(41,938)	(1,123)	(2,031)	(549)	(1,711)	(66)	13,332	–	100,398
Change in beneficial interests in trusts	703	–	–	–	–	–	–	–	–	–	703
Other	(2,197)	(16,938)	2,197	–	–	–	–	–	–	–	(16,938)
Increase/(Decrease) in net position	207,938	(91,886)	(39,741)	(1,123)	(2,031)	(549)	(1,711)	(66)	13,332	–	84,163
Net position at beginning of year	2,847,204	(67,825)	61,483	10,986	(7,008)	(531)	(5,263)	12,965	43,254	–	2,895,265
Net position at end of year	$ 3,055,142	$ (159,711)	$ 21,742	$ 9,863	$ (9,039)	$ (1,080)	$ (6,974)	$ 12,899	$ 56,586	$ –	$ 2,979,428

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