



# Chesapeake Hospital Authority

Financial Statements and Independent  
Auditor's Report  
Years Ended June 30, 2019 and 2018

# **Chesapeake Hospital Authority**

---

Financial Statements and Independent Auditor's Report  
Years Ended June 30, 2019 and 2018

# Chesapeake Hospital Authority

## Contents

---

|   |       |
|---|-------|
| <b>Independent Auditor's Report</b>   | 1-3   |
| <b>Management's Discussion and Analysis (Unaudited)</b>   | 4-12  |
| <b>Financial Statements</b>   |       |
| Balance Sheets - Enterprise Fund  | 13-14 |
| Statements of Revenues, Expenses, and Changes in Net Position - Enterprise Fund   | 15    |
| Statements of Cash Flows - Enterprise Fund  | 16    |
| Statements of Net Position - Pension Trust Fund   | 17    |
| Statements of Changes in Net Position - Pension Trust Fund  | 18    |
| Notes to Financial Statements   | 19-51 |
| <b>Required Supplementary Information</b>   |       |
| Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)   | 52    |
| Schedule of Contributions (Unaudited)   | 53    |
| Schedule of Investment Returns (Unaudited)  | 54    |
| <b>Supplementary Information</b>  |       |
| Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position  | 55    |
| Combining Schedule of Revenues, Expenses, and Changes in Net Position   | 56    |
| <b>Internal Control and Compliance Matters</b>  |       |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 57-58 |



Tel: 703-893-0600  
Fax: 703-893-2766  
www.bdo.com

8401 Greensboro Drive  
Suite 800  
McLean, VA 22102

## **Independent Auditor's Report**

The Members  
Chesapeake Hospital Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the enterprise fund, as of and for the years ended June 30, 2019 and 2018, and the pension trust fund, as of and for the years ended December 31, 2018 and 2017, of Chesapeake Hospital Authority (the Authority), and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund, as of and for the years ended June 30, 2019 and 2018, and the pension trust fund, as of and for the years ended December 31, 2018 and 2017, of Chesapeake Hospital Authority, and the respective changes in their financial position and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

Accounting principles generally accepted in the United States require that the Management's Discussion and Analysis on pages 4 through 12, and the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions, and the Schedule of Investment Returns on pages 52, 53, and 54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chesapeake Hospital Authority's basic financial statements. The Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position and the Combining Schedule of Revenues, Expenses, and Changes in Net Position (collectively the Supplemental Information), are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BDO USA, LLP

November 27, 2019

# Chesapeake Hospital Authority

## Management's Discussion and Analysis (Unaudited)

---

This discussion and analysis of Chesapeake Hospital Authority's (the Authority) financial performance provides an overview of the Authority's financial statements for the fiscal years ended June 30, 2019 and 2018. Please read it in conjunction with the Authority's financial statements, which begin on page 13.

### ***Financial Statement Overview***

The financial statements herein comprise the balance sheets, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. These financial statements and accompanying notes provide information about the activities of the Authority, including resources held by the Authority but restricted for specified purposes by contributors, grantors, or enabling legislation.

The Authority is the trustee, or fiduciary, for its employees' pension plan. The Authority's pension plan activities are reported in separate balance sheets and statements of changes in net position on pages 17 and 18. The Authority excludes these activities from the Authority's other financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Authority's financial statements include Chesapeake General Hospital (the Hospital), Chesapeake Hospital Authority Foundation (the Foundation), a blended component unit, and other wholly owned or controlled subsidiaries.

### ***June 30, 2019 Compared to June 30, 2018***

#### ***Financial Highlights***

- The Authority's net position at June 30, 2019 increased by \$26.4 million, or 8.2%, from June 30, 2018 due to \$9.8 million of investment income combined with positive operating results of \$17.0 million and other changes in net position of \$(0.4) million.
- Total revenues for the year ended June 30, 2019 were \$350.2 million consisting primarily of net patient revenue, pharmacy sales revenue and other revenues. Net patient service revenue of \$338.5 million increased from 2018 by \$26.5 million, or 8.5%.
- Operating expenses increased \$13.0 million, or 4.1%, over the prior year resulting in operating income of \$17.0 million for the year ended June 30, 2019, an increase of \$14.7 million, or 629.4% over the year ended June 30, 2018.
- For the year ended June 30, 2019, nonoperating income was \$9.8 million, a \$(0.1) million decrease from 2018. This decrease was primarily due to less favorable changes in the market value of investments during 2019.

# Chesapeake Hospital Authority

## Management's Discussion and Analysis (Unaudited)

A summary of the Authority's condensed balance sheets as of June 30, 2019 and 2018 is presented in Table 1 and discussed below:

**Table 1**  
**Condensed Balance Sheets**

| <i>June 30,</i>  | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
| <b>Assets</b>  |                       |                       |
| Current assets   | \$ 133,364,842        | \$ 106,038,560        |
| Capital assets   | 102,920,941           | 113,136,788           |
| Other noncurrent assets  | 306,095,236           | 239,911,763           |
| <b>Total assets</b>  | <b>542,381,019</b>    | <b>459,087,111</b>    |
| Deferred outflow of resources - pension                                  | 11,608,101            | 12,761,734            |
| <b>Total assets and deferred outflow of resources</b>                    | <b>\$ 553,989,120</b> | <b>\$ 471,848,845</b> |
| <b>Liabilities</b>   |                       |                       |
| Current liabilities  | \$ 42,756,346         | \$ 38,502,455         |
| Pension liability  | 20,773,664            | 18,848,331            |
| Other long-term liabilities outstanding                                  | 138,082,814           | 85,763,933            |
| <b>Total liabilities</b>   | <b>201,612,824</b>    | <b>143,114,719</b>    |
| Deferred inflow of resources   | 4,975,864             | 7,692,340             |
| <b>Net position</b>  |                       |                       |
| Net investment in capital assets   | 21,700,669            | 24,031,834            |
| Unrestricted   | 323,554,684           | 296,415,312           |
| Restricted   | 2,145,079             | 594,640               |
| <b>Total net position</b>  | <b>347,400,432</b>    | <b>321,041,786</b>    |
| <b>Total liabilities, deferred inflows of resources and net position</b> | <b>\$ 553,989,120</b> | <b>\$ 471,848,845</b> |

The Authority's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$347.4 million as of June 30, 2019. Approximately \$21.7 million of net position is related to capital assets. The majority of the remaining position (\$323.6 million) was unrestricted and can be used for ongoing operations of the Authority.

# Chesapeake Hospital Authority

## Management's Discussion and Analysis (Unaudited)

### Revenue, Expenses and Changes in Net Position

While the balance sheet shows the net position, the statement of revenues, expenses, and changes in net position provides information about the nature and source of changes to net position.

Table 2

#### Condensed Statements of Revenues, Expenses, and Changes in Net Position

| Year Ended June 30,                                | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
| <b>Revenues:</b>                                   |                       |                       |
| Net patient service revenue                        | \$ 338,499,024        | \$ 311,990,885        |
| Other operating revenue                            | 11,729,896            | 10,581,757            |
| <b>Total revenues</b>                              | <b>350,228,920</b>    | <b>322,572,642</b>    |
| <b>Operating expenses:</b>                         |                       |                       |
| Depreciation and amortization expense              | 20,023,266            | 21,728,103            |
| Other operating expenses                           | 313,187,018           | 298,511,432           |
| <b>Total operating expenses</b>                    | <b>333,210,284</b>    | <b>320,239,535</b>    |
| Operating income                                   | 17,018,636            | 2,333,107             |
| Nonoperating income                                | 9,774,724             | 9,857,204             |
| <b>Income before other changes in net position</b> | <b>26,793,360</b>     | <b>12,190,311</b>     |
| Other changes in net position                      | (434,714)             | 411,193               |
| <b>Increase in net position</b>                    | <b>26,358,646</b>     | <b>12,601,504</b>     |
| <b>Beginning net position</b>                      | <b>321,041,786</b>    | <b>308,440,282</b>    |
| <b>Ending net position</b>                         | <b>\$ 347,400,432</b> | <b>\$ 321,041,786</b> |

The Authority's total revenues increased by 8.6%, or approximately \$27.7 million. Total operating expenses increased \$13.0 million from the prior year.

- Patient service revenues comprise the majority of the Authority's revenues. Net patient service revenue increased by \$26.5 million, or 8.5%, from prior year largely due to increases in hospital patient volume, improvement in payments from managed care contracts, Medicare rate improvements and Medicaid Supplemental payments. The provision for bad debt and charity care as a percentage of gross patient charges decreased from 7.3% in FY18 to 6.6% in FY19 due to improved revenue cycle processes.
- Other operating revenues increased \$1.1 million, or 10.9%, due primarily to increased earnings of equity investments.
- Operating expenses increased \$13.0 million, or 4.1%, from the prior year. Salaries and benefits, comprising 47.2% of total operating expenses, increased \$4.9 million, or 3.2%, due to additional volumes. Other operating expenses, consisting primarily of medical supply costs, depreciation and amortization, and purchased services, increased \$8.0 million, or

# Chesapeake Hospital Authority

## Management's Discussion and Analysis (Unaudited)

---

4.8%, primarily due to increases in supplies and purchased services by \$4.7 million and increases in other expenses by \$3.3 million.

- Nonoperating income decreased \$(0.1) million, or (0.8)% in FY19 compared to FY18. This change is attributed to realized and unrealized gains on investments of \$6.3 million and \$3.5 million of interest and dividends recognized during FY19 as compared to realized and unrealized gains of \$6.7 million and \$3.2 million of interest and dividends during FY18.

### *Capital Asset and Obligation Administration*

#### *Capital Assets*

The Authority has invested \$102.9 million and \$113.1 million in net capital assets as shown in Table 3, as of June 30, 2019 and 2018, respectively.

**Table 3**  
**Capital Assets**

| <i>June 30,</i>                                | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
| Land and improvements                          | \$ 9,782,177          | \$ 9,782,177          |
| Buildings                                      | 176,519,103           | 174,119,563           |
| Equipment                                      | 320,140,889           | 313,304,581           |
|  | 506,442,169           | 497,206,321           |
| Less accumulated depreciation and amortization | (406,823,290)         | (388,854,706)         |
|  | 99,618,879            | 108,351,615           |
| Construction in progress                       | 3,302,062             | 4,785,173             |
| <b>Total</b>                                   | <b>\$ 102,920,941</b> | <b>\$ 113,136,788</b> |

The decrease in FY19 is attributed to increased accumulated depreciation and amortization and a decrease in construction in progress both impacted by the completion and depreciation of the final components to phase II of the electronic medical record (EMR) system conversion.

The Hospital has an annual capital budget plan for FY20 that includes the construction of a patient tower, land purchases, facility renovations and various equipment purchases and upgrades.

# Chesapeake Hospital Authority

## Management's Discussion and Analysis (Unaudited)

### Obligations

Table 4  
Debt

| June 30,                         | 2019                  | 2018                 |
|----------------------------------|-----------------------|----------------------|
| Hospital Facility Revenue Bonds: |                       |                      |
| Series 2015A                     | \$ -                  | \$ 41,890,000        |
| Series 2015B                     | -                     | 43,629,005           |
| Series 2019                      | 113,355,000           | -                    |
| Unamortized bond premium         | 15,900,925            | -                    |
| Other obligations                | 3,659,089             | 4,491,941            |
| <b>Total</b>                     | <b>\$ 132,915,014</b> | <b>\$ 90,010,946</b> |

At June 30, 2019 and 2018, the Authority had \$132.9 million and \$90.0 million in obligations outstanding, respectively. In June 2019 the Authority issued \$113.4 million in Hospital Facility Revenue Bonds, Series 2019. The proceeds of the Series 2019 Bonds were used to finance (1) the costs of certain construction and expansion projects, (2) refinance the Series 2015A and 2015B Bonds and (3) pay certain expenses incurred with the issuance of the Series 2019 Bonds. Additional information about the Authority's long-term obligations is included in note 6 to the financial statements.

### June 30, 2018 compared to June 30, 2017

#### Financial Highlights

- The Authority's net position at June 30, 2018 increased by \$12.6 million, or 4.1%, from June 30, 2017 due to \$9.9 million of investment income combined with positive operating results of \$2.3 million and other changes in net position of \$0.4 million.
- Total revenues at June 30, 2018 were \$322.6 million consisting primarily of net patient revenue, pharmacy sales revenue and other revenues. Net patient service revenue of \$312.0 million increased from June 30, 2017 by \$6.7 million, or 2.2%.
- Operating expenses decreased \$(1.6) million, or (0.5)%, over the prior year resulting in operating income of \$2.3 million for the year ended June 30, 2018, an increase of \$6.0 million, or 163.0% over the year ended June 30, 2017.
- For the year ended June 30, 2018, nonoperating income was \$9.9 million, a \$10.2 million decrease from 2017. This decrease was primarily due to less favorable changes in the market value of investments during 2018.

# Chesapeake Hospital Authority

## Management's Discussion and Analysis (Unaudited)

---

A summary of the Authority's condensed balance sheets as of June 30, 2018 and 2017 is presented in Table 5 and discussed below:

**Table 5**  
**Condensed Balance Sheets**

| <i>June 30,</i>  | 2018                  | 2017                  |
|--|-----------------------|-----------------------|
| <b>Assets</b>  |                       |                       |
| Current assets   | \$ 106,038,560        | \$ 92,988,630         |
| Capital assets   | 113,136,788           | 123,865,837           |
| Other noncurrent assets  | 239,911,763           | 228,457,851           |
| <b>Total assets</b>  | <b>459,087,111</b>    | <b>445,312,318</b>    |
| <b>Deferred outflow of resources - pension</b>                           | <b>12,761,734</b>     | <b>16,024,789</b>     |
| <b>Total assets and deferred outflow of resources</b>                    | <b>\$ 471,848,845</b> | <b>\$ 461,337,107</b> |
| <b>Liabilities</b>   |                       |                       |
| Current liabilities  | \$ 38,502,455         | \$ 35,572,750         |
| Pension liability  | 18,848,331            | 24,090,881            |
| Other long-term liabilities outstanding                                  | 85,763,933            | 89,667,534            |
| <b>Total liabilities</b>   | <b>143,114,719</b>    | <b>149,331,165</b>    |
| <b>Deferred inflow of resources</b>                                      | <b>7,692,340</b>      | <b>3,565,660</b>      |
| <b>Net position</b>  |                       |                       |
| Net investment in capital assets   | 24,031,834            | 32,265,408            |
| Unrestricted   | 296,415,312           | 274,459,852           |
| Restricted   | 594,640               | 1,715,022             |
| <b>Total net position</b>  | <b>321,041,786</b>    | <b>308,440,282</b>    |
| <b>Total liabilities, deferred inflows of resources and net position</b> | <b>\$ 471,848,845</b> | <b>\$ 461,337,107</b> |

# Chesapeake Hospital Authority

## Management's Discussion and Analysis (Unaudited)

Table 6

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

| Year Ended June 30,                                | 2018                  | 2017                  |
|--|-----------------------|-----------------------|
| <b>Revenues:</b>                                   |                       |                       |
| Net patient service revenue                        | \$ 311,990,885        | \$ 305,241,597        |
| Other operating revenue                            | 10,581,757            | 12,906,327            |
| <b>Total revenues</b>                              | <b>322,572,642</b>    | <b>318,147,924</b>    |
| <b>Operating expenses:</b>                         |                       |                       |
| Depreciation and amortization expense              | 21,728,103            | 24,754,478            |
| Other operating expenses                           | 298,511,432           | 297,096,250           |
| <b>Total operating expenses</b>                    | <b>320,239,535</b>    | <b>321,850,728</b>    |
| Operating income (loss)                            | 2,333,107             | (3,702,804)           |
| Nonoperating income                                | 9,857,204             | 20,082,112            |
| <b>Income before other changes in net position</b> | <b>12,190,311</b>     | <b>16,379,308</b>     |
| Other changes in net position                      | 411,193               | (910,314)             |
| <b>Increase in net position</b>                    | <b>12,601,504</b>     | <b>15,468,994</b>     |
| <b>Beginning net position</b>                      | <b>308,440,282</b>    | <b>292,971,288</b>    |
| <b>Ending net position</b>                         | <b>\$ 321,041,786</b> | <b>\$ 308,440,282</b> |

The Authority's total revenues increased by 1.4%, or approximately \$4.4 million. Total operating expenses decreased \$(1.6) million from the prior year.

- Patient service revenues comprise the majority of the Authority's revenues. Net patient service revenue increased by \$6.7 million, or 2.2%, from prior year largely due to increases in hospital patient volume and surgical cases. The provision for bad debt and charity care as a percentage of gross patient charges decreased from 5.7% in FY17 to 5.3% in FY18 due to improved revenue cycle processes.
- Other operating revenues decreased \$(2.3) million, or (18.0)%, due primarily to the receipt of a \$1.5 million Cigna claims refund and \$0.7 million payment from the Center for Medicare and Medicaid Services' (CMS) meaningful use program that did not recur in FY18.
- Operating expenses decreased \$(1.6) million, or (0.5)%, from the prior year. Salaries and benefits, comprising 47.6% of total operating expenses, decreased \$(0.6) million, or (0.4)%, due to improved monitoring of labor. Other operating expenses, consisting primarily of medical supply costs, depreciation and amortization, and purchased services, decreased \$(1.1) million, or (0.6)%, primarily due to a decrease in depreciation and amortization by \$(3.0) million offset by an increase in interest expense by \$0.6 million and non-medical supply costs by \$1.3 million.

# Chesapeake Hospital Authority

## Management's Discussion and Analysis (Unaudited)

---

- Nonoperating income decreased \$(10.2) million, or (50.9)% in FY18 compared to FY17. This change is attributed to realized and unrealized gains on investments of \$6.7 million and \$3.2 million of interest and dividends recognized during FY18 as compared to realized and unrealized gains of \$14.6 million, \$4.1 million of interest and dividends, and \$1.4 million change in the fair value of the interest rate swap recognized during FY17.

### *Capital Asset and Obligation Administration*

#### *Capital Assets*

The Authority has invested \$113.1 million and \$123.9 million in net capital assets as shown in Table 7, as of June 30, 2018 and 2017, respectively.

**Table 7**  
**Capital Assets**

| <i>June 30,</i>                                | 2018           | 2017           |
|--|----------------|----------------|
| Land and improvements                          | \$ 9,782,177   | \$ 9,803,643   |
| Buildings                                      | 174,119,563    | 170,849,526    |
| Equipment                                      | 313,304,581    | 304,248,221    |
|  | 497,206,321    | 484,901,390    |
| Less accumulated depreciation and amortization | (388,854,706)  | (368,318,873)  |
|  | 108,351,615    | 116,582,517    |
| Construction in progress                       | 4,785,173      | 7,283,320      |
| Total  | \$ 113,136,788 | \$ 123,865,837 |

The decrease in FY18 is attributed to increased accumulated depreciation and amortization and a decrease in construction in progress both impacted by the completion and depreciation of certain components to phase II of the electronic medical record (EMR) system conversion.

The Hospital had an annual capital budget plan for fiscal year 2019 that included the following major initiatives: a Neuroscience Institute, land purchases, facility renovations and various equipment purchases and upgrades.

#### **Obligations**

At June 30, 2018, the Authority had approximately \$90.0 million in obligations outstanding as shown in Table 8. Additional information about the Authority's long-term obligations is included in note 6 to the financial statements.

**Chesapeake Hospital Authority**  
**Management's Discussion and Analysis (Unaudited)**

---

**Table 8**  
**Debt**

| <i>June 30,</i>                        | 2018                 | 2017                 |
|--|----------------------|----------------------|
| <b>Hospital Facility Revenue Bonds</b> |                      |                      |
| Series 2015A                           | \$ 41,890,000        | \$ 42,535,000        |
| Series 2015B                           | 43,629,005           | 45,561,822           |
| Other obligations                      | 4,491,941            | 4,755,927            |
| <b>Total</b>                           | <b>\$ 90,010,946</b> | <b>\$ 92,852,749</b> |

During fiscal year 2018, the Authority drew \$1.0 million against the Series 2015B Bond to finance the second phase of the new Electronic Medical Records (EMR) system implementation.

***Finance Contact***

The Authority's financial statements are designed to present users with a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have any questions about the report or need additional information, please contact the Chief Financial Officer, Chesapeake Hospital Authority, 736 Battlefield Boulevard, North, Chesapeake, VA 23320.

## Financial Statements

---

# Chesapeake Hospital Authority

## Balance Sheets - Enterprise Fund

| <i>June 30,</i>   | 2019                  | 2018                  |
|---|-----------------------|-----------------------|
| <b>Assets and Deferred Outflows of Resources</b>  |                       |                       |
| <b>Current assets:</b>  |                       |                       |
| Cash and cash equivalents   | \$ 77,763,854         | \$ 56,138,960         |
| Patient accounts receivable, less allowances for uncollectible accounts of approximately \$22,371,000 and \$23,747,000 as of June 30, 2019 and 2018, respectively | 39,615,180            | 39,371,299            |
| Supplies inventories  | 5,863,588             | 5,665,715             |
| Settlements due from third-party payors   | 4,570,646             | 477,082               |
| Current portion of assets whose use is limited  | 60,995                | 77,206                |
| Other current assets  | 5,490,579             | 4,308,298             |
| <b>Total current assets</b>   | <b>133,364,842</b>    | <b>106,038,560</b>    |
| <b>Noncurrent assets whose use is limited:</b>  |                       |                       |
| Internally designated by the board for capital acquisition  | 193,479,885           | 184,917,976           |
| Externally restricted under bond indenture  | 50,928,809            | -                     |
| Externally restricted by donors   | 1,550,439             | 1,301,994             |
| <b>Total noncurrent assets whose use is limited</b>   | <b>245,959,133</b>    | <b>186,219,970</b>    |
| <b>Capital assets:</b>  |                       |                       |
| Land  | 2,745,915             | 2,745,915             |
| Buildings, equipment, and land improvements, net  | 96,872,964            | 105,605,700           |
| Construction in progress  | 3,302,062             | 4,785,173             |
| <b>Capital assets, net</b>  | <b>102,920,941</b>    | <b>113,136,788</b>    |
| <b>Other noncurrent assets:</b>   |                       |                       |
| Property held for future use  | 17,912,419            | 16,208,405            |
| Investment in The Outer Banks Hospital, Inc.  | 28,439,859            | 25,212,601            |
| Interest rate swap  | -                     | 425,919               |
| Other investments   | 13,783,825            | 11,844,868            |
| <b>Total other noncurrent assets</b>  | <b>60,136,103</b>     | <b>53,691,793</b>     |
| <b>Total assets</b>   | <b>542,381,019</b>    | <b>459,087,111</b>    |
| <b>Deferred outflows of resources - pension</b>   | <b>11,608,101</b>     | <b>12,761,734</b>     |
| <b>Total assets and deferred outflows of resources</b>  | <b>\$ 553,989,120</b> | <b>\$ 471,848,845</b> |

*See accompanying notes to financial statements.*

# Chesapeake Hospital Authority

## Balance Sheets - Enterprise Fund (continued)

| June 30,   | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
| <b>Liabilities, Deferred Inflows of Resources, and Net Position</b>      |                       |                       |
| <b>Current liabilities:</b>  |                       |                       |
| Accounts payable   | \$ 19,229,350         | \$ 13,459,932         |
| Employee compensation  | 11,151,530            | 10,050,715            |
| Settlements due to third-party payors                                    | 5,294,083             | 4,207,904             |
| Accrued interest   | 55,053                | 625,522               |
| Other accrued expenses   | 6,731,534             | 5,475,202             |
| Current portion of long-term obligations                                 | 294,796               | 4,683,180             |
| <b>Total current liabilities</b>   | <b>42,756,346</b>     | <b>38,502,455</b>     |
| Pension liability  | 20,773,664            | 18,848,331            |
| Long-term obligations, less current portion                              | 132,620,218           | 85,327,766            |
| Other long-term liabilities  | 5,462,596             | 436,167               |
| <b>Total liabilities</b>   | <b>201,612,824</b>    | <b>143,114,719</b>    |
| <b>Deferred inflows of resources</b>                                     | 4,975,864             | 7,692,340             |
| <b>Net position:</b>   |                       |                       |
| Net investment in capital assets   | 21,700,669            | 24,031,834            |
| Unrestricted   | 323,554,684           | 296,415,312           |
| Restricted   | 2,145,079             | 594,640               |
| <b>Total net position</b>  | <b>347,400,432</b>    | <b>321,041,786</b>    |
| <b>Total liabilities, deferred inflow of resources, and net position</b> | <b>\$ 553,989,120</b> | <b>\$ 471,848,845</b> |

*See accompanying notes to financial statements.*

# Chesapeake Hospital Authority

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

| <i>Years Ended June 30,</i>  | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
| <b>Operating revenues:</b>   |                       |                       |
| Net patient service revenue, net of the provision for bad debts of approximately \$29,022,000 during 2019 and \$34,567,000 during 2018 | \$ 338,499,024        | \$ 311,990,885        |
| Other operating revenue  | 11,729,896            | 10,581,757            |
| <b>Total operating revenue</b>   | <b>350,228,920</b>    | <b>322,572,642</b>    |
| <b>Operating expenses:</b>   |                       |                       |
| Salaries   | 127,359,175           | 121,126,397           |
| Fringe benefits  | 30,006,040            | 31,308,110            |
| Medical supplies   | 68,529,845            | 65,157,649            |
| Professional fees  | 16,480,833            | 15,537,429            |
| Purchased services   | 23,440,524            | 22,105,693            |
| Other expenses   | 43,789,050            | 40,523,579            |
| Interest   | 3,581,551             | 2,752,575             |
| Depreciation and amortization  | 20,023,266            | 21,728,103            |
| <b>Total operating expenses</b>  | <b>333,210,284</b>    | <b>320,239,535</b>    |
| <b>Operating income</b>  | <b>17,018,636</b>     | <b>2,333,107</b>      |
| <b>Nonoperating income:</b>  |                       |                       |
| Investment income, net   | 9,774,724             | 9,857,204             |
| <b>Excess of revenues over expenses before other changes in net position</b>   | <b>26,793,360</b>     | <b>12,190,311</b>     |
| <b>Other changes in net position</b>   | <b>(434,714)</b>      | <b>411,193</b>        |
| <b>Increase in net position</b>  | <b>26,358,646</b>     | <b>12,601,504</b>     |
| <b>Net position at beginning of year</b>   | <b>321,041,786</b>    | <b>308,440,282</b>    |
| <b>Net position at end of year</b>   | <b>\$ 347,400,432</b> | <b>\$ 321,041,786</b> |

*See accompanying notes to financial statements.*

# Chesapeake Hospital Authority

## Statements of Cash Flows - Enterprise Fund

| <i>Years Ended June 30,</i>   | 2019                  | 2018                 |
|---|-----------------------|----------------------|
| <b>Cash flows from operating activities:</b>  |                       |                      |
| Cash received from patients and third-party payors                                      | \$ 342,627,758        | \$ 307,242,544       |
| Cash paid to employees  | (151,279,969)         | (146,793,299)        |
| Cash paid to suppliers  | (148,887,170)         | (139,725,591)        |
| Cash paid for pension   | (4,196,022)           | (4,049,348)          |
| Other operating cash receipts and payments, net   | 3,186,594             | 5,687,831            |
| <b>Net cash provided by operating activities</b>  | <b>41,451,191</b>     | <b>22,362,137</b>    |
| <b>Cash flows from capital and related financing activities:</b>                        |                       |                      |
| Repayment of long-term obligations  | (86,351,857)          | (4,211,991)          |
| Purchases of capital assets   | (10,203,346)          | (12,160,961)         |
| Proceeds from issuance of long-term obligations   | 113,355,000           | 1,290,428            |
| Premium on issuance of long-term debt   | 15,900,925            | -                    |
| Interest payments on long-term borrowings   | (2,634,869)           | (2,728,429)          |
| <b>Net cash provided by (used in) capital and related financing activities</b>          | <b>30,065,853</b>     | <b>(17,810,953)</b>  |
| <b>Cash flows from investing activities:</b>  |                       |                      |
| Purchases of investments  | (122,494,054)         | (104,659,556)        |
| Sales of investments  | 119,418,481           | 104,784,976          |
| Interest and dividend income  | 3,462,844             | 3,172,895            |
| Distribution from The Outer Banks Hospital  | 1,320,000             | 2,910,000            |
| Other   | (434,714)             | 226,868              |
| <b>Net cash provided by investing activities</b>  | <b>1,272,557</b>      | <b>6,435,183</b>     |
| Increase in cash and cash equivalents   | 72,789,601            | 10,986,367           |
| Cash and cash equivalents at beginning of year  | 63,048,923            | 52,062,556           |
| <b>Cash and cash equivalents at end of year</b>   | <b>\$ 135,838,524</b> | <b>\$ 63,048,923</b> |
| <b>Cash and cash equivalents at end of year by balance sheet amount:</b>                |                       |                      |
| Cash and cash equivalents in current assets   | \$ 77,763,854         | \$ 56,138,960        |
| Cash and cash equivalents in assets whose use is limited:                               |                       |                      |
| Internally designated by the board for capital acquisition                              | 6,995,302             | 6,826,137            |
| Externally restricted under bond indenture  | 50,928,809            | -                    |
| Externally restricted by donors   | 150,559               | 83,826               |
| <b>Total cash and cash equivalents at end of year</b>                                   | <b>\$ 135,838,524</b> | <b>\$ 63,048,923</b> |
| <b>Reconciliation of operating income to net cash provided by operating activities:</b> |                       |                      |
| Operating income  | \$ 17,018,636         | \$ 2,333,107         |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                       |                      |
| Depreciation and amortization   | 20,023,266            | 21,728,103           |
| Provision for bad debts   | 29,022,158            | 34,566,978           |
| Interest expense considered capital financing activity                                  | 2,634,869             | 2,728,429            |
| Changes in operating assets and liabilities:  |                       |                      |
| Patient accounts receivable   | (29,266,039)          | (40,393,519)         |
| Supplies inventories  | (197,873)             | 60,051               |
| Other current assets  | (2,057,087)           | 15,528               |
| Other investments   | (6,486,215)           | (4,177,654)          |
| Accounts payable  | 6,165,345             | 2,539,204            |
| Employee compensation   | 1,100,815             | (111,450)            |
| Settlements with third-party payors   | (3,007,385)           | 1,078,200            |
| Accrued interest  | (570,469)             | (9,632)              |
| Pension funded status   | 788,409               | 2,147,185            |
| Other accrued expenses  | 6,282,761             | (142,393)            |
| <b>Net cash provided by operating activities</b>  | <b>\$ 41,451,191</b>  | <b>\$ 22,362,137</b> |
| <b>Noncash supplemental information:</b>  |                       |                      |
| Purchases of capital assets included in accounts payable                                | \$ 395,927            | \$ 1,161,907         |

*See accompanying notes to financial statements.*

# Chesapeake Hospital Authority

## Statements of Net Position - Pension Trust Fund

| <i>December 31,</i>                        | 2018                 | 2017                  |
|--|----------------------|-----------------------|
| <b>Assets:</b>                             |                      |                       |
| Cash and cash equivalents                  | \$ 7,201,816         | \$ 3,154,852          |
| Investments (measured at fair value)       | 89,240,212           | 100,690,017           |
| <b>Total assets</b>                        | <b>\$ 96,442,028</b> | <b>\$ 103,844,869</b> |
| <b>Net position:</b>                       |                      |                       |
| Restricted for employees' pension benefits | \$ 96,442,028        | \$ 103,844,869        |

*See accompanying notes to financial statements.*

# Chesapeake Hospital Authority

## Statements of Changes in Net Position - Pension Trust Fund

| <i>Years ended December 31,</i>  | 2018                 | 2017                  |
|--|----------------------|-----------------------|
| <b>Additions:</b>  |                      |                       |
| Pension contributions  | \$ 3,399,348         | \$ 3,706,786          |
| Investment gain  | -                    | 11,549,713            |
| <b>Total additions</b>   | <b>3,399,348</b>     | <b>15,256,499</b>     |
| <b>Deductions:</b>   |                      |                       |
| Pension benefit payments   | (5,433,970)          | (5,153,378)           |
| Investment loss  | (5,368,219)          | -                     |
| <b>Total deductions</b>  | <b>(10,802,189)</b>  | <b>(5,153,378)</b>    |
| <b>Net (decrease) increase in net position</b>   | <b>(7,402,841)</b>   | <b>10,103,121</b>     |
| <b>Net position, at beginning of year - restricted for employee's pension benefits</b> | <b>103,844,869</b>   | <b>93,741,748</b>     |
| <b>Net position, at end of year - restricted for employee's pension benefits</b>       | <b>\$ 96,442,028</b> | <b>\$ 103,844,869</b> |

*See accompanying notes to financial statements.*

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### 1. Reporting Entity

Chesapeake Hospital Authority (the Authority), a public instrumentality created to provide for public health and welfare by an Act of the General Assembly of the Commonwealth of Virginia, is a tax-exempt, government organization under the provisions of Internal Revenue Code Section 115. The Authority's principal activities are the ownership and operation of Chesapeake General Hospital (the Hospital) and Chesapeake Hospital Authority Foundation (the Foundation). The Hospital is a division of the Authority, and the Foundation is a blended component unit of the Authority due to the significance of the operational and financial relationship between the two entities. The Foundation is a not-for-profit, nonstock organization that operates exclusively to carry out the charitable, educational, and scientific purposes of the Authority and its subsidiaries. The Authority also engages in other healthcare-related activities through several subsidiaries, some of which are taxable corporations. The Hospital, the Foundation, and other wholly owned or controlled subsidiaries are included in the enterprise fund of the Authority.

The Authority has a 40% interest in The Outer Banks Hospital, Inc. (TOBH), a joint venture between the Authority and Vidant Community Hospitals. Opened in 2002, TOBH, located in Nags Head, North Carolina, is a nonprofit, tax-exempt critical access hospital offering a wide range of inpatient and outpatient services. The Authority's investment in TOBH totaled \$28,439,859 and \$25,212,601 at June 30, 2019 and 2018, respectively. Distributions received by the Authority in 2019 and 2018 totaled \$1,320,000 and \$2,910,000, respectively. During 2019 and 2018, the Authority recognized equity in TOBH's earnings in the amount of \$4,547,258 and \$3,972,830, respectively, as other operating revenue.

On August 28, 2000, The Surgery Center of Chesapeake, LLC (SCC) was formed to provide outpatient ambulatory surgical services. At June 30, 2019 and 2018, the Authority owned approximately 70% and 65%, respectively, of the SCC, with the remaining portion owned by certain physicians. The SCC is a limited liability corporation. SCC does not issue publicly available separate financial statements.

Summarized financial information for TOBH accounted for under the equity method, as of and for the years ended June 30, 2019 and 2018, consisted of the following:

| <i>June 30,</i>     | 2019 |            | 2018 |            |
|---------------------|------|------------|------|------------|
| Total assets        | \$   | 81,544,862 | \$   | 71,701,997 |
| Total liabilities   |      | 10,445,215 |      | 8,670,494  |
| <b>Total equity</b> | \$   | 71,099,647 | \$   | 63,031,503 |
| Vidant interest     | \$   | 42,659,788 | \$   | 37,818,902 |
| Authority interest  | \$   | 28,439,859 | \$   | 25,212,601 |

# Chesapeake Hospital Authority

## Notes to Financial Statements

| Year Ended June 30,                     | 2019                | 2018                |
|---|---------------------|---------------------|
| Total operating revenue                 | \$ 86,237,105       | \$ 79,514,348       |
| Total operating expenses                | (74,867,314)        | (69,896,619)        |
| <b>Operating net income</b>             | <b>11,369,791</b>   | <b>9,617,729</b>    |
| Nonoperating income                     | 442,606             | 378,949             |
| <b>Excess of revenues over expenses</b> | <b>11,812,397</b>   | <b>9,996,678</b>    |
| Other changes in net position           | (3,744,253)         | (7,339,600)         |
| <b>Increase in net position</b>         | <b>\$ 8,068,144</b> | <b>\$ 2,657,078</b> |

The following is a summary of the Authority's blended components' condensed financial information as of and for the years ended June 30:

|                     | Foundation            |                       | SCC                 |                     |
|---------------------|-----------------------|-----------------------|---------------------|---------------------|
|                     | 2019                  | 2018                  | 2019                | 2018                |
| <b>Assets:</b>      |                       |                       |                     |                     |
| Current assets      | \$ -                  | \$ 7,759              | \$ 2,599,551        | \$ 2,658,661        |
| Noncurrent assets   | 194,213,392           | 176,634,191           | 2,865,431           | 3,417,760           |
| <b>Total assets</b> | <b>\$ 194,213,392</b> | <b>\$ 176,641,950</b> | <b>\$ 5,464,982</b> | <b>\$ 6,076,421</b> |

|   | Foundation            |                       | SCC                 |                     |
|---|-----------------------|-----------------------|---------------------|---------------------|
|   | 2019                  | 2018                  | 2019                | 2018                |
| <b>Liabilities and net position:</b>      |                       |                       |                     |                     |
| Current liabilities                       | \$ -                  | \$ -                  | \$ 789,370          | \$ 1,264,355        |
| Noncurrent liabilities                    | 34,019,547            | 24,822,121            | 2,825,576           | 3,004,195           |
| Net position                              | 160,193,845           | 151,819,829           | 1,850,036           | 1,807,871           |
| <b>Total liabilities and net position</b> | <b>\$ 194,213,392</b> | <b>\$ 176,641,950</b> | <b>\$ 5,464,982</b> | <b>\$ 6,076,421</b> |

|  | Foundation          |                     | SCC              |                     |
|--|---------------------|---------------------|------------------|---------------------|
|  | 2019                | 2018                | 2019             | 2018                |
| Total operating revenue                    | \$ 15,785           | \$ 38,633           | \$ 8,742,407     | \$ 9,448,490        |
| Total operating expenses                   | (2,400)             | -                   | (8,096,503)      | (8,687,275)         |
| Total nonoperating income,<br>net          | 8,358,231           | 9,052,968           | -                | -                   |
| Other changes in net position              | 2,400               | -                   | 3,482            | (26,985)            |
| Distributions to owners                    | -                   | -                   | (607,221)        | (1,197,610)         |
| <b>Increase (decrease) in net position</b> | <b>\$ 8,374,016</b> | <b>\$ 9,091,601</b> | <b>\$ 42,165</b> | <b>\$ (463,380)</b> |

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### 2. Summary of Significant Accounting Policies

#### *Principles of Presentation*

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses, as appropriate.

The enterprise fund, which includes the accounts of the Authority and its wholly owned or controlled subsidiaries (collectively referred to herein as the Authority), is used to account for the Authority's ongoing activities. Significant intercompany accounts and transactions have been eliminated in combination of these entities.

The pension trust fund is used to account for assets held in trust by PNC Institutional Investments and Trust Company for the benefit of the employees of the Authority. The pension plan is sponsored by the Authority and governed by the Board of Directors of the Authority (the Board); therefore, the pension plan is included as a component unit of the Authority.

The Governmental Accounting Standards Board (GASB) establishes standards for external financial reporting for all state and local governmental entities. These standards 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, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any 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 are 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 proceeds.
- *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 components of net position.
- *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.

The accounting policies and practices of the Authority conform to U.S. generally accepted accounting principles (GAAP) applicable to a proprietary fund of a government unit. The financial statement presentation and significant accounting policies adopted by the Authority materially conform to the general practice within the healthcare industry, as published by the American

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

Institute of Certified Public Accountants in its *Audit and Accounting Guide, Health Care Organizations*.

### ***Basis of Accounting***

The Authority utilizes the proprietary fund method of accounting for its enterprise fund activity, whereby revenues and expenses are recognized on the accrual basis.

The financial statements of the pension trust fund are prepared using the accrual basis of accounting. Actuarially determined employer contributions to the plan are made by the Authority in order to maintain sufficient assets to pay benefits and are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the plan.

### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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, third-party settlements, pension liability, self-insurance liabilities, and the carrying amount of capital assets and investments.

### ***Reclassifications***

Certain reclassifications have been made to the previously reported 2018 balances to conform to the 2019 presentation. Such reclassifications did not impact the June 30, 2018 net position or the change in net position for the year then ended.

### ***Recently Issued Accounting Standards Not Yet Adopted***

In June 2017, the GASB issued Statement No. 87, *Leases*, which changes the current classification of lease arrangements as either operating or capital leases, and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use and underlying asset. This Statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees will be required to recognize a lease liability and an intangible right-to-use lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources. This Statement will be effective for the year ending June 30, 2021 of the Authority. The Authority is currently analyzing the impact from implementation of this Statement.

### ***Cash Equivalents***

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

### ***Allowance for Uncollectible Accounts***

The Authority records an allowance for uncollectible accounts during the period in which collection is considered doubtful. Provision for bad debts is included with net patient service revenue.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### ***Investments***

Investments in money market funds, mutual funds, and marketable debt securities are carried at fair value based on quoted market prices. Investment income including net realized and unrealized gains or losses, and interest and dividends earned are recorded as nonoperating (loss) income. Gains and losses from the sale of securities are recorded using the specific-identification method.

### ***Assets Whose Use is Limited***

Unrestricted resources appropriated or designated by the Board for investments and other nonoperating purposes, and resources restricted under the pension plan trust agreement are reported as assets whose use is limited and carried at fair value. All assets whose use is limited, except for the portion required for the payment of current liabilities, are classified as noncurrent assets.

Resources restricted by donors to a specific period or purpose are also reported as assets whose use is limited. Gifts of cash and other assets are reported at fair value at the date of the gift.

### ***Supplies Inventories***

Supplies inventories are stated at the lower of cost (first-in, first-out) or market.

### ***Capital Assets***

Capital assets are stated at cost, or, if donated, at acquisition value at the date of donation. The Authority capitalizes expenditures for capital assets when the acquisition cost is \$2,500 or greater. Depreciation on capital assets, including capital leases and excluding land and construction in progress is computed on a straight-line basis over the estimated useful lives of the related assets. The general range of estimated useful lives for buildings and land improvements is 8 to 40 years and the general range for equipment is 5 to 10 years.

The Authority evaluates long-lived assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount.

### ***Property Held for Future Use***

Property held for future use represents unoccupied land purchased by the Authority to be use at a future time for strategic initiatives. All property is stated at cost when they are acquired and fair value when they are donated.

### ***Deferred Outflow of Resources***

Deferred outflow of resources consists of pension-related differences between expected and actual experience, pension-related differences between expected and actual investment earnings and contributions made to the Authority's pension plan subsequent to the measurement date but as of the date of the enterprise fund financial statements.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### *Pension Liability*

Pension liability represents the portion of the present value of projected benefit payments attributed to past periods of service to be provided through the Authority's pension plan to current active and inactive employees less the fiduciary net position of the pension plan. It represents the Authority's total pension liability minus the fiduciary net position available to pay that liability. Investments that comprise the fiduciary net position are reported at fair value.

### *Other Long-Term Liabilities*

Other long-term liabilities as of June 30, 2019, primarily includes revenue which has been deferred from recognition greater than one year from the balance sheet date. The long-term portion of deferred revenue as of June 30, 2019 approximates \$5,100,000 and is a result of an advance payment of services in accordance with the terms of a Hospital Participation Agreement with a third party payor.

### *Deferred Inflow of Resources*

Deferred inflow of resources includes the accumulated valuation gain of the interest rate swap that was considered an effective hedge and pension-related deferred inflows, which represent differences between expected and actual experience, differences between expected and actual investment earnings and pension plan assumption changes.

The balances of deferred inflows of resources as of June 30, 2019 and 2018 are comprised of the following:

| <i>June 30,</i>  |           | 2019             | 2018                |
|--|-----------|------------------|---------------------|
| Fair value of the interest rate swap   | \$        | -                | \$ 425,919          |
| Differences between expected and actual experience of pension plan participants  |           | 900,453          | 1,212,874           |
| Pension plan assumption changes  |           | 1,229,469        | 1,324,238           |
| Net differences between expected and actual earnings on pension plan investments |           | 2,845,942        | 4,729,309           |
| <b>Total</b>   | <b>\$</b> | <b>4,975,864</b> | <b>\$ 7,692,340</b> |

### *Performance Indicator*

The Authority's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses and other changes in net position. Operating revenues result primarily from exchange transactions associated with the provision of healthcare services, the Authority's principal activity and the earnings from TOBH. Nonoperating income includes investment and dividend income, realized and unrealized gains and losses on investments, and gains and losses on the sale of assets. Other changes in the net position are excluded from operating (loss) income and nonoperating income, consistent with industry practice, and include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and extraordinary items. Operating expenses are all expenses incurred to provide healthcare services.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### *Net Patient Service Revenue*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as adjustments and settlements become known or as years are no longer subject to such audits, reviews, appeals, and investigations. The effect of these settlement adjustments to net patient service revenue was an increase of \$875,764 and \$106,472 in 2019 and 2018, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

- *Medicare*. Inpatient acute care services rendered to Medicare program beneficiaries and defined capital costs are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services and education related to Medicare beneficiaries are paid based on prospectively determined rates and a discounted cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been substantially resolved with the respective fiscal intermediary through June 30, 2014.
- *Medicaid*. Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per discharge (APDRG). Outpatient services rendered to Medicaid beneficiaries are reimbursed on prospectively determined rates and a cost reimbursement methodology. The Authority is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid program. The Authority's Medicaid cost reports have been substantially resolved with the fiscal intermediary through June 30, 2017.
- *Anthem*. Inpatient and outpatient services rendered to Anthem subscribers are reimbursed at prospectively determined discounted rates. The prospectively determined rates are not subject to retroactive adjustment.
- *Managed Care*. Inpatient services rendered to Tricare and health management organization (HMO) beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at prospectively determined discounted rates. The Authority is reimbursed by Tricare for allowed capital expenditures after submission of annual requests for reimbursement.

# Chesapeake Hospital Authority

## Notes to Financial Statements

The following table sets forth net patient service revenue by payer for the fiscal years ended June 30:

| <i>Years Ended June 30,</i>        | 2019                  | 2018                  |
|------------------------------------|-----------------------|-----------------------|
| Medicare                           | \$ 110,830,870        | \$ 103,672,975        |
| Medicaid                           | 28,288,547            | 20,031,890            |
| Anthem                             | 83,010,575            | 83,146,029            |
| Self-Pay                           | 1,381,901             | 2,203,145             |
| Other third party payors           | 114,987,131           | 102,936,846           |
| <b>Net patient service revenue</b> | <b>\$ 338,499,024</b> | <b>\$ 311,990,885</b> |

In 2018, the Authority began receiving supplemental Medicaid payments from the State of Virginia for Medicaid services up to the Upper Payment Limit (UPL). The Authority reimburses the state for the non-federal share of the Supplemental Payments through an Inter-Governmental Transfer (IGT).

Amounts recognized in the Authority's accompanying financial statements related to supplemental Medicaid are as follows:

| <i>June 30,</i>  | 2019         |
|--|--------------|
| Supplemental Medicaid amounts included in net patient service revenue                              | \$ 3,690,180 |
| Net receivable from supplemental Medicaid included in estimated third-party payor settlements, net | \$ 1,794,083 |

### **Charity Care**

The Authority provides care without charge or at amounts less than established rates to patients who meet certain criteria under their respective charity care policy. Because the Authority does not pursue collection of charges determined to qualify as charity care, they are not reported as net patient service revenue. Records are maintained to identify and monitor the level of care provided. The estimated cost of services provided under the Authority's charity care policy, based on applying an estimated cost to charge ratio to the amount of applicable charges foregone, was approximately \$12,115,000 and \$11,829,000 for the years ended June 30, 2019 and 2018, respectively.

### **Income Taxes**

The Authority and the Foundation are exempt from federal income taxes under Sections 115 and 501(c)(3) of the Internal Revenue Code, respectively. Accordingly, with the exception of the Authority's taxable subsidiaries, no provision for income taxes has been made in the accompanying financial statements.

The provision for income taxes of the Authority's wholly owned, taxable subsidiaries is determined using the asset and liability method based on tax laws, as currently enacted. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

The Authority recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. At June 30, 2019 and 2018, the Authority has no income tax positions that are not considered more likely than not of being sustained.

### *Fair Value of Financial Instruments*

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

### **3. Cash and Cash Equivalents**

At June 30, 2019 and 2018, the carrying values of the Authority's deposits were \$77,763,854 and \$56,138,960, respectively. The bank balances of these deposits at June 30, 2019 and 2018, were \$80,346,693 and \$58,098,147, respectively.

Deposits are placed with banks and are insured by federal depository insurance or collateralized deposits in accordance with the Virginia Security for Public Deposits Act (the Act). In accordance with the Act, the depository institution pledged collateral in the form of federal agency obligations 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.

# Chesapeake Hospital Authority

## Notes to Financial Statements

### 4. Assets Whose Use is Limited and Investments

Assets whose use is limited held in the enterprise fund at June 30, 2019 and 2018 are summarized as follows:

| <i>June 30,</i>   | 2019                  | 2018                  |
|---|-----------------------|-----------------------|
| <b>Internally designated by the Board:</b>              |                       |                       |
| Cash and cash equivalents                               | \$ 229,008            | \$ 195,260            |
| Mutual funds - equities                                 | 2,393,751             | 2,354,428             |
| Mutual funds - mixed                                    | 82,928                | 263,869               |
| <b>Foundation:</b>                                      |                       |                       |
| Cash and cash equivalents                               | 6,766,294             | 6,630,877             |
| Mutual funds - equities                                 | 97,159,202            | 89,776,185            |
| Mutual funds - fixed income                             | 37,062,772            | 30,307,850            |
| Mutual funds - mixed                                    | 10,712,826            | 13,318,255            |
| Hedge funds   | 32,044,102            | 34,580,852            |
| Structured notes  | 6,623,707             | 7,149,085             |
| Pledges receivable                                      | 60,995                | 77,206                |
| Common stocks   | 405,295               | 341,315               |
| <b>Total internally designated by the Board</b>         | <b>193,540,880</b>    | <b>184,995,182</b>    |
| <b>Externally restricted under bond indenture:</b>      |                       |                       |
| Cash and cash equivalents                               | 50,928,809            | -                     |
| <b>Total externally restricted under bond indenture</b> | <b>50,928,809</b>     | <b>-</b>              |
| <b>Externally restricted by donors:</b>                 |                       |                       |
| Cash and cash equivalents                               | 150,559               | 83,826                |
| Mutual funds - equities                                 | 1,293,950             | 1,119,662             |
| Pledges receivable                                      | 105,930               | 98,506                |
| <b>Total externally restricted by donors</b>            | <b>1,550,439</b>      | <b>1,301,994</b>      |
| <b>Total assets whose use is limited</b>                | <b>\$ 246,020,128</b> | <b>\$ 186,297,176</b> |

# Chesapeake Hospital Authority

## Notes to Financial Statements

Assets whose use is limited held in the pension trust fund at December 31, 2018 and 2017 are summarized as follows:

| December 31,  | 2018                 | 2017                  |
|---|----------------------|-----------------------|
| <b>Pension trust fund</b>                                       |                      |                       |
| Externally restricted under pension plan agreement              |                      |                       |
| Cash and money market   | \$ 7,201,816         | \$ 3,154,852          |
| Mutual funds - equities   | 39,386,416           | 37,036,758            |
| Mutual funds - mixed  | 8,518,018            | 13,724,260            |
| Mutual funds - fixed income                                     | 16,201,836           | 22,878,873            |
| Structured notes  | 3,172,160            | 3,202,975             |
| Hedge funds   | 21,961,782           | 23,847,151            |
| <b>Total externally restricted under pension plan agreement</b> | <b>\$ 96,442,028</b> | <b>\$ 103,844,869</b> |

The Authority's assets whose use is limited held in the enterprise fund at June 30, 2019, mature as follows:

|                             | Fair value            | Investment maturities (in years) |                      |                     |                   |
|-----------------------------|-----------------------|----------------------------------|----------------------|---------------------|-------------------|
|                             |                       | Less than 1                      | 1-5                  | 6-10                | More than 10      |
| Cash and cash equivalents   | \$ 58,074,670         | \$ 58,074,670                    | \$ -                 | \$ -                | \$ -              |
| Mutual funds - equities     | 100,846,903           | 100,846,903                      | -                    | -                   | -                 |
| Mutual funds - mixed        | 10,795,754            | 8,418,162                        | -                    | 1,966,479           | 411,113           |
| Mutual funds - fixed income | 37,062,772            | 1,459,439                        | 30,567,732           | 4,876,913           | 158,688           |
| Hedge funds                 | 32,044,102            | 32,044,102                       | -                    | -                   | -                 |
| Structured notes            | 6,623,707             | 6,623,707                        | -                    | -                   | -                 |
| Common stocks               | 405,295               | 405,295                          | -                    | -                   | -                 |
| Pledges receivable          | 166,925               | 60,995                           | 105,930              | -                   | -                 |
| <b>Total</b>                | <b>\$ 246,020,128</b> | <b>\$ 207,933,273</b>            | <b>\$ 30,673,662</b> | <b>\$ 6,843,392</b> | <b>\$ 569,801</b> |

The Authority's assets whose use is limited held in the pension trust fund at December 31, 2018, mature as follows:

|                             | Fair value           | Investment maturities (in years) |                      |                     |              |
|-----------------------------|----------------------|----------------------------------|----------------------|---------------------|--------------|
|                             |                      | Less than 1                      | 1-5                  | 6-10                | More than 10 |
| Cash and cash equivalents   | \$ 7,201,816         | \$ 7,201,816                     | \$ -                 | \$ -                | \$ -         |
| Mutual funds - equities     | 39,386,416           | 39,386,417                       | -                    | -                   | -            |
| Mutual funds - mixed        | 8,518,018            | 6,549,742                        | -                    | 1,968,275           | -            |
| Mutual funds - fixed income | 16,201,836           | 316,887                          | 14,124,109           | 1,760,840           | -            |
| Structured notes            | 3,172,160            | 2,799,470                        | 372,690              | -                   | -            |
| Hedge funds                 | 21,961,782           | 21,961,782                       | -                    | -                   | -            |
| <b>Total</b>                | <b>\$ 96,442,028</b> | <b>\$ 78,216,114</b>             | <b>\$ 14,496,799</b> | <b>\$ 3,729,115</b> | <b>\$ -</b>  |

# Chesapeake Hospital Authority

## Notes to Financial Statements

The Authority's assets whose use is limited held in the enterprise fund at June 30, 2018, mature as follows:

|                             | Fair value            | Investment maturities (in years) |                     |                      |                     |
|-----------------------------|-----------------------|----------------------------------|---------------------|----------------------|---------------------|
|                             |                       | Less than 1                      | 1-5                 | 6-10                 | More than 10        |
| Cash and cash equivalents   | \$ 6,909,963          | \$ 6,909,963                     | \$ -                | \$ -                 | \$ -                |
| Mutual funds - equities     | 93,250,275            | 93,250,275                       | -                   | -                    | -                   |
| Mutual funds - mixed        | 13,582,124            | 13,582,124                       | -                   | -                    | -                   |
| Mutual funds - fixed income | 30,307,850            | 2,002,270                        | 3,035,638           | 20,141,116           | 5,128,826           |
| Hedge funds                 | 34,580,852            | 34,580,852                       | -                   | -                    | -                   |
| Structured notes            | 7,149,085             | 5,700,230                        | 1,448,855           | -                    | -                   |
| Common stocks               | 341,315               | 341,315                          | -                   | -                    | -                   |
| Pledges receivable          | 175,712               | 172,712                          | 3,000               | -                    | -                   |
| <b>Total</b>                | <b>\$ 186,297,176</b> | <b>\$ 156,539,741</b>            | <b>\$ 4,487,493</b> | <b>\$ 20,141,116</b> | <b>\$ 5,128,826</b> |

The Authority's assets whose use is limited held in the pension trust fund at December 31, 2017, mature as follows:

|                             | Fair value            | Investment maturities (in years) |                     |                      |                     |
|-----------------------------|-----------------------|----------------------------------|---------------------|----------------------|---------------------|
|                             |                       | Less than 1                      | 1-5                 | 6-10                 | More than 10        |
| Cash and cash equivalents   | \$ 3,154,852          | \$ 3,154,852                     | \$ -                | \$ -                 | \$ -                |
| Mutual funds - equities     | 37,036,758            | 37,036,758                       | -                   | -                    | -                   |
| Mutual funds - mixed        | 13,724,260            | 13,724,260                       | -                   | -                    | -                   |
| Mutual funds - fixed income | 22,878,873            | 3,337,784                        | 1,197,981           | 16,047,177           | 2,295,931           |
| Structured notes            | 3,202,975             | 2,446,525                        | 756,450             | -                    | -                   |
| Hedge funds                 | 23,847,151            | 23,847,151                       | -                   | -                    | -                   |
| <b>Total</b>                | <b>\$ 103,844,869</b> | <b>\$ 83,547,330</b>             | <b>\$ 1,954,431</b> | <b>\$ 16,047,177</b> | <b>\$ 2,295,931</b> |

### **Credit Risk**

With respect to fixed income investments, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations as required by the fixed income security. The Authority's investment policy adopted by the members, requires that the weighted average credit quality across pooled vehicles be rated at least "BB" and at least 25% shall be investment grade. As of June 30, 2019 and 2018, the Authority's fixed income securities had an average credit rating of AA or A and BB, respectively.

### **Interest Rate Risk**

The Authority limits the modified adjusted duration of the fixed income portfolio to no more than 140% of the Barclays Aggregate Bond Index as a means to managing its exposure to fair value losses arising from changing interest rates. As of June 30, 2019 and 2018, the modified duration did not exceed 140% of the stated benchmark.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### ***Custodial Credit Risk***

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of a third party.

Fixed income investments and equity securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent, but not the Authority's name. As of June 30, 2019 and 2018, all of the Authority's fixed income investments and equity securities are held by the Authority's custodial bank in the Authority's name and are, therefore, not exposed to custodial credit risk.

### ***Concentration of Credit Risk***

The Authority's investment policy restricts fixed income investments by any one issuer to be no more than 5% of the total portfolio with the exception of securities of the U.S. government and its agencies. No more than 20% of the portfolio may be invested in any one industry.

### ***Foreign Currency Risk***

Up to 20% of the portfolio may be invested in investment-grade non-U.S. dollar denominated bonds. As of June 30, 2019 and 2018, the Authority did not have any significant exposure to foreign currency risks.

### ***Investment Income, Net***

Investment income, net, of the enterprise fund is comprised of the following amount:

| <i>Year Ended June 30,</i>                        |           | 2019             |           | 2018             |
|---|-----------|------------------|-----------|------------------|
| Interest and dividend income                      | \$        | 3,462,844        | \$        | 3,172,895        |
| Realized and unrealized gains on investments, net |           | 6,311,880        |           | 6,684,309        |
| <b>Investment income, net</b>                     | <b>\$</b> | <b>9,774,724</b> | <b>\$</b> | <b>9,857,204</b> |

Investment income, net, of the pension trust fund is comprised of the following amount:

| <i>Year Ended December 31,</i>                             |           | 2018               |           | 2017              |
|--|-----------|--------------------|-----------|-------------------|
| Interest and dividend income                               | \$        | 1,791,344          | \$        | 2,349,753         |
| Realized and unrealized gains (losses) on investments, net |           | (7,159,563)        |           | 9,199,960         |
| <b>Investment income, net</b>                              | <b>\$</b> | <b>(5,368,219)</b> | <b>\$</b> | <b>11,549,713</b> |

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### *Fair Value*

The three levels of fair value hierarchy are as follows:

Level 1 - Quoted prices for identical assets or liabilities in active markets

Level 2 - Quoted prices for similar instruments in active markets; for identical instruments in markets that are not active; and model-driven valuations whose inputs are observable either indirectly or directly

Level 3 - Unobservable inputs that are significant to the fair value of the assets or liabilities

Investments that do not have a readily determinable market value are reported using net asset value (NAV) as a “practical expedient” as outlined in GASB Statement No. 72.

Although Authority management believes the fair value accounting estimates reflected in the Authority’s financial statements are reasonable, there can be no assurances that the Authority could ultimately realize these values.

The following table presents the Authority’s fair value hierarchy for assets whose use is limited held in the enterprise fund at June 30, 2019:

|                                   | Total          | Level 1        | Level 2      | Level 3 |
|-----------------------------------|----------------|----------------|--------------|---------|
| Cash and cash equivalents         | \$ 58,074,670  | \$ 58,074,670  | \$ -         | -       |
| Mutual funds - equities           | 100,846,903    | 100,846,903    | -            | -       |
| Mutual funds - mixed              | 10,795,754     | 10,795,754     | -            | -       |
| Mutual funds - fixed income       | 37,062,772     | 37,062,772     | -            | -       |
| Structured notes                  | 6,623,707      | -              | 6,623,707    | -       |
| Common stocks                     | 405,295        | 405,295        | -            | -       |
| Pledges receivable                | 166,925        | -              | 166,925      | -       |
|                                   | 213,976,026    | \$ 207,185,394 | \$ 6,790,632 | \$ -    |
| Total investments measured at NAV | 32,044,102     |                |              |         |
| Total assets whose use is limited | \$ 246,020,128 |                |              |         |

# Chesapeake Hospital Authority

## Notes to Financial Statements

The following table presents the Authority's fair value hierarchy for assets whose use is limited held in the pension trust fund at December 31, 2018:

|                                   | Total         | Level 1       | Level 2      | Level 3 |
|-----------------------------------|---------------|---------------|--------------|---------|
| Cash and cash equivalents         | \$ 7,201,816  | \$ 7,201,816  | \$ -         | -       |
| Mutual funds - equities           | 39,386,416    | 39,386,416    | -            | -       |
| Mutual funds - mixed              | 8,518,018     | 8,518,018     | -            | -       |
| Mutual funds - fixed income       | 16,201,836    | 16,201,836    | -            | -       |
| Structured notes                  | 3,172,160     | -             | 3,172,160    | -       |
|                                   | 74,480,246    | \$ 71,308,086 | \$ 3,172,160 | -       |
| <hr/>                             |               |               |              |         |
| Total investments measured at NAV | 21,961,782    |               |              |         |
| <hr/>                             |               |               |              |         |
| Total assets whose use is limited | \$ 96,442,028 |               |              |         |

The following table presents the Authority's fair value hierarchy for assets whose use is limited held in the enterprise fund at June 30, 2018:

|                                   | Total          | Level 1        | Level 2      | Level 3 |
|-----------------------------------|----------------|----------------|--------------|---------|
| Cash and cash equivalents         | \$ 6,909,963   | \$ 6,909,963   | \$ -         | -       |
| Mutual funds - equities           | 93,250,275     | 93,250,275     | -            | -       |
| Mutual funds - mixed              | 13,582,124     | 13,582,124     | -            | -       |
| Mutual funds - fixed income       | 30,307,850     | 30,307,850     | -            | -       |
| Structured notes                  | 7,149,085      | -              | 7,149,085    | -       |
| Common stocks                     | 341,315        | 341,315        | -            | -       |
| Pledges receivable                | 175,712        | 175,712        | -            | -       |
|                                   | 151,716,324    | \$ 144,567,239 | \$ 7,149,085 | -       |
| <hr/>                             |                |                |              |         |
| Total investments measured at NAV | 34,580,852     |                |              |         |
| <hr/>                             |                |                |              |         |
| Total assets whose use is limited | \$ 186,297,176 |                |              |         |

# Chesapeake Hospital Authority

## Notes to Financial Statements

The following table presents the Authority's fair value hierarchy for assets whose use is limited held in the pension trust fund at December 31, 2017:

|  | Total          | Level 1       | Level 2      | Level 3 |
|--|----------------|---------------|--------------|---------|
| Cash and cash equivalents                | \$ 3,154,852   | \$ 3,154,852  | \$ -         | \$ -    |
| Mutual funds - equities                  | 37,036,758     | 37,036,758    | -            | -       |
| Mutual funds - mixed                     | 13,724,260     | 13,724,260    | -            | -       |
| Mutual funds - fixed income              | 22,878,873     | 22,878,873    | -            | -       |
| Structured notes                         | 3,202,975      | -             | 3,202,975    | -       |
|  | 79,997,718     | \$ 76,794,743 | \$ 3,202,975 | \$ -    |
| <b>Total investments measured at NAV</b> |                |               |              |         |
|  | 23,847,151     |               |              |         |
| <b>Total assets whose use is limited</b> |                |               |              |         |
|  | \$ 103,844,869 |               |              |         |

The table below discloses the unfunded commitments, redemption frequency and redemption notice period for investments measured at net asset value as of June 30, 2019 and December 31, 2018, respectively:

|                              | 2019                 | Unfunded<br>Commitments<br>as of<br>June 30, 2019 | Redemption<br>Frequency | Redemption<br>Notice<br>Period |
|------------------------------|----------------------|---|-------------------------|--------------------------------|
| Long/short equity hedge fund | \$ 11,380,426        | \$ -  | Monthly,<br>Quarterly   | 60 days                        |
| Long/short equity hedge fund | 7,140,401            | -   | Monthly                 | 3-15 days                      |
| Long/short equity hedge fund | 3,672,818            | -   | Daily                   | 30 days                        |
| Fund of funds                | 9,850,457            | -   | Monthly,<br>Quarterly   | 60-100 days                    |
| <b>Total assets</b>          | <b>\$ 32,044,102</b> | <b>\$ -</b>                                       |                         |                                |

# Chesapeake Hospital Authority

## Notes to Financial Statements

|                              | 2018                 | Unfunded<br>Commitments<br>as of<br>December 31, 2018 | -        | Redemption<br>Frequency | Redemption<br>Notice<br>Period |
|------------------------------|----------------------|---|----------|-------------------------|--------------------------------|
| Long/short equity hedge fund | \$ 10,161,644        | \$ -  | -        | Monthly,<br>Quarterly   | 60 days                        |
| Long/short equity hedge fund | 3,016,762            | -   | -        | Monthly                 | 3-15 days                      |
| Long/short equity hedge fund | 2,132,280            | -   | -        | Daily                   | 30 days                        |
| Absolute return hedge fund   | 1,310,484            | -   | -        | Quarterly               | 30 days                        |
| Fund of funds                | 5,340,612            | -   | -        | Monthly,<br>Quarterly   | 60-100 days                    |
| <b>Total assets</b>          | <b>\$ 21,961,782</b> | <b>\$ -</b>   | <b>-</b> |                         |                                |

Long/short equity investments are hedge fund strategies that invest both long and short primarily in equities. The fair values of these investments have been determined using NAV per share of the investments.

Fund of funds investments are a global macro hedge fund strategy that bases their holdings primarily on macro economic data. The fair value of these investments have been determined using NAV per share of the investments.

### 5. Capital Assets

Capital assets and changes thereto, as of and for the year ended June 30, 2019, consisted of the following:

| Capital Assets Being Depreciated                  | Beginning<br>balance  | Additions             | Transfers<br>and disposals | Ending<br>balance     |  |
|---|-----------------------|-----------------------|----------------------------|-----------------------|--|
| Land improvements                                 | \$ 7,036,262          | \$ -                  | \$ -                       | \$ 7,036,262          |  |
| Buildings   | 174,119,563           | 471,256               | 1,928,284                  | 176,519,103           |  |
| Equipment   | 313,304,581           | 5,199,350             | 1,636,958                  | 320,140,889           |  |
|   | 494,460,406           | 5,670,606             | 3,565,242                  | 503,696,254           |  |
| Less accumulated depreciation<br>and amortization | 388,854,706           | 20,023,266            | (2,054,682)                | 406,823,290           |  |
|   | 105,605,700           | (14,352,660)          | 5,619,924                  | 96,872,964            |  |
| <b>Capital Assets Not Being<br/>Depreciated</b>   |                       |                       |                            |                       |  |
| Land  | 2,745,915             | -                     | -                          | 2,745,915             |  |
| Construction in progress                          | 4,785,173             | 6,252,532             | (7,735,643)                | 3,302,062             |  |
| <b>Capital assets, net</b>                        | <b>\$ 113,136,788</b> | <b>\$ (8,100,128)</b> | <b>\$ (2,115,719)</b>      | <b>\$ 102,920,941</b> |  |

# Chesapeake Hospital Authority

## Notes to Financial Statements

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

| Capital Assets Being Depreciated                  | Beginning<br>balance  | Additions             | Transfers<br>and disposals | Ending<br>balance     |
|---|-----------------------|-----------------------|----------------------------|-----------------------|
| Land improvements                                 | \$ 7,057,728          | \$ 37,918             | \$ (59,384)                | \$ 7,036,262          |
| Buildings   | 170,849,526           | 419,855               | 2,850,182                  | 174,119,563           |
| Equipment   | 304,248,221           | 6,551,802             | 2,504,558                  | 313,304,581           |
|   | 482,155,475           | 7,009,575             | 5,295,356                  | 494,460,406           |
| Less accumulated depreciation<br>and amortization | 368,318,873           | 21,728,103            | (1,192,270)                | 388,854,706           |
|   | 113,836,602           | (14,718,528)          | 6,487,626                  | 105,605,700           |
| <b>Capital Assets Not Being<br/>Depreciated</b>   |                       |                       |                            |                       |
| Land  | 2,745,915             | -                     | -                          | 2,745,915             |
| Construction in progress                          | 7,283,320             | 6,342,434             | (8,840,581)                | 4,785,173             |
| <b>Capital assets, net</b>                        | <b>\$ 123,865,837</b> | <b>\$ (8,376,094)</b> | <b>\$ (2,352,955)</b>      | <b>\$ 113,136,788</b> |

The estimated cost to complete construction in progress at June 30, 2019 is \$19,167,000. This amount relates principally to the Battlefield Blvd project and buildout of a neuroscience suite.

# Chesapeake Hospital Authority

## Notes to Financial Statements

### 6. Long-Term Obligations

Long-term obligations, and changes thereto, as of and for the year ended June 30, 2019 is summarized below:

|  | Beginning<br>balance | Additions             | Payments and<br>Amortization | Ending<br>balance     | Amounts<br>due within<br>one year |
|--|----------------------|-----------------------|------------------------------|-----------------------|-----------------------------------|
| Hospital Facility Revenue Bonds:             |                      |                       |                              |                       |                                   |
| Series 2015A                                 | \$ 41,890,000        | \$ -                  | \$ 41,890,000                | \$ -                  | \$ -                              |
| Series 2015B                                 | 43,629,005           | -                     | 43,629,005                   | -                     | -                                 |
| Series 2019                                  | -                    | 113,355,000           | -                            | 113,355,000           | -                                 |
|  | 85,519,005           | 113,355,000           | 85,519,005                   | 113,355,000           | -                                 |
| Unamortized bond premium                     | -                    | 15,900,925            | -                            | 15,900,925            | -                                 |
|  | 85,519,005           | 129,255,925           | 85,519,005                   | 129,255,925           | -                                 |
| Capital lease obligations                    | 154,302              | -                     | 154,302                      | -                     | -                                 |
| Deferred compensation obligation             | 737,283              | -                     | 31,200                       | 706,083               | 97,716                            |
| SCC Monarch LOC                              | 458,245              | -                     | 458,245                      | -                     | -                                 |
| SCC note payable - Old<br>Point Monarch Bank | 3,142,111            | -                     | 189,105                      | 2,953,006             | 197,080                           |
| <b>Total long-term obligations</b>           | <b>\$ 90,010,946</b> | <b>\$ 129,255,925</b> | <b>\$ 86,351,857</b>         | <b>\$ 132,915,014</b> | <b>\$ 294,796</b>                 |

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

|  | Beginning<br>balance | Additions           | Payments and<br>Amortization | Ending<br>balance    | Amounts<br>due within<br>one year |
|--|----------------------|---------------------|------------------------------|----------------------|-----------------------------------|
| Hospital Facility Revenue Bonds:             |                      |                     |                              |                      |                                   |
| Series 2015A                                 | \$ 42,535,000        | \$ -                | \$ 645,000                   | \$ 41,890,000        | \$ 800,000                        |
| Series 2015B                                 | 45,561,822           | 1,032,183           | 2,965,000                    | 43,629,005           | 3,035,000                         |
|  | 88,096,822           | 1,032,183           | 3,610,000                    | 85,519,005           | 3,835,000                         |
| Capital lease obligations                    | 575,150              | -                   | 420,848                      | 154,302              | 103,114                           |
| Deferred compensation obligation             | 755,239              | -                   | 17,956                       | 737,283              | -                                 |
| SCC Monarch LOC                              | 200,000              | 258,245             | -                            | 458,245              | 458,245                           |
| SCC note payable - Old<br>Point Monarch Bank | 3,323,254            | -                   | 181,143                      | 3,142,111            | 189,105                           |
| <b>Total long-term obligations</b>           | <b>\$ 92,950,465</b> | <b>\$ 1,290,428</b> | <b>\$ 4,229,947</b>          | <b>\$ 90,010,946</b> | <b>\$ 4,585,464</b>               |

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### *Hospital Facility Revenue Bonds and Notes Payable*

On March 31, 2015, the Hospital Facility Refunding Revenue Bond (Chesapeake General Hospital) Series 2015A (the Series 2015A Bond) was authorized and issued totaling \$43,685,000 pursuant to Chapter 271, Virginia Acts of Assembly of 1966, as amended, to refund the outstanding principal amount of the Authority's (i) Series 2004B Bonds, and (ii) Series 2012 Bond, and to pay costs of issuance. The Series 2015A Bond was repayable in annual installments ranging from \$650,000 to \$4,135,000 due July 1, 2016 through July 1, 2031. Interest was due semiannually in July and January at a rate of 2.9% per annum. The Series 2015A Bond was refunded in June 2019 in connection with the issuance of the Series 2019 Bonds.

Contemporaneously with the issuance of the Series 2015A Bond, the Authority issued Hospital Facility Revenue Bond (Chesapeake General Hospital) Series 2015B (the Series 2015B Bond), with a maximum borrowing of up to \$80,000,000, to (1) finance certain capital projects at the Authority's facilities and (2) pay costs of issuance. The Series 2015B Bond was repayable in annual installments ranging from \$2,965,000 to \$4,795,000 due July 1, 2017 through July 1, 2037. Interest was payable monthly at a per annum rate equal to 67% of the sum of LIBOR plus 1.71%, multiplied, prior to the occurrence of any event of taxability, by the margin rate factor. The average interest rate during 2018 was 2.33%. As of June 30, 2018, the Authority had drawn \$46,594,005 against the Series 2015B Bond and did not intend to draw down any additional funds in future periods.

On October 10, 2018, the Authority executed an Allonge, in connection with the Series 2015B bond (the Allonge), which amended the calculation of interest on or after October 1, 2018 to a per annum rate equal to 79% of the sum of LIBOR plus 1.35% multiplied by the Margin Rate Factor. The Allonge also amended the Margin Rate Factor to be 0.79/0.79 or 1.0 so long as the Maximum Federal Corporate Tax Rate shall be 21% and revised the principal amortization schedule. The Series 2015B Bond was then repayable in annual installments ranging from \$1,895,800 to \$3,516,054 due July 1, 2019 through July 1, 2032. The Series 2015B Bond was refunded in June 2019 in connection with the issuance of the Series 2019 Bonds.

On June 27, 2019, the Authority issued \$113,355,000 in Hospital Facility Revenue Bonds (the Series 2019 Bonds) to (1) finance the cost of certain construction and expansion projects, (2) refinance the Series 2015A and Series 2015B Bonds and (3) finance the costs of issuance. The Series 2019 Bonds accrue interest at fixed rates ranging from 3.0% to 5.0% per annum and is payable semi-annually beginning January 1, 2020. The Series 2019 Bonds mature on dates ranging from July 1, 2039 to July 1, 2043. The Authority also recognized a premium of \$15,900,925 related to the issuance of the Series 2019 Bonds. The Series 2019 Bonds are secured by the revenues of the obligated entities of the Authority.

On March 22, 2016, SCC executed a business loan agreement with Monarch Bank (loan agreement) totaling \$3,538,691, to refund the outstanding note with Old Point National Bank. Contemporaneously with the execution of the loan agreement, SCC signed a promissory note to pay Monarch Bank the principal amount of the loan agreement. The promissory note is payable in equal monthly installments of \$26,734 due April 22, 2016 through March 22, 2021. The monthly installments include interest at a rate of 4.25% per annum.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

On June 14, 2017, SCC executed a revolving line of credit agreement with TowneBank (line of credit) totaling \$500,000, to finance major capital expenditures. The line of credit was payable in full immediately upon the lender's demand. As of June 30, 2018, SCC had drawn \$458,245 against the line of credit. As of June 30, 2019, the line of credit was paid in full.

Debt service requirements on the Series 2019 Bonds and SCC note payable for the next five years and thereafter are as follows at June 30, 2019:

| <i>Years Ending June 30,</i> | <b>Principal</b>      | <b>Interest</b>      |
|------------------------------|-----------------------|----------------------|
| 2020                         | \$ 197,080            | \$ 2,656,152         |
| 2021                         | 5,090,926             | 4,994,704            |
| 2022                         | 2,480,000             | 4,811,750            |
| 2023                         | 2,620,000             | 4,709,750            |
| 2024                         | 2,785,000             | 4,587,725            |
| 2025-2029                    | 17,000,000            | 20,575,250           |
| 2030-2034                    | 23,210,000            | 15,570,500           |
| 2035-2039                    | 29,490,000            | 9,470,900            |
| 2040-2044                    | 33,435,000            | 3,274,300            |
| <b>Total</b>                 | <b>\$ 116,308,006</b> | <b>\$ 70,651,031</b> |

Approximately \$2,635,000 and \$2,728,000 in interest was paid during the years ended June 30, 2019 and 2018, respectively.

The Authority must remain compliant with certain covenants and restrictions required by the master trust indenture underlying its revenue bonds. The covenants include maintaining certain financial ratios and other nonfinancial restrictions. As of June 30, 2019 and 2018, the Authority is in compliance with these covenants.

### ***Interest Rate Swap***

In connection with the issuance of the Series 2015B Bond, the Authority entered into an interest rate swap (the Swap) agreement in a notional amount of \$40,000,000. The Swap constituted a qualified hedge effective July 1, 2017, and therefore, the Swap's fair value of \$425,919 was reported as an asset and a liability on the balance sheet as of June 30, 2018. On March 7, 2019, the Authority terminated the Swap.

The significant terms and features of the above transaction as of and for the year ended June 30, 2018 are summarized in the below table. The notional amount of the Swap effectively matched the principal amount of the associated hedged debt. The Swap contained scheduled reductions to the outstanding notional amount ranging from \$1,575,907 to \$1,822,548.

# Chesapeake Hospital Authority

## Notes to Financial Statements

2015B

|                             |    |                      |
|-----------------------------|----|----------------------|
| Notional amount             | \$ | 40,000,000           |
| Swap type                   |    | Floating-to-fixed    |
| Origination date            |    | March 31, 2015       |
| Effective date              |    | July 1, 2017         |
| Termination date            |    | March 7, 2019        |
| The Authority pays          |    | 2.78%                |
| The Authority receives      |    | 67% of LIBOR + 1.15% |
| Fair value at June 30, 2019 | \$ | -                    |
| Fair value at June 30, 2018 | \$ | 425,919              |

The fair value of the Swap is the estimated amount that the Authority would receive or pay to terminate the Swap agreement at the reporting date, taking into account current interest rates. The Swap was valued based on readily observable market parameters for all substantial terms of the contract and is, therefore, categorized as a Level 2 security. The Authority determined that the Swap was an effective hedging derivative as of June 30, 2018. As a result, the accumulated change in the fair value of \$1,157,719 for the year ended June 30, 2018 was deferred and reported on the accompanying balance sheet as deferred inflow of resources.

### *Credit Risk*

To mitigate the potential for credit risk, under the terms of the Swap agreement if the counterparty's long-term, unsecured, and otherwise unsupported obligations are assigned a rating below BBB- or Baa3 by Standard & Poor's (S&P) or Moody's Investors Services (Moody's), respectively, the counterparty will post collateral to secure the obligations under the agreement. As of June 30, 2018, the credit rating assigned to the counterparty of the swap was BBB+ and Baa1 by S&P and Moody, respectively, thus no collateral was required to be posted.

### *Basis Risk*

The Authority is not exposed to basis risk on the Swap because the variable rate payments received by the Authority were based on a rate other than the interest rates that the Authority paid on its hedged variable rate debt.

### *Termination Risk*

The Swap uses the International Swap Dealers Association Master Agreement (the Master Agreement), which includes standard termination events. The Authority or the counterparty could terminate the Swap if either party failed to perform under the terms of the Master Agreement. Upon termination of the Swap, the associated variable rate revenue bond no longer carried synthetic interest rates. Also, if the Swap had a negative fair value at the time of termination, the Authority would have been liable to the counterparty for a payment equal to the Swap's fair value. Likewise, since the Swap had a positive fair value at the time of termination, the Authority received a payment equal to the Swap's fair value from the counterparty.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### *Rollover Risk*

Rollover risk is the risk that occurs when the term of the Swap does not match the term or maturity of the debt associated with the hedge. As of June 30, 2018, the Authority was exposed to rollover risk since the term of the Swap was less than the maturity of the associated debt.

### *Capital Lease*

During 2015, the Hospital entered into a second capital lease covering certain medical equipment that expired in July 2017. Ownership of the equipment transferred to the Hospital at the end of the agreement. The Hospital also entered into a capital lease covering software that expired in April 2018. At the end of the lease, the Hospital purchased the software for \$1.

During 2017, the SCC entered into a capital lease for medical equipment for which ownership of the equipment transferred to SCC at the end of the lease in April 2019.

At June 30, 2019 and 2018, the gross amount of the medical equipment and related accumulated amortization recorded under the capital leases were as follows:

| <i>June 30,</i>               |           | 2019             |           | 2018             |
|-------------------------------|-----------|------------------|-----------|------------------|
| Equipment                     | \$        | 3,983,053        | \$        | 3,983,053        |
| Less accumulated amortization |           | (2,846,556)      |           | (2,260,348)      |
| <b>Total</b>                  | <b>\$</b> | <b>1,136,497</b> | <b>\$</b> | <b>1,722,705</b> |

Amortization of the asset held under the capital lease is included in depreciation and amortization expense on the statements of revenues, expenses and changes in net position.

### *Deferred Compensation*

The Authority maintains a deferred compensation plan which was established to provide an opportunity for select employees, whose contributions are typically restricted under a qualified plan, to save for retirement needs on a tax-deferred basis. All deferred compensation amounts are invested in mutual funds that are actively traded. These assets are recorded in other assets on the Authority's balance sheets as they are subject to the claims of Authority's creditors in the event of corporate insolvency. The corresponding liability represents amounts deferred by the plan participants plus or minus any earnings or losses on the trust assets and is recorded in long-term obligations on the Authority's balance sheets. The assets and associated deferred compensation liability totaled \$706,083 and \$737,283 at June 30, 2019 and 2018, respectively.

## **7. Pension Plan**

Prior to January 1, 1988, the Authority had a noncontributory, single employer defined contribution pension plan (the Plan) that covered substantially all full-time employees of the Authority who had at least 12 months of service and had reached the age of 25.

Effective January 1, 1988, the Plan was amended and converted to a noncontributory, single employer defined benefit pension plan. All covered employees who work 1,000 hours a year or more are eligible to participate in the amended Plan on the January 1 or July 1 following their attainment of age 21 and the completion of one qualifying year of service. Members generally become vested as to benefits upon the completion of 5 years of service.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

By an amendment effective December 31, 2018, no employees hired or rehired on or after January 1, 2019 may participate in the Plan. Additionally, effective December 31, 2019, physicians and certain executives would be excluded from accruing additional benefits. During September 2019, the Plan was amended to eliminate continued benefit accruals for all participants in the Plan as of December 31, 2022.

The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Retirement benefits are calculated as the sum of (a) 1% multiplied by Average Compensation (as defined in the Plan) multiplied by Years of Accrual Service (as defined in the Plan) (not to exceed 30), and (b) 0.65% multiplied by Average Compensation greater than Covered Compensation (as defined in the Plan) multiplied by Years of Accrual Service (not to exceed 30). Disability retirement benefits are determined in the same manner as retirement benefits but reduced one-fifteenth for each of the first five years and one-thirtieth for each of the next five years by which the payment date precedes the normal retirement date and actuarially reduced for each additional year. If a vested participant dies prior to their annuity starting date, the participant's beneficiary will receive a life annuity equal to the actuarial equivalent of the participant's vested accrued benefit as of the date of the participant's death. If a participant dies after the annuity starting date, payments shall be made in accordance with the method of payment elected by the participant. Cost-of-living adjustments are provided only at the discretion of the Board. The Board has the authority to establish and amend the benefit provisions of the Plan.

### ***Employees Covered by Benefit Terms***

The total pension liability at June 30, 2019 and 2018 was based on Plan membership data as of January 1, 2017 and 2016 and rolled forward to the measurement date, or June 30, 2018 and 2017, respectively as follows:

| <i>Year Ended June 30,</i>   | <b>2019*</b> | <b>2018**</b> |
|--|--------------|---------------|
| Retirees and beneficiaries receiving benefits                      | 425          | 379           |
| Terminated plan members entitled to but not yet receiving benefits | 720          | 706           |
| Active plan members  | 1,691        | 1,646         |
| Total members  | 2,836        | 2,731         |

\*Based on June 30, 2018 measurement date

\*\*Based on June 30, 2017 measurement date

---

### ***Contributions***

Contribution requirements are established and may be amended by the Board. Administrative costs of the Plan are paid by the Authority. Currently, employee contributions are neither required nor permitted. The Authority's funding policy is to contribute such actuarially determined amounts as are necessary to provide assets sufficient to meet the benefits to be paid to plan members and to meet the minimum actuarially determined funding requirements. The Authority's contribution rates for the years ended June 30, 2019 and 2018 equaled 4.45% and 4.41% of covered payroll, respectively. These contribution rates are determined based on a measurement date of June 30, 2018 and 2017, respectively.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### *Investments*

Policies pertaining to the allocation of investments within the Plan are established and may be amended by the Investment Committee of the Board (the Investment Committee). It is the policy of the Investment Committee to invest pension assets in securities that provide a balanced portfolio approach whose overall return comes from both capital appreciation and dividend and interest income. The following table illustrates the approved asset allocation policy as of the pension plan years ended December 31, 2018 and 2017:

| <b>Investment Type</b>    | <b>Minimum</b> | <b>Target</b> | <b>Maximum</b> |
|---------------------------|----------------|---------------|----------------|
| Equity securities         | 40%            | 65%           | 85%            |
| Equity alternatives       | -              | 10%           | 20%            |
| Diversifying alternatives | -              | 1%            | 25%            |
| Fixed income              | -              | 14%           | 50%            |
| Cash                      | -              | 1%            | 15%            |

Permitted securities in which assets of the Plan may be invested include any of the following:

**Cash equivalents:**

- Treasury bills
- Money market funds
- STIF funds
- Certificates of deposit

**Equity securities:**

- Common stocks
- Convertible notes and bonds
- American Depository Receipts (ADRs) of non-U.S. companies
- Convertible preferred stocks
- Ordinary shares of non-U.S. companies

**Fixed income securities:**

- U.S. government and agency securities
- Corporate notes and bonds
- Mortgage backed bonds
- Preferred stock
- Collateralized mortgage obligations
- U.S. dollar-denominated Euro and Yankee bonds
- Fixed income securities of foreign governments and corporations
- Insurance-linked securities

**Derivatives:**

- Options
- Futures

Commingled funds that invest in securities allowed in the policy.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

# Chesapeake Hospital Authority

## Notes to Financial Statements

At December 31, 2018 and 2017, the following investments represented 5% or more of the Plan's fiduciary net position:

| <i>December 31,</i>   | <b>2018</b>   | <b>2017</b> |
|---|---------------|-------------|
| <b>Mutual funds</b>   |               |             |
| Ishares 3 to 7 Year Treasury Bond EFT**                               | \$ 13,354,000 | \$ -        |
| Vanguard Index Fund ETF   | 14,800,913    | 7,948,622   |
| Vanguard FTSE Developed Market EFT                                    | 5,384,509     | 5,664,024   |
| JPMorgan Hedged Equity-Sel*   | -             | 5,742,675   |
| IShares MSCI EAFE Small Cap ETF*                                      | -             | 5,700,510   |
| <b>Hedge funds</b>  |               |             |
| Renaissance Institutional Diversified Global Equities Onshore Fund LP | 5,892,402     | 5,464,131   |

\* This investment represented 5% or more of the Plan's fiduciary net position for the 2017 plan year but not the 2018 plan year, however, it is presented for comparability purposes.

\*\* This investment represented 5% or more of the Plan's fiduciary net position for the 2018 plan year but not the 2017 plan year, however, it is presented for comparability purposes.

For the years ended December 31, 2018 and 2017, the annual money-weighted rate of return on investments of the Plan, net of investment expense, was (5.20)% and 12.33%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

The fiduciary net position of the Plan at December 31, 2018 and 2017 was invested as follows:

| <i>December 31,</i>         | <b>2018</b>          | <b>2017</b>           |
|-----------------------------|----------------------|-----------------------|
| Cash equivalents            | \$ 7,201,816         | \$ 3,154,852          |
| Mutual funds - equity funds | 39,386,416           | 37,036,758            |
| Mutual funds - mixed        | 8,518,018            | 13,724,260            |
| Mutual funds - fixed income | 16,201,836           | 22,878,873            |
| Structured notes            | 3,172,160            | 3,202,975             |
| Hedge funds                 | 21,961,782           | 23,847,151            |
| <b>Total</b>                | <b>\$ 96,442,028</b> | <b>\$ 103,844,869</b> |

### ***Actuarial Method***

The actuarial cost method used to determine the normal cost and actuarial accrued liabilities of the Plan is the Entry Age Normal Cost Method. Under this method, benefits are projected to retirement (or earlier termination) for each plan participant based upon the assumptions as to future compensation increases. The annual normal cost is determined as a level percentage of pay necessary to fund a participant's benefits over the entire period of active participation in the Plan. The actuarial accrued liability is the excess of the present value of future benefits over the present value of future normal costs.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

The normal cost and accrual accrued liability of the Plan is the sum of the corresponding amounts for each participant. Deviations in actual experience from the experience anticipated by the actuarial assumptions result in actuarial gains or losses which reduce or increase, respectively, the total pension liability. Each year's deviation will be amortized over the average future working lifetime of all participants for purposes of calculating the Authority's pension cost.

All employees who are plan participants on the valuation date are included in the actuarial valuation.

### *Actuarial Assumptions*

The total pension liability at June 30, 2019 and 2018 was determined using the following actuarial assumptions:

| <i>Year Ended June 30,</i>  | <b>2019*</b> | <b>2018**</b> |
|---|--------------|---------------|
| Inflation   | 2.10 %       | 2.10 %        |
| Salary increases  | 3.00         | 3.00          |
| Investment rate of return (net of pension plan investment expense, including inflation) | 7.00         | 7.00          |

\*Based on June 30, 2018 measurement date

\*\*Based on June 30, 2017 measurement date

---

During 2017, the Authority made a change in pension plan actuaries; however, the actuarial assumptions used to determine the total pension liability at June 30, 2018 remained unchanged, with the exception of the mortality table. The actuarial assumptions were based on the results of an actuarial experience study that was conducted using data through January 1, 2012. In 2017 and later, the expectation of retired life mortality was based on RP-2014 Employee and Healthy Annuitant tables projected forward with Scale MP-2015 rather than the RP-2014 table with MP-2014 Generational Projection, which was used prior to 2017.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated ranges of expected real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <b>Asset class</b>                 | <b>Target Allocation</b> | <b>Arithmetic Long-Term Expected Rate of Return</b> | <b>Weighted Average Long-Term Expected Rate of Return</b> |
|------------------------------------|--------------------------|---|---|
| Equities                           | 45.0%                    | 6.2%  | 2.8%  |
| Equity alternatives                | 20.0%                    | 5.0%  | 1.0%  |
| Diversifying alternatives          | 14.0%                    | 3.8%  | 0.5%  |
| Fixed income                       | 20.0%                    | 3.5%  | 0.7%  |
| Cash                               | 1.0%                     | 2.0%  | 0.0%  |
| Total                              | <u>100.0%</u>            |   | <u>5.0%</u>   |
| Inflation                          |                          |   | <u>2.0%</u>   |
| Expected arithmetic nominal return |                          |   | <u>7.0%</u>   |

### ***Discount Rate***

The discount rate used to measure the total pension liability as of June 30, 2018 and 2017 was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Authority contributions will be made based on rates determined by the actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Chesapeake Hospital Authority

## Notes to Financial Statements

### *Changes in the Net Pension Liability*

| Investment Type                                    | Increase (decrease)     |                             |                       |
|--|-------------------------|-----------------------------|-----------------------|
|  | Total pension liability | Plan fiduciary net position | Net pension liability |
|  | (a)                     | (b)                         | (a)-(b)               |
| Balance recognized at July 1, 2018*                | \$ 118,045,626          | \$ 99,197,295               | \$ 18,848,331         |
| Changes recognized for the fiscal year             |                         |                             |                       |
| Service cost                                       | 2,525,955               | -                           | 2,525,955             |
| Interest   | 8,181,104               | -                           | 8,181,104             |
| Differences between expected and actual experience | (262,593)               | -                           | (262,593)             |
| Changes of assumptions                             | (482,149)               | -                           | (482,149)             |
| Contributions from the employer                    | -                       | 4,049,348                   | (4,049,348)           |
| Net investment income                              | -                       | 3,987,636                   | (3,987,636)           |
| Benefit payments                                   | (5,410,358)             | (5,410,358)                 | -                     |
| Net changes  | 4,551,959               | 2,626,626                   | 1,925,333             |
| Balance recognized at June 30, 2019**              | \$ 122,597,585          | \$ 101,823,921              | \$ 20,773,664         |

\*Based on June 30, 2017 measurement date

\*\*Based on June 30, 2018 measurement date

| Investment Type                                    | Increase (decrease)     |                             |                       |
|--|-------------------------|-----------------------------|-----------------------|
|  | Total pension liability | Plan fiduciary net position | Net pension liability |
|  | (a)                     | (b)                         | (a)-(b)               |
| Balance recognized at July 1, 2017*                | \$ 113,640,407          | \$ 89,549,526               | \$ 24,090,881         |
| Changes recognized for the fiscal year             |                         |                             |                       |
| Service cost                                       | 2,307,938               | -                           | 2,307,938             |
| Interest   | 7,902,724               | -                           | 7,902,724             |
| Differences between expected and actual experience | (849,039)               | -                           | (849,039)             |
| Changes of assumptions                             | (964,761)               | -                           | (964,761)             |
| Contributions from the employer                    | -                       | 3,706,786                   | (3,706,786)           |
| Net investment income                              | -                       | 10,904,968                  | (10,904,968)          |
| Benefit payments                                   | (4,963,985)             | (4,963,985)                 | -                     |
| Other changes                                      | 972,342                 | -                           | 972,342               |
| Net changes  | 4,405,219               | 9,647,769                   | (5,242,550)           |
| Balance recognized at June 30, 2018**              | \$ 118,045,626          | \$ 99,197,295               | \$ 18,848,331         |

\*Based on June 30, 2016 measurement date

\*\*Based on June 30, 2017 measurement date

# Chesapeake Hospital Authority

## Notes to Financial Statements

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

The following table presents the net pension liability of the Authority as of June 30, 2019 and 2018, calculated using the discount rate of 7.0%, as well as what the Authority's net pension liability as of June 30, 2019 and 2018, would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

|  | 1% decrease<br>(6.00%) | Current Rate<br>(7.00%) | 1% increase<br>(8.00%) |
|--|------------------------|-------------------------|------------------------|
| Authority's net pension liability at June 30, 2019*  | \$ 34,002,863          | \$ 20,773,664           | \$ 9,618,598           |
| Authority's net pension liability at June 30, 2018** | 31,761,134             | 18,848,331              | 7,970,338              |

\*Based on June 30, 2018 measurement date

\*\*Based on June 30, 2017 measurement date

### *Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources*

For the years ended June 30, 2019 and 2018, the Authority recognized pension expense of \$4,984,431 and \$5,770,614, respectively. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows or resources related to pension from the following sources:

| Investment Type   | Deferred<br>outflows<br>of resources* | Deferred<br>inflows<br>of resources* | Net deferred<br>(inflows)<br>outflows |
|---|---------------------------------------|--------------------------------------|---------------------------------------|
| Differences between expected and actual experience                              | \$ 1,147,914                          | \$ 900,453                           | \$ 247,461                            |
| Assumption changes  | -                                     | 1,229,469                            | (1,229,469)                           |
| Net difference between expected and actual earnings on pension plan investments | 6,264,165                             | 2,845,942                            | 3,418,223                             |
| Contributions made after measurement date                                       | 4,196,022                             | -                                    | 4,196,022                             |
| <b>Total</b>  | <b>\$ 11,608,101</b>                  | <b>\$ 4,975,864</b>                  | <b>\$ 6,632,237</b>                   |

\*Based on June 30, 2018 measurement date

# Chesapeake Hospital Authority

## Notes to Financial Statements

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

| Investment Type   | Deferred<br>outflows<br>of resources* | Deferred<br>inflows<br>of resources* | Net deferred<br>(inflows)<br>outflows |
|---|---------------------------------------|--------------------------------------|---------------------------------------|
| Differences between expected and actual experience                              | \$ 2,255,624                          | \$ 1,212,874                         | \$ 1,042,750                          |
| Assumption changes  | -                                     | 1,324,238                            | (1,324,238)                           |
| Net difference between expected and actual earnings on pension plan investments | 6,456,762                             | 4,729,309                            | 1,727,453                             |
| Contributions made after measurement date                                       | 4,049,348                             | -                                    | 4,049,348                             |
| <b>Total</b>  | <b>\$ 12,761,734</b>                  | <b>\$ 7,266,421</b>                  | <b>\$ 5,495,313</b>                   |

\*Based on June 30, 2017 measurement date

Deferred outflows of resources resulting from employer contributions made after the measurement date in the amount of \$4,196,022 as of June 30, 2019 will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources as of June 30, 2019 will be recognized in pension expense for each of the years ended June 30 as follows:

| <i>Years Ending June 30,</i> | Amount              |
|------------------------------|---------------------|
| 2020                         | \$ 5,906,832        |
| 2021                         | 863,801             |
| 2022                         | (670,044)           |
| 2023                         | 531,648             |
| <b>Total</b>                 | <b>\$ 6,632,237</b> |

## 8. Commitments and Contingencies

### *Shared Laundry Commitment*

As a member of Shared Hospital Services (a not-for-profit, shared laundry facility), the Hospital has agreed that it will use the services of that facility for all of its laundry requirements, insofar as such services are available, until 2018. For the years ended June 30, 2019 and 2018, the Authority recognized expenses of \$1,317,701 and \$1,087,967, respectively.

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### *Malpractice Insurance*

The Authority's malpractice insurance coverage is on a claims-made basis. The Authority is insured for losses up to \$2,400,000 per claim and \$7,200,000 in the aggregate, and beginning January 1, 1994, the insurance coverage includes a \$50,000 deductible per claim for all claims reported after the effective date (\$400,000 annual limit). The Authority also is insured under a \$12,000,000 umbrella policy. Should the Authority not renew its policy or replace it with equivalent insurance, occurrences during its term but asserted after its term will be uninsured unless the Authority obtains tail coverage. The Authority's management is of the opinion that the accompanying financial statements will not be materially affected by retrospective adjustments or the ultimate cost related to unasserted claims, if any, at the balance sheet date.

### *Industry and Regulatory Environment*

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Authority, through its compliance program, seeks to ensure compliance with such laws and regulations and to rectify instances of noncompliance. Compliance with such laws and regulations is subject to future government review and interpretation as well as significant regulatory action, which can include fines, penalties and exclusion from the Medicare and Medicaid programs.

In August 2016, the Hospital self-disclosed potential compliance violations to relevant regulatory authorities. The Hospital expects to work collaboratively with these authorities to determine what, if any, fines and penalties might be due. Based upon the information available to date, it is probable that some monies will have to be paid by the Hospital to relevant regulatory authorities; however, management believes, based on the information available to date, that the ultimate outcome to these matters will not have a material effect on the Hospital's financial position or results of operations.

## **9. Concentration of Credit Risk**

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

| <i>June 30,</i> | <b>2019</b>  | <b>2018</b>  |
|-----------------|--------------|--------------|
| Other           | 25 %         | 27 %         |
| Anthem          | 24           | 23           |
| Medicare        | 23           | 21           |
| Medicaid        | 12           | 8            |
| Self pay        | 9            | 11           |
| Optima          | 7            | 10           |
| <b>Total</b>    | <b>100 %</b> | <b>100 %</b> |

# Chesapeake Hospital Authority

## Notes to Financial Statements

---

### 10. Subsequent Events

As of June 30, 2019, the Authority held a 50% membership interest in Chesapeake Diagnostic Imaging Center (CDIC), a joint venture between the Authority and Outpatient Affiliates (OIA). On September 1, 2019, the Authority purchased OIA's membership interest for total consideration of approximately \$6.0 million and obtained full ownership of CDIC.

The Authority has evaluated subsequent events for potential recognition and/or disclosure through November 27, 2019, the date of issuance of these financial statements and noted no additional disclosure requirements aside from those disclosed above and in Note 7 regarding Plan amendments.

## Required Supplementary Information

---

# Chesapeake Hospital Authority

## Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited) June 30, 2019 and 2018

| <i>June 30,</i>   | 2019          | 2018          |
|---|---------------|---------------|
| <b>Total pension liability:</b>   |               |               |
| Service cost  | \$ 2,525,955  | \$ 2,307,938  |
| Interest cost   | 8,181,104     | 7,902,724     |
| Differences between expected and actual experiences                           | (262,593)     | (849,039)     |
| Changes of assumptions  | (482,149)     | (964,761)     |
| Benefit payments, including refunds of employee contributions                 | (5,410,358)   | (4,963,985)   |
| Other changes   | -             | 972,342       |
| <hr/>   |               |               |
| <b>Net change in total pension liability</b>                                  | 4,551,959     | 4,405,219     |
| Total pension liability - beginning   | 118,045,626   | 113,640,407   |
| <hr/>   |               |               |
| Total pension liability - ending (a)  | 122,597,585   | 118,045,626   |
| <hr/>   |               |               |
| <b>Plan fiduciary net position:</b>   |               |               |
| Contributions - employer  | 4,049,348     | 3,706,786     |
| Net investment income   | 3,987,636     | 10,904,968    |
| Benefit payments, including refunds of employee contributions                 | (5,410,358)   | (4,963,985)   |
| <hr/>   |               |               |
| <b>Net change in plan fiduciary net position</b>                              | 2,626,626     | 9,647,769     |
| Plan fiduciary net position - beginning                                       | 99,197,295    | 89,549,526    |
| <hr/>   |               |               |
| Plan fiduciary net position - ending (b)                                      | 101,823,921   | 99,197,295    |
| <hr/>   |               |               |
| <b>Authority's net pension liability - ending (a) - (b)</b>                   | \$ 20,773,664 | \$ 18,848,331 |
| <hr/>   |               |               |
| Plan fiduciary net position as a percentage of the total pension liability    | 83.06%        | 84.03%        |
| Covered-employee payroll  | \$ 94,210,438 | \$ 91,781,434 |
| Authority's net pension liability as a percentage of covered-employee payroll | 22.05%        | 20.54%        |
| <hr/>   |               |               |
| <b>Note to schedule:</b>  |               |               |
| Measurement date is June 30 of prior fiscal year.                             |               |               |

**Chesapeake Hospital Authority**  
**Schedule of Contributions (Unaudited)**  
**Last 10 Fiscal years**

| <i>Years Ended June 30,</i>   | <b>2019</b>   | <b>2018</b>   | <b>2017</b>   | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   | <b>2013</b>   | <b>2012</b>   | <b>2011</b>   | <b>2010</b>   |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution                                       | \$ 4,196,022  | \$ 4,049,348  | \$ 3,706,786  | \$ 3,853,646  | \$ 3,926,838  | \$ 4,434,020  | \$ 3,576,088  | \$ 4,390,091  | \$ 3,380,554  | \$ 4,634,361  |
| Contributions made in relation to the actuarially determined contribution | \$ 4,196,022  | \$ 4,049,348  | \$ 3,706,786  | \$ 5,800,000  | \$ 3,470,632  | \$ 4,434,020  | \$ 3,576,088  | \$ 4,390,091  | \$ 3,380,554  | \$ 4,634,361  |
| <b>Contribution (excess) deficiency</b>                                   | -             | -             | -             | (1,946,354)   | 456,206       | -             | -             | -             | -             | -             |
| Covered-employee payroll  | \$ 94,210,438 | \$ 91,781,434 | \$ 89,564,423 | \$ 90,949,571 | \$ 95,108,825 | \$ 97,962,090 | \$ 94,517,987 | \$ 98,342,460 | \$ 93,019,970 | \$ 92,996,427 |
| Contributions as a percentage of covered-employee payroll                 | 4.45 %        | 4.41 %        | 4.14 %        | 6.38 %        | 3.65 %        | 4.53 %        | 3.78 %        | 4.46 %        | 3.63 %        | 4.98 %        |

Notes to schedule:

Valuation date: Actuarially determined contribution rates are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

|                            |   |
|----------------------------|---|
| Actuarial cost method:     | Entry Age Normal with 20-year closed amortization period for unfunded liability                 |
| Asset valuation method:    | 5 year smoothing  |
| IRS Limit increases:       | 3.00 %  |
| Salary increases:          | 3.00 %  |
| Investment rate of return: | 7.00%, net of pension plan investment expense, including inflation                              |
| Retirement age:            | Varies by age and service   |
| Mortality age:             | Based on the RP-2014 Employee and Healthy Annuitant tables projected forward with Scale MP-2017 |

# Chesapeake Hospital Authority

## Schedule of Investment Returns (Unaudited)

---

The annual money-weighted rate of return, net of investment expense, was as follows:

| <i>Plan year ended December 31</i> | <b>Rate</b> |
|------------------------------------|-------------|
| 2018                               | (5.20)%     |
| 2017                               | 12.33 %     |

---

## Supplementary Information

---

# Chesapeake Hospital Authority

## Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position June 30, 2019

|   | Obligated group               |                             |  | Eliminations    | Subtotal       | Nonobligated group | Eliminations    | Total reporting entity |
|---|-------------------------------|-----------------------------|--|-----------------|----------------|--------------------|-----------------|------------------------|
|   | Chesapeake Hospital Authority | Chesapeake General Hospital | Chesapeake Hospital Authority Foundation |                 |                |                    |                 |                        |
| <b>Assets and Deferred Outflows of Resources</b>  |                               |                             |  |                 |                |                    |                 |                        |
| <b>Current assets:</b>  |                               |                             |  |                 |                |                    |                 |                        |
| Cash and cash equivalents   | \$ 4,609,535                  | \$ 65,537,757               | \$ -                                     | \$ -            | \$ 70,147,292  | \$ 7,616,562       | \$ -            | \$ 77,763,854          |
| Patient accounts receivable, net  | -                             | 37,859,269                  | -  | -               | 37,859,269     | 1,755,911          | -               | 39,615,180             |
| Supplies inventories  | -                             | 5,353,715                   | -  | -               | 5,353,715      | 509,873            | -               | 5,863,588              |
| Settlements due from third-party payors   | -                             | 4,570,646                   | -  | -               | 4,570,646      | -                  | -               | 4,570,646              |
| Current portion of assets whose use is limited  | -                             | -                           | -  | -               | -              | 60,995             | -               | 60,995                 |
| Other current assets  | -                             | 5,293,997                   | -  | -               | 5,293,997      | 196,582            | -               | 5,490,579              |
| Total current assets  | 4,609,535                     | 118,615,384                 | -  | -               | 123,224,919    | 10,139,923         | -               | 133,364,842            |
| <b>Noncurrent assets whose use is limited:</b>  |                               |                             |  |                 |                |                    |                 |                        |
| Internally designated by the board for capital acquisition                                  | -                             | 2,705,687                   | 184,992,421                              | -               | 187,698,108    | 5,781,777          | -               | 193,479,885            |
| Externally restricted under bond indenture  | -                             | 50,928,809                  | -  | -               | 50,928,809     | -                  | -               | 50,928,809             |
| Externally restricted by donors   | -                             | -                           | -  | -               | -              | 1,550,439          | -               | 1,550,439              |
| Total noncurrent assets limited as to use   | -                             | 53,634,496                  | 184,992,421                              | -               | 238,626,917    | 7,332,216          | -               | 245,959,133            |
| <b>Capital assets:</b>  |                               |                             |  |                 |                |                    |                 |                        |
| Land  | 2,402,035                     | 268,880                     | -  | -               | 2,670,915      | 75,000             | -               | 2,745,915              |
| Buildings, equipment, and land improvements, less accumulated depreciation and amortization | 4,644,098                     | 86,291,168                  | -  | -               | 90,935,266     | 5,937,698          | -               | 96,872,964             |
| Intangible assets   | -                             | 2,450,000                   | -  | -               | 2,450,000      | -                  | (2,450,000)     | -                      |
| Construction in progress  | -                             | 3,302,062                   | -  | -               | 3,302,062      | -                  | -               | 3,302,062              |
| Total capital assets  | 7,046,133                     | 92,312,110                  | -  | -               | 99,358,243     | 6,012,698          | (2,450,000)     | 102,920,941            |
| <b>Other noncurrent assets:</b>   |                               |                             |  |                 |                |                    |                 |                        |
| Property held for future use  | 17,912,419                    | -                           | -  | -               | 17,912,419     | -                  | -               | 17,912,419             |
| Investment in The Outer Banks Hospital, Inc.  | 28,439,859                    | -                           | -  | -               | 28,439,859     | -                  | -               | 28,439,859             |
| Due from affiliates   | 31,180,239                    | 64,066,206                  | 9,220,971                                | (37,016,941)    | 67,450,475     | 265,619            | (67,716,094)    | -                      |
| Other investments   | 3,427,094                     | 9,229,648                   | -  | -               | 12,656,742     | 1,127,083          | -               | 13,783,825             |
| Total other noncurrent assets   | 72,959,611                    | 73,305,854                  | 9,220,971                                | (37,016,941)    | 116,469,535    | 266,721            | (67,716,094)    | 48,013,527             |
| Total assets  | 92,615,279                    | 337,857,844                 | 194,213,392                              | (37,016,941)    | 587,669,574    | 24,877,539         | (70,166,094)    | 542,381,019            |
| Deferred outflows of resources - pension  | 11,608,101                    | -                           | -  | -               | 11,608,101     | -                  | -               | 11,608,101             |
| Total assets and deferred outflows of resources   | \$ 104,223,380                | \$ 337,857,844              | \$ 194,213,392                           | \$ (37,016,941) | \$ 599,277,675 | \$ 24,877,539      | \$ (70,166,094) | \$ 553,989,120         |
| <b>Liabilities, Deferred Inflows of Resources and Net Position</b>                          |                               |                             |  |                 |                |                    |                 |                        |
| <b>Current liabilities:</b>   |                               |                             |  |                 |                |                    |                 |                        |
| Accounts payable  | \$ 37,910                     | \$ 18,438,915               | \$ -                                     | \$ -            | \$ 18,476,825  | \$ 752,525         | \$ -            | \$ 19,229,350          |
| Employee compensation   | -                             | 10,140,653                  | -  | -               | 10,140,653     | 1,010,877          | -               | 11,151,530             |
| Settlements due to third-party payors   | -                             | 5,294,083                   | -  | -               | 5,294,083      | -                  | -               | 5,294,083              |
| Accrued interest  | -                             | 55,053                      | -  | -               | 55,053         | -                  | -               | 55,053                 |
| Other accrued expenses  | 30,345                        | 6,045,243                   | -  | -               | 6,075,588      | 655,946            | -               | 6,731,534              |
| Current portion of long-term obligations  | -                             | -                           | -  | -               | -              | 294,796            | -               | 294,796                |
| Total current liabilities   | 68,255                        | 39,973,947                  | -  | -               | 40,042,202     | 2,714,144          | -               | 42,756,346             |
| Pension liability   | 20,773,664                    | -                           | -  | -               | 20,773,664     | -                  | -               | 20,773,664             |
| Due to affiliates   | 2,997,394                     | 2,682,572                   | 34,019,547                               | (37,016,941)    | 2,682,572      | 65,033,522         | (67,716,094)    | -                      |
| Long-term obligations, less current portion   | -                             | 129,255,925                 | -  | -               | 129,255,925    | 3,364,293          | -               | 132,620,218            |
| Other long-term liabilities   | -                             | 5,462,596                   | -  | -               | 5,462,596      | -                  | -               | 5,462,596              |
| Total liabilities   | 23,839,313                    | 177,375,040                 | 34,019,547                               | (37,016,941)    | 198,216,959    | 71,111,959         | (67,716,094)    | 201,612,824            |
| Deferred inflows of resources - pension   | 4,975,864                     | -                           | -  | -               | 4,975,864      | -                  | -               | 4,975,864              |
| <b>Net position:</b>  |                               |                             |  |                 |                |                    |                 |                        |
| Net investment in capital assets  | 21,700,669                    | -                           | -  | -               | 21,700,669     | -                  | -               | 21,700,669             |
| Unrestricted  | 53,707,534                    | 160,482,804                 | 159,599,205                              | -               | 373,789,543    | (47,784,859)       | (2,450,000)     | 323,554,684            |
| Restricted  | -                             | -                           | 594,640                                  | -               | 594,640        | 1,550,439          | -               | 2,145,079              |
| Total net position  | 75,408,203                    | 160,482,804                 | 160,193,845                              | -               | 396,084,852    | (46,234,420)       | (2,450,000)     | 347,400,432            |
| Total liabilities, deferred inflow of resources and net position                            | \$ 104,223,380                | \$ 337,857,844              | \$ 194,213,392                           | \$ (37,016,941) | \$ 599,277,675 | \$ 24,877,539      | \$ (70,166,094) | \$ 553,989,120         |

# Chesapeake Hospital Authority

## Combining Schedule of Revenues, Expenses, and Changes in Net Position Year Ended June 30, 2019

|   | Obligated group               |                             |  | Eliminations | Subtotal       | Nonobligated group | Eliminations   | Total reporting entity |
|---|-------------------------------|-----------------------------|--|--------------|----------------|--------------------|----------------|------------------------|
|   | Chesapeake Hospital Authority | Chesapeake General Hospital | Chesapeake Hospital Authority Foundation |              |                |                    |                |                        |
| <b>Operating revenues:</b>  |                               |                             |  |              |                |                    |                |                        |
| Net patient service revenue   | \$ -                          | \$ 318,172,842              | \$ -                                     | \$ -         | \$ 318,172,842 | \$ 20,326,182      | \$ -           | \$ 338,499,024         |
| Other operating revenue   | 6,755,105                     | 4,592,044                   | 15,785                                   | (652,449)    | 10,710,485     | 2,535,610          | (1,516,199)    | 11,729,896             |
| Total operating revenue   | 6,755,105                     | 322,764,886                 | 15,785                                   | (652,449)    | 328,883,327    | 22,861,792         | (1,516,199)    | 350,228,920            |
| <b>Operating expenses:</b>  |                               |                             |  |              |                |                    |                |                        |
| Salaries  | -                             | 111,091,959                 | -  | -            | 111,091,959    | 16,603,858         | (336,642)      | 127,359,175            |
| Fringe benefits   | 4,984,431                     | 21,889,540                  | -  | -            | 26,873,971     | 3,228,401          | (96,332)       | 30,006,040             |
| Medical supplies  | 111                           | 65,149,074                  | -  | -            | 65,149,185     | 3,380,660          | -              | 68,529,845             |
| Professional fees   | 29,868                        | 15,879,242                  | -  | -            | 15,909,110     | 600,523            | (28,800)       | 16,480,833             |
| Purchased services  | 171,797                       | 22,256,020                  | -  | -            | 22,427,817     | 1,012,707          | -              | 23,440,524             |
| Other expenses  | 480,966                       | 40,360,948                  | 2,400                                    | (652,449)    | 40,191,865     | 4,651,610          | (1,054,425)    | 43,789,050             |
| Interest  | -                             | 3,434,818                   | -  | -            | 3,434,818      | 146,733            | -              | 3,581,551              |
| Depreciation and amortization   | 552,106                       | 18,344,114                  | -  | -            | 18,896,220     | 1,127,046          | -              | 20,023,266             |
| Total operating expenses  | 6,219,279                     | 298,405,715                 | 2,400                                    | (652,449)    | 303,974,945    | 30,751,538         | (1,516,199)    | 333,210,284            |
| Operating income (loss)   | 535,826                       | 24,359,171                  | 13,385                                   | -            | 24,908,382     | (7,889,746)        | -              | 17,018,636             |
| <b>Nonoperating income:</b>   |                               |                             |  |              |                |                    |                |                        |
| Investment income, net  | -                             | 976,262                     | 8,358,231                                | -            | 9,334,493      | 440,231            | -              | 9,774,724              |
| (Deficit) excess of revenues (under) over expenses before other changes in net position | 535,826                       | 25,335,433                  | 8,371,616                                | -            | 34,242,875     | (7,449,515)        | -              | 26,793,360             |
| Affiliate transfers   | (20,015,569)                  | 20,015,569                  | -  | -            | -              | -                  | -              | -                      |
| Other changes in net position   | (619,384)                     | 786,009                     | 2,400                                    | -            | 169,025        | (603,739)          | -              | (434,714)              |
| Change in net position  | (20,099,127)                  | 46,137,011                  | 8,374,016                                | -            | 34,411,900     | (8,053,254)        | -              | 26,358,646             |
| <b>Net position:</b>  |                               |                             |  |              |                |                    |                |                        |
| Beginning of the year   | 95,507,330                    | 114,345,793                 | 151,819,829                              | -            | 361,672,952    | (38,181,166)       | (2,450,000)    | 321,041,786            |
| End of the year   | \$ 75,408,203                 | \$ 160,482,804              | \$ 160,193,845                           | \$ -         | \$ 396,084,852 | \$ (46,234,420)    | \$ (2,450,000) | \$ 347,400,432         |



Tel: 703-893-0600  
Fax: 703-893-2766  
www.bdo.com

8401 Greensboro Drive  
Suite 800  
McLean, VA 22102

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The Members  
Chesapeake Hospital Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the enterprise fund and the pension trust fund of Chesapeake Hospital Authority (the Authority), as of and for the years ended June 30, 2019 and December 31, 2018, respectively, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 27, 2019.

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.



providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

November 27, 2019