

Chesapeake Hospital Authority

Financial Statements and Independent
Auditor's Report
Years Ended June 30, 2023 and 2022

Chesapeake Hospital Authority

Financial Statements and Independent Auditor's Report
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Chesapeake Hospital Authority

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Independent Auditor's Report

The Members
Chesapeake Hospital Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities, as of and for the years ended June 30, 2023 and 2022, and the aggregate remaining fund information, as of and for the years ended December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, as of and for the years ended June 30, 2023 and 2022, and the aggregate remaining fund information, as of and for the years ended December 31, 2022 and 2021, of the Authority, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Authority has changed its method for accounting for subscription-based information technology arrangements due to the adoption of Governmental Accounting Standards Board (GASB) 96, *Subscription-Based Information Technology Arrangements*, as of July 1, 2021. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation

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and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audits of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions, and the Schedule of Investment Returns be



presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Schedule of Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position and the Combining Schedule of Revenues, Expenses, and Changes in Net Position (collectively, the Supplementary Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. 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 December 13, 2023 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, P.C.

December 13, 2023

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, 2023, 2022, and 2021. The Authority restated its fiscal year 2022 combined financial statements to reflect the impact of GASB 96 adoption as of July 1, 2021. 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 statements of net position, 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 statements of fiduciary net position and statements of changes in fiduciary 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), Chesapeake Regional Medical Group (CRMG), Chesapeake General Hospital Healthcare Foundation (CGHHCF), Chesapeake Regional Surgery Center at Virginia Beach, LLC (CRSCVB), Chesapeake Medical Building (Medical Building), Surgery Center of Chesapeake, LLC (SCC), and Chesapeake General Hospital Holding Company (Holding Company), blended component units, and other wholly owned or controlled subsidiaries.

Current Year Events

During the year ended June 30, 2023, the Authority completed and opened a new Intensive Care Unit, located inside Chesapeake Regional Medical Center's Richard S. Bray Critical Care Tower. The Critical Care Tower holds 30 intensive care beds and incorporates state-of-the-art technology to help nurses and physicians deliver exceptional care. The Authority also made substantial progress toward the renovation of the women's services area.

The Authority continued to experience challenges from the nation-wide workforce shortage resulting in continued dependence on high-cost temporary labor and substantial investments in the Authority's workforce. This contributed to an increase in salaries expense by 8.8%.

June 30, 2023 Compared to June 30, 2022

Financial Highlights

The Authority adopted GASB Statement No. 96, Subscription-Based Information Technology Arrangements (GASB 96) and restated its fiscal year 2022 combined financial statements to reflect the impact of GASB 96 adoption as of July 1, 2021. GASB 96 establishes a single model for accounting for subscription-based information technology arrangements (SBITAs) based on the foundational principle that SBITAs are financings of the right-to-use an underlying asset. Under GASB 96, the Authority was required to recognize a subscription liability and an intangible right-to-use

Chesapeake Hospital Authority

Management's Discussion and Analysis (Unaudited)

subscription asset for certain of its SBITAs that were reported as operating leases under previous accounting standards. As a result of the adoption of GASB 96, amounts as of June 30, 2023 and 2022 reflect a \$9.2 million and \$11.8 million, respectively, for intangible right-to-use assets, net. Also, corresponding subscription liabilities were recognized as of June 30, 2023 and 2022 for \$8.8 million and \$11.2 million, respectively. Amounts shown in management's discussion and analysis for 2021 were not required to be restated for the impact of adoption of GASB 96.

A summary of the Authority's condensed statements of net position as of June 30, 2023 and 2022 is presented and discussed below:

<i>June 30,</i>	2023	Restated 2022
Assets		
Current assets	\$ 123,553,160	\$ 148,134,351
Capital assets, net	251,618,213	235,715,007
Net pension asset	-	3,775,806
Other noncurrent assets	300,769,959	284,093,972
Total assets	675,941,332	671,719,136
Deferred outflow of resources	16,882,259	7,287,001
Total assets and deferred outflow of resources	\$ 692,823,591	\$ 679,006,137
Liabilities		
Current liabilities	\$ 81,459,917	\$ 86,839,376
Net pension liability	15,819,571	-
Other long-term liabilities outstanding	135,230,554	146,304,948
Total liabilities	232,510,042	233,144,324
Deferred inflow of resources	361,036	6,886,797
Net position		
Net investment in capital assets	110,565,518	104,670,393
Unrestricted	342,895,208	326,617,286
Restricted	6,491,787	7,687,337
Total net position	459,952,513	438,975,016
Total liabilities, deferred inflows of resources and net position	\$ 692,823,591	\$ 679,006,137

The Authority's current assets decreased \$24.6 million, or 16.6%, during fiscal year 2023 primarily as a result of final Medicare accelerated payment recoupments and increased capital spending. Other noncurrent assets increased \$12.9 million, or 4.5%, due to an increase in market performance

Chesapeake Hospital Authority

Management's Discussion and Analysis (Unaudited)

of investment returns. Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$459.9 million as of June 30, 2023. Approximately \$110.6 million of net position is related to capital assets. The majority of the remaining position (\$342.9 million) was unrestricted and can be used for ongoing operations of the Authority.

Revenue, Expenses and Changes in Net Position

While the statement of net position 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.

<i>Year Ended June 30,</i>	2023	Restated 2022
Revenues		
Net patient service revenue	\$ 453,911,510	\$ 410,206,082
Other operating revenue	16,187,876	15,134,377
Total revenues	470,099,386	425,340,459
Operating expenses		
Salaries	175,469,578	161,296,095
Fringe benefits	37,313,073	30,677,658
Medical supplies	97,821,866	93,600,167
Professional fees	39,202,825	31,674,454
Purchased services	28,907,891	24,867,416
Other expenses	56,111,481	49,094,498
Interest	4,580,710	5,429,630
Depreciation and amortization	26,654,749	26,585,090
Total operating expenses	466,062,173	423,225,008
Operating income	4,037,213	2,115,451
Nonoperating income (loss)	19,270,695	(17,962,727)
Income (loss) before other changes in net position	23,307,908	(15,847,276)
Other changes in net position	(2,330,411)	(775,834)
Increase (decrease) in net position	20,977,497	(16,623,110)
Beginning net position	438,975,016	455,598,126
Ending net position	\$ 459,952,513	\$ 438,975,016

Chesapeake Hospital Authority

Management's Discussion and Analysis (Unaudited)

The Authority's total revenues increased by 10.5%, or approximately \$44.8 million, while total operating expenses increased \$42.8 million, or 10.1%, from the prior year.

- Patient service revenues comprise the majority of the Authority's revenues. Net patient service revenue increased by \$43.7 million, or 10.7%, from prior year largely due to an increase in Medicaid supplemental payments.
- Other operating revenues increased \$1.1 million, or 7.0%, due to increased earnings of equity investments.
- Operating expenses increased \$42.8 million, or 10.1%, from the prior year. Salaries and benefits, comprising 45.7% of total operating expenses, increased \$20.8 million, or 10.8%, due to increases in pension expense and agency labor coupled with investments in the Authority's workforce. Non-labor expenses, excluding depreciation and amortization, increased \$21.9 million, or 10.7%, primarily due to increases in professional fees by \$7.5 million and increases in other expenses by \$7.0 million. The Authority continued to experience increases in supply cost as a result of inflation. Medical supplies expense increased \$4.2 million in 2023.
- Nonoperating income or loss increased \$37.2 million in 2023 primarily as a result of favorable investment performance.

Capital Asset and Obligation Administration

Capital Assets

The Authority has invested \$238.7 million and \$222.8 million in net capital assets as shown below, as of June 30, 2023 and 2022, respectively:

June 30,	2023	Restated 2022
Land improvements	\$ 7,036,262	\$ 7,036,262
Buildings	258,535,269	199,961,956
Intangible right-to-use assets	14,428,567	14,384,297
Intangibles	9,527,649	9,639,649
Equipment	359,899,996	338,608,791
Right-to-use assets	22,888,454	20,988,081
	672,316,197	590,619,036
Less accumulated depreciation and amortization	(476,153,631)	(452,735,772)
	196,162,566	137,883,264
Land	16,973,691	16,973,691
Construction in progress	38,481,956	80,858,052
Capital assets, net	\$ 251,618,213	\$ 235,715,007

Chesapeake Hospital Authority

Management's Discussion and Analysis (Unaudited)

In the year ended June 30, 2023, the Authority experienced an increase in net capital assets of \$15.9 million primarily attributable to the progression of its three-year construction plan. The Authority opened a new intensive care unit and made substantial progress toward the renovation of the women's service area. The estimated cost to complete construction in progress at June 30, 2023 is approximately \$55,851,000 related to the Authority's master facility construction plan.

Long-Term Obligations

<i>June 30,</i>	2023	Restated 2022
Hospital Facility Revenue Bonds:		
Series 2019	\$ 105,920,000	\$ 108,540,000
Unamortized bond premium	9,927,978	11,326,696
Other obligations	3,498,266	4,307,151
Total	\$ 119,346,244	\$ 124,173,847

During the year ended June 30, 2023, the Authority's long-term bond obligation decreased \$4.0 million, or 3.4%, as a result of principal payments made and current year amortization of bond premium. At June 30, 2023 and 2022, the Authority had \$119.3 million and \$124.2 million in obligations outstanding, respectively. Additional information about the Authority's long-term obligations is included in note 6 to the financial statements.

June 30, 2022 compared to June 30, 2021

Financial Highlights

The Authority adopted GASB Statement No. 87, *Leases* (GASB 87), and restated its fiscal year 2021 financial statements to reflect the impact of GASB 87 adoption as of July 1, 2020. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under GASB 87, the Authority was required to recognize a lease liability and an intangible right-to-use lease asset for certain of its leases that were reported as operating leases under previous accounting standards. As a result of the adoption of GASB 87, amounts for the years ended June 30, 2022 and 2021 are \$16.3 million and \$17.9 million, respectively, for the recognition of the net right-to-use asset and other noncurrent assets and a corresponding lease obligation of \$17.5 million and \$18.5 million, respectively.

Chesapeake Hospital Authority

Management's Discussion and Analysis (Unaudited)

A summary of the Authority's condensed statements of net position as of June 30, 2022 and 2021 is presented and discussed below:

<i>June 30,</i>	Restated 2022	2021
Current assets	\$ 148,134,351	\$ 185,573,463
Capital assets, net	222,761,265	186,745,163
Net pension asset	3,775,806	
Other noncurrent assets	297,047,714	331,046,535
Total assets	671,719,136	703,365,161
Deferred outflow of resources	7,287,001	14,548,751
Total assets and deferred outflow of resources	\$ 679,006,137	\$ 717,913,912
Current liabilities	\$ 86,839,376	\$ 98,825,248
Net pension liability	-	8,952,013
Other long- term liabilities outstanding	146,304,948	152,440,135
Total liabilities	233,144,324	260,217,396
Deferred inflow of resources	6,886,797	2,098,390
Net position		
Net investment in capital assets	104,670,393	83,007,764
Unrestricted	326,617,286	365,150,829
Restricted	7,687,337	7,439,533
Total net position	438,975,016	455,598,126
Total liabilities, deferred inflows of resources and net position	\$ 679,006,137	\$ 717,913,912

The Authority's current assets decreased \$37.4 million, or 20.2%, during fiscal year 2022 primarily as a result of recoupment of the Medicare accelerated payments that were received in fiscal year 2020. Other noncurrent assets decreased \$34.0 million, or 10.3%, due to a reduction of bond indentured funds used for the completion of the Priority Toyota Cancer Center and a decline in market performance of investment returns. Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$439.0 million as of June 30, 2022. Approximately \$104.7 million of net position is related to capital assets. The majority of the remaining net position was unrestricted and can be used for ongoing operations of the Authority.

Chesapeake Hospital Authority

Management's Discussion and Analysis (Unaudited)

Revenue, Expenses and Change in Net Position

While the statement of net position 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.

<i>Years Ended June 30,</i>	Restated 2022	2021
Revenues:		
Net patient service revenue	\$ 410,206,082	\$ 402,024,291
Other operating revenue	15,134,377	16,087,340
Total revenues	425,340,459	418,111,631
Operating expenses:		
Salaries	161,296,095	151,526,353
Fringe benefits	30,677,658	33,969,912
Medical supplies	93,600,167	82,386,314
Professional fees	31,674,454	27,688,084
Purchased services	24,867,416	28,063,396
Other expenses	49,094,498	46,403,788
Interest	5,429,630	4,605,475
Depreciation and amortization expense	26,585,090	27,052,758
Total operating expenses	423,225,008	401,696,080
Operating income	2,115,451	16,415,551
Nonoperating (loss) income	(17,962,727)	74,910,453
(Loss) income before other changes in net position	(15,847,276)	91,326,004
Other changes in net position	(775,834)	3,158,647
(Decrease) increase in net position	(16,623,110)	94,484,651
Beginning net position	455,598,126	361,113,475
Ending net position	\$ 438,975,016	\$ 455,598,126

The Authority's total revenues increased by 1.7%, or approximately \$7.2 million while total operating expenses increased \$21.5 million, or 5.4%, from the prior year.

- Patient service revenues comprise the majority of the Authority's revenues. Net patient service revenue increased by \$8.2 million, or 2.0%, from prior year largely due to an expansion of the Authority's medical group and an increase in ambulatory surgery center services.

Chesapeake Hospital Authority

Management's Discussion and Analysis (Unaudited)

- Other operating revenues decreased \$1.0 million, or 5.9%, due to decreased earnings of equity investments.
- Operating expenses increased \$21.5 million, or 5.4%, from the prior year. Salaries and benefits, comprising 45.4% of total operating expenses, increased \$6.5 million, or 3.5%, due to COVID-19 related labor expenses. Non-labor expenses, excluding depreciation and amortization, increased \$18.7 million, or 9.9%. The Authority experienced continued increases in supply cost and utilization as a result of inflation and COVID-19. Medical supplies expense increased \$11.2 million in 2022.
- Nonoperating income or loss decreased \$(92.9) million in 2022 primarily as a result of the reduction in CARES funds recognized and unfavorable investment performance.

Capital Asset and Debt Administration

Capital Assets

The Authority has invested \$222.8 million and \$186.7 million in net capital assets as shown below, as of June 30, 2022 and 2021, respectively.

<i>June 30,</i>	Restated 2022	2021
Land improvements	\$ 7,036,262	\$ 7,036,262
Buildings	199,961,956	196,499,447
Intangible right-to-use assets	14,384,297	-
Intangibles	9,639,649	9,520,649
Equipment	338,608,791	330,989,299
Right-to-use assets	20,988,081	20,644,887
	590,619,036	564,690,544
Less accumulated depreciation and amortization	(452,735,772)	(426,531,013)
	137,883,264	138,159,531
Land	16,973,691	4,019,949
Construction in progress	80,858,052	44,565,683
Capital assets, net	\$ 235,715,007	\$ 186,745,163

In the year ended June 30, 2022, the Authority experienced an increase in net capital assets of \$48.9 million primarily attributable to construction in progress, the adoption of GASB 96, and reclassifications. The progression of the Authority's three-year construction plan has contributed to the increase in construction in progress by \$36.3 million. The adoption of GASB 96 also increased capital assets in fiscal year 2022 by \$14.4 million at the date of adoption.

Chesapeake Hospital Authority

Management's Discussion and Analysis (Unaudited)

Long-Term Obligations

<i>June 30,</i>	Restated 2022	2021
Hospital Facility Revenue Bonds:		
Series 2019	\$ 108,540,000	\$ 111,020,000
Unamortized bond premium	11,326,696	12,789,988
Other obligations	4,307,151	4,717,074
Total	\$ 124,173,847	\$ 128,527,062

During the year ended June 30, 2022, the Authority's long-term bond obligation decreased \$3.9 million, or 3.0%, as a result of principal payments made and current year amortization of bond premium. At June 30, 2022 and 2021, the Authority had \$124.2 million and \$128.5 million in obligations outstanding, respectively. Additional information about the Authority's long-term obligations is included in note 6 to the financial statements.

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

Statements of Net Position

<i>June 30,</i>	2023	Restated* 2022
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 49,194,599	\$ 81,658,647
Patient accounts receivable, less allowances for uncollectible accounts of approximately \$29,199,000 and \$25,563,000 as of June 30, 2023 and 2022, respectively	46,323,339	47,338,830
Supplies inventories	8,566,420	7,234,343
Settlements due from third-party payors	12,196,043	3,423,623
Current portion of assets whose use is limited	35,748	64,174
Other current assets	7,237,011	8,414,734
Total current assets	123,553,160	148,134,351
Noncurrent assets whose use is limited:		
Internally designated by the board for capital acquisition	234,700,456	220,180,702
Bond indenture funds	5,113,675	5,001,075
Externally restricted by donors	4,244,976	4,885,738
Total noncurrent assets whose use is limited	244,059,107	230,067,515
Capital assets:		
Land	16,973,691	16,973,691
Buildings, equipment, and land improvements, net of accumulated depreciation	161,095,788	100,635,859
Right of use asset, net of accumulated amortization	16,078,764	15,794,051
Intangible right of use asset, net of accumulated amortization	9,243,419	11,813,705
Intangible assets, net of accumulated amortization	9,744,595	9,639,649
Construction in progress	38,481,956	80,858,052
Capital assets, net	251,618,213	235,715,007
Other noncurrent assets:		
Property held for future use	6,065,454	5,934,076
Investment in The Outer Banks Hospital, Inc.	43,169,981	40,689,598
Net pension asset	-	3,775,806
Other investments	7,475,417	7,402,783
Total other noncurrent assets	56,710,852	57,802,263
Total assets	675,941,332	671,719,136
Deferred outflows of resources	16,882,259	7,287,001
Total assets and deferred outflows of resources	\$ 692,823,591	\$ 679,006,137

Chesapeake Hospital Authority

Statements of Net Position (continued)

<i>June 30,</i>	2023	Restated*
		2022
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities:		
Accounts payable	\$ 34,174,900	\$ 29,195,253
Employee compensation	10,501,858	14,536,911
Settlements due to third-party payors	5,920,739	6,979,234
Accrued interest	2,328,675	2,381,075
Other accrued expenses	14,691,167	24,478,095
Current portion of lease liability	7,133,215	2,413,373
Current portion of subscription liability	2,614,566	2,648,417
Current portion of long-term obligations	4,094,797	4,207,018
Total current liabilities	81,459,917	86,839,376
Net pension liability	15,819,571	-
Lease liability, less current portion	10,839,288	15,075,760
Subscription liability, less current portion	6,233,057	8,587,551
Long-term obligations, less current portion	115,251,447	119,966,829
Other long-term liabilities	2,906,762	2,674,808
Total liabilities	232,510,042	233,144,324
Deferred inflows of resources	361,036	6,886,797
Net position:		
Net investment in capital assets	110,565,518	104,670,393
Unrestricted	342,895,208	326,617,286
Restricted	6,491,787	7,687,337
Total net position	459,952,513	438,975,016
Total liabilities, deferred inflow of resources, and net position	\$ 692,823,591	\$ 679,006,137

See accompanying notes to financial statements.

**Balances as of June 30, 2022 were restated for the adoption of GASB No. 96 (see Note 2)*

Chesapeake Hospital Authority

Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2023	Restated* 2022
Operating revenues:		
Net patient service revenue, net of the provision for bad debts of approximately \$15,610,000 during 2023 and \$10,573,000 during 2022	\$ 453,911,510	\$ 410,206,082
Other operating revenue	16,187,876	15,134,377
Total operating revenue	470,099,386	425,340,459
Operating expenses:		
Salaries	175,469,578	161,296,095
Fringe benefits	37,313,073	30,677,658
Medical supplies	97,821,866	93,600,167
Professional fees	39,202,825	31,674,454
Purchased services	28,907,891	24,867,416
Other expenses	56,111,481	49,094,498
Interest	4,580,710	5,429,630
Depreciation and amortization	26,654,749	26,585,090
Total operating expenses	466,062,173	423,225,008
Operating income	4,037,213	2,115,451
Nonoperating income (loss):		
CARES Act stimulus funds	-	4,171,226
Investment income (loss), net	19,270,695	(22,133,953)
Total nonoperating income (loss)	19,270,695	(17,962,727)
(Deficit) excess of revenues (under) over expenses before other changes in net position	23,307,908	(15,847,276)
Other changes in net position	(2,330,411)	(775,834)
(Decrease) increase in net position	20,977,497	(16,623,110)
Net position at beginning of year	438,975,016	455,598,126
Net position at end of year	\$ 459,952,513	\$ 438,975,016

See accompanying notes to financial statements.

**Balances as of June 30, 2022 were restated for the adoption of GASB No. 96 (see Note 2)*

Chesapeake Hospital Authority

Statements of Cash Flows

<i>Years Ended June 30,</i>	2023	Restated* 2022
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 439,147,372	\$ 376,911,972
Cash paid to employees	(215,282,834)	(194,789,712)
Cash paid to suppliers	(216,929,074)	(193,566,310)
Cash paid for pension	(1,266,565)	(1,099,694)
Other operating cash receipts and payments, net	11,333,444	11,212,680
Net cash (used in) provided by operating activities	17,002,343	(1,331,064)
Cash flows from capital and related financing activities:		
Repayment of long-term obligations	(10,720,935)	(5,954,519)
Purchases of capital assets	(39,738,342)	(52,564,537)
Proceeds from issuance of long-term obligations	-	207,658
Interest payments on long-term obligations	(3,612,003)	(3,909,672)
CARES Act stimulus funds	-	4,171,226
Interest payments on lease and SBITA liabilities	(1,764,396)	(1,812,547)
Net cash used in capital and related financing activities	(55,835,676)	(59,862,391)
Cash flows from investing activities:		
Purchases of investments	(83,971,219)	(152,143,821)
Proceeds from sale of investments	83,755,870	147,216,072
Interest and dividend income	4,724,635	6,727,839
Distributions from equity method investments	3,250,000	2,000,000
Other	(2,330,409)	(775,834)
Net cash provided by investing activities	5,428,877	3,024,256
Decrease in cash and cash equivalents	(33,404,456)	(58,169,199)
Cash and cash equivalents at beginning of year	113,634,163	171,803,362
Cash and cash equivalents at end of year	\$ 80,229,707	\$ 113,634,163
Cash and cash equivalents at end of year by balance sheet amount:		
Cash and cash equivalents in current assets	\$ 49,194,599	\$ 81,658,647
Cash and cash equivalents in assets whose use is limited:		
Internally designated by the board for capital acquisition	25,642,383	26,208,505
Externally restricted under bond indenture	5,113,675	5,001,075
Externally restricted by donors	279,050	765,936
Total cash and cash equivalents at end of year	\$ 80,229,707	\$ 113,634,163
Reconciliation of operating income to net cash (used in) provided by operating activities:		
Operating income	\$ 4,037,213	\$ 2,115,451
Adjustments to reconcile operating income to net cash (used in) provided by (used in) operating activities:		
Depreciation and amortization	26,654,749	26,585,090
Provision for bad debts	15,609,606	10,573,497
Interest paid considered capital financing activity	4,633,110	4,325,110
Changes in operating assets and liabilities:		
Patient accounts receivable	(14,594,115)	(10,860,581)
Supplies inventories	(1,332,077)	312,374
Other current assets	1,177,723	(3,159,872)
Other investments	(5,842,744)	(6,600,356)
Accounts payable	4,088,371	2,291,326
Employee compensation	(4,035,053)	(284,518)
Settlements with third-party payors	(9,830,915)	2,889,165
Pension funded status	3,080,880	(1,071,141)
Other accrued expenses	(6,644,405)	(28,446,609)
Net cash (used in) provided by operating activities	\$ 17,002,343	\$ (1,331,064)
Noncash supplemental information:		
Purchases of capital assets included in accounts payable	\$ -	\$ 1,883,820

See accompanying notes to financial statements.

*Balances as of June 30, 2022 were restated for the adoption of GASB No. 96 (see Note 2)

Chesapeake Hospital Authority

Statements of Fiduciary Net Position

<i>December 31,</i>	2022	2021
Assets:		
Cash and cash equivalents	\$ 6,130,401	\$ 9,485,928
Investments (measured at fair value)	87,797,876	103,704,920
Total assets	\$ 93,928,277	\$ 113,190,848
Net position:		
Restricted for employees' pension benefits	\$ 93,928,277	\$ 113,190,848

See accompanying notes to financial statements.

Chesapeake Hospital Authority

Statements of Changes in Fiduciary Net Position

<i>Years Ended December 31,</i>	2022	2021
Additions:		
Pension contributions - employer	\$ 1,183,129	\$ 2,933,129
Investment earnings:		
Interest and dividends	1,964,532	2,764,769
Net change in fair value of investments	(14,747,652)	6,489,454
Total investment earnings	(12,783,120)	9,254,223
Total additions, net	(11,599,991)	12,187,352
Deductions:		
Pension benefit payments	7,662,580	9,327,987
Total deductions	7,662,580	9,327,987
Net (decrease) increase in fiduciary net position	(19,262,571)	2,859,365
Net position, at beginning of year - restricted for employees' pension benefits	113,190,848	110,331,483
Net position, at end of year - restricted for employees' pension benefits	\$ 93,928,277	\$ 113,190,848

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 exempt from income tax as a political subdivision of the Commonwealth of Virginia. The Hospital is a division of the Authority and owns and operates an acute care community hospital facility and several outpatient care centers at various locations throughout its service area in and surrounding Chesapeake, Virginia. 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, including Chesapeake Regional Medical Group, Chesapeake General Hospital Healthcare Foundation, Chesapeake Regional Surgery Center at Virginia Beach, LLC, Chesapeake General Hospital Holding Company, Inc., Chesapeake Medical Building, and Surgery Center of Chesapeake, LLC, and are blended component units of the Authority. The financial statements of the Authority present the financial position and results of operations and changes in net position of the primary government, the Authority, and its component units.

Due to their significance, the following blended component units discussed below are included in the Authority's reporting entity because of their operational or financial relationship with the Authority, either providing services entirely, or almost entirely, to the Authority or otherwise exclusively, benefiting the Authority even they do not provide services directly to it. Separate financial statements of the blended component units are not publicly available.

The Foundation - 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 appoints the members of the Foundation's Board of Directors.

Chesapeake Regional Medical Group (CRMG) - CRMG is a nontaxable not-for-profit corporation for which the Authority is the sole member of and elects the Board of Directors. CRMG employs medical providers who staff a network of specialty care teams specializing in primary care, internal medicine, eight loss, women's health, neuroscience, and other specialty medical areas.

Chesapeake General Hospital Healthcare Foundation (CGHHCF) - CGHHCF is a non-for-profit, nonstock organization for which the Authority is the sole member, that operates exclusively to carry out charitable, educational and scientific purposes of the Authority and its subsidiaries. The Authority appoints the members of the Foundation's Board of Directors.

Chesapeake Regional Surgery Center at Virginia Beach, LLC (CRSCVB) - Through a Contribution and Purchase Agreement dated February 18, 2021, the Authority became the majority owner of CRSCVB. Concurrently, the Authority entered into a Management Services Agreement with CRSCVB to supervise, manage, and operate certain aspects of the business. The Management Services Agreement is in effect for one-year and automatically renews for one-year periods unless terminated. Management service fees are due to the Authority on a monthly basis at a rate of 2.0% of net revenues as defined by the Management Services Agreement and are eliminated in consolidation.

Chesapeake General Hospital Holding Company (Holding Company) - The Authority is the sole shareholder of the Holding Company, which is a for-profit corporation. Holding Company was formed to hold membership interest in various limited liability and corporate companies. Holding Company owns Chesapeake Medical Building, Inc. (Medical Building), First Meridian Medical, LLC, and Chesapeake Diagnostic Imaging Center, LLC which are blended component

Chesapeake Hospital Authority

Notes to Financial Statements

units of the Holding Company. The Medical Building is an approximate 30,000 square foot building that provides office space for the Authority's and its subsidiaries' departments and private practice physicians. The Medical Building's general partner is the Holding Company.

Surgery Center of Chesapeake, LLC (SCC) - SCC was formed to provide outpatient ambulatory surgical services. The Authority owns approximately 92% of outstanding shares of SCC, with the remaining portion owned by certain physicians. SCC is a limited liability corporation.

The following is a summary of the Authority's significant blended components' condensed financial information as of and for the year ended June 30, 2023.

	CRMG	CGHHCF	CRSCVB	SCC	Foundation
Assets:					
Current	\$ 3,886,203	\$ 2,579,470	\$ 3,233,485	\$ 1,425,301	\$ -
Noncurrent	7,398,048	6,216,349	8,949,921	2,360,564	224,187,578
Total assets	\$ 11,284,251	\$ 8,795,819	\$ 12,183,406	\$ 3,785,865	\$ 224,187,578
	CRMG	CGHHCF	CRSCVB	SCC	Foundation
Liabilities and net position:					
Current liabilities	\$ 4,395,753	\$ -	\$ 2,831,461	\$ 1,223,499	\$ -
Noncurrent liabilities	100,933,929	-	5,994,295	2,518,512	19,901,357
Net position	(94,045,431)	8,795,819	3,357,650	43,854	204,286,221
Total liabilities and net position	\$ 11,284,251	\$ 8,795,819	\$ 12,183,406	\$ 3,785,865	\$ 224,187,578
	CRMG	CGHHCF	CRSCVB	SCC	Foundation
Operating revenue	\$ 18,037,107	\$ 2,228,676	\$ 17,480,959	\$ 5,592,093	\$ (9,355)
Operating expenses	(34,551,513)	(2,816,895)	(14,244,618)	(6,262,584)	(2,400)
Other changes	(439,612)	629,785	(149,521)	(4,134)	20,238,428
Distributions	-	-	(4,110,000)	-	-
Change in net position	\$ (16,954,018)	\$ 41,566	\$ (1,023,180)	\$ (674,625)	\$ (20,226,673)

During the year ended June 30, 2023, the Hospital accounted for a significant portion of cash flow. Cash flow provided by (used in) by the Hospital for operating activities, capital and related financing activities, and investing activities was approximately \$21,001,000, (\$50,713,000), and \$1,953,000, respectively. The remainder of cash flow activities were provided by (used in) by other components and was approximately (\$3,999,000), (\$5,123,000), and \$3,476,000 for operating, capital and related financing, and investing activities, respectively.

Chesapeake Hospital Authority

Notes to Financial Statements

The following is a summary of the Authority's significant blended components' condensed financial information as of and for the year ended June 30, 2022.

	CRMG	CGHHCF	CRSCVB	SCC	Foundation
Assets:					
Current	\$ 3,470,204	\$ 3,521,854	\$ 3,116,135	\$ 1,681,789	\$ -
Noncurrent	2,412,303	5,559,577	3,308,823	2,027,701	208,960,905
Total assets	\$ 5,882,507	\$ 9,081,431	\$ 6,424,958	\$ 3,709,490	\$ 208,960,905
	CRMG	CGHHCF	CRSCVB	SCC	Foundation
Liabilities and net position:					
Current liabilities	\$ 2,237,916	\$ 9,604	\$ 1,871,852	\$ 918,979	\$ -
Noncurrent liabilities	80,736,004	317,574	172,276	2,072,032	24,901,357
Net position	(77,091,413)	8,754,253	4,380,830	718,479	184,059,548
Total liabilities and net position	\$ 5,882,507	\$ 9,081,431	\$ 6,424,958	\$ 3,709,490	\$ 208,960,905
	CRMG	CGHHCF	CRSCVB	SCC	Foundation
Operating revenue	\$ 15,896,079	\$ 2,596,493	\$ 13,868,086	\$ 4,874,303	\$ -
Operating expenses	(31,107,179)	(2,126,184)	(12,924,645)	(5,748,926)	(2,400)
Other changes	(2,649,805)	(802,674)	(751,554)	145,496	21,511,478
Distributions	-	-	-	(439,700)	-
Change in net position	\$ (17,860,905)	\$ (332,365)	\$ 191,887	\$ (1,168,827)	\$ (21,509,078)

Fiduciary Component Unit

The pension trust fund is used to account for assets held in trust 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; therefore, the pension plan is included as fiduciary component unit of the Authority.

Joint Venture

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 \$43,169,891 and \$40,689,598 at June 30, 2023 and 2022, respectively. Distributions received by the Authority in 2023 and 2022 amounted to \$2,000,000 each year. During 2023 and 2022, the Authority recognized equity in TOBH's earnings in the amount of \$4,480,383 and \$5,764,493, respectively, as other operating revenue.

Chesapeake Hospital Authority

Notes to Financial Statements

Summarized financial information for TOBH accounted for under the equity method, as of and for the years ended June 30, 2023 and 2022, consisted of the following:

<i>June 30,</i>	2023	2022
Total assets	\$ 127,102,493	\$ 122,766,414
Total liabilities	19,177,541	21,042,419
Total equity	\$ 107,924,952	\$ 101,723,995
Vidant interest	\$ 64,754,971	\$ 61,034,397
Authority interest	\$ 43,169,981	\$ 40,689,598
<i>Years Ended June 30,</i>	2023	2022
Total operating revenue	\$ 113,093,811	\$ 113,524,413
Total operating expenses	(102,811,395)	(101,230,716)
Operating net income	10,282,416	12,293,697
Nonoperating income	918,541	2,117,533
Excess of revenues over expenses	11,200,957	14,411,230
Other changes in net position	(5,000,000)	(5,000,000)
Increase in net position	\$ 6,200,957	\$ 9,411,230

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.

Chesapeake Hospital Authority

Notes to Financial Statements

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 amortization 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 decision to use restricted or unrestricted resources when an expense is incurred is dependent upon the transaction. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, followed by unrestricted.

Basis of Accounting

The combined financial statements of the Authority have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange, include certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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.

Chesapeake Hospital Authority

Notes to Financial Statements

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, right of use assets and intangible right of use assets, third-party settlements, net pension asset or liability, self-insurance liabilities, and the carrying amount of capital assets and investments.

Recently Adopted Accounting Standard

For the year ended June 30, 2023, the Authority adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for SBITAs for government end users (governments). GASB 96 (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. As a result of the adoption of GASB 96, amounts for the years ended June 30, 2023 and 2022 reflect intangible right-of-use assets of \$9,243,419 and \$11,813,705, respectively, and a corresponding in subscription liabilities of \$8,847,623 and \$11,235,968, respectively.

The Authority adopted the standard as of July 1, 2021, and accordingly the fiscal year 2022 financial statements have been restated as summarized below:

	2022 Prior to the Adoption GASB 96 Reported	Restatement to Adoption of GASB 96	2022 as Restated
Statements of Net Position			
Current assets	\$ 148,134,351	\$ -	\$ 148,134,351
Noncurrent assets whose use is limited	230,067,515	-	230,067,515
Capital assets, net	223,901,302	11,813,705	235,715,007
Other noncurrent assets	57,802,263	-	57,802,263
Total Assets	659,905,431	11,813,705	671,719,136
Deferred outflows of resources	7,287,001	-	7,287,001
Total Assets and Deferred Outflows of Resources	\$ 667,192,432	\$ 11,813,705	\$ 679,006,137

Chesapeake Hospital Authority

Notes to Financial Statements

	2022 Prior to the Adoption GASB 96 Reported	Restatement to Adoption of GASB 96	2022 as Restated
Statements of Net Position - continued			
Current Liabilities			
Current liabilities excluding current subscription liabilities	\$ 84,190,959	\$ -	\$ 84,190,959
Current portion of subscription liability	-	2,648,417	2,648,417
Total Current Liabilities	84,190,959	2,648,417	86,839,376
Lease liability, less current portion	15,075,760	-	15,075,760
Subscription liability, less current portion	-	8,587,551	8,587,551
Long-term obligations, less current portion	119,966,829	-	119,966,829
Other long-term liabilities	2,674,808	-	2,674,808
Total Liabilities	221,908,356	11,235,968	233,144,324
Deferred inflows of resources	6,886,797	-	6,886,797
Total Liabilities and Deferred Inflows of Resources	228,795,153	11,235,968	240,031,121
Net Position			
Net investment in capital assets	91,138,914	577,737	91,716,651
Unrestricted	339,571,028	-	339,571,028
Restricted	7,687,337	-	7,687,337
Total Net Position	438,397,279	577,737	438,975,016
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 667,192,432	\$ 11,813,705	\$ 679,006,137

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.

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 income (loss). Gains and losses from the sale of securities are recorded using the specific-identification method.

Chesapeake Hospital Authority

Notes to Financial Statements

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 and has an estimated useful life of more than three years. 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. Deferred outflows also include the amount of consideration provided in excess of the net positions acquired. Once recognized, the deferred outflow of resources is attributed to future periods in a systematic and rational manner considering the relevant circumstance of the government business combinations. As of June 30, 2023 and 2022, consideration provided in excess of net positions acquired, net of amortization, was \$4,590,587 and \$4,984,066, respectively.

Chesapeake Hospital Authority

Notes to Financial Statements

Compensated Absences

The Authority provides Paid Annual Leave (PAL) to employees. The Authority's policy is to record the cost of annual leave when earned. Employees earn annual leave at varying rates depending upon years of service and the leave plan in which they participate.

PAL provides various leave types dependent upon employee classifications. Earnings under the PAL program varies depending upon years of service and full-time equivalent status. The policy provides for certain allowable maximum accumulation of hours of unused PTO. Upon termination of employment, employees are paid for their current balance in PTO based upon their years of service.

Eligible employees may cash in PAL twice per year in accordance with the Authority's policy. PAL may be cashed-in in blocks of 40 hours only and is paid at 85% of the employee's base rate at the time of cash in.

The PAL liability is measured at the last pay period ended during the fiscal year and adjusted for PAL taken and accrued through June 30th and maximum hour carry forward limits. The liability is equal to the accumulated hours multiplied by the employee's current hourly rate plus an accrual for social security. The PAL liability is included in accrued employee compensation on the accompanying statements of net position.

Net Pension Asset or Liability

Net pension asset or 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.

Deferred Inflow of Resources

Deferred inflow of resources includes pension-related deferred inflows, which represent differences between expected and actual experience, differences between expected and actual investment earnings and pension plan assumption changes.

Leases and Subscription Based Information Technology Agreements (SBITA)

The Authority is party to multiple leases and agreements of nonfinancial assets as a lessee or SBITA user. The Authority reports leases in accordance with GASB Statement No. 87, *Leases* (GASB 87) and SBITA in accordance with GASB 96. Under GASB 87 and 96, the Authority is required to recognize a lease or subscription liability and an intangible right-to-use asset for certain of its leases and SBITA.

At the commencement of a lease or SBITA, the Authority initially measures the liability at the present value of payments expected to be made during the lease or agreement term. Subsequently, the liability is reduced by the principal portion of payments made. The right-of-use asset is initially measured as the initial amount of the liability, adjusted for payments made at or before the lease or agreement commencement date, plus certain initial direct costs. Subsequently, the asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases and SBITA include how the Authority determines (1) the discount rate used to discount the expected payments to present value, (2) term, and (3)

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payments. The Authority uses the interest rate charged by the lessor or subscription provider as the discount rate. When the interest rate charged is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases. The term includes the noncancellable period of the lease or agreement. Payments included in the measurement of the liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its leases or SBITA and will remeasure assets and liabilities if certain changes occur that are expected to significantly affect the amount of any liability.

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 income and nonoperating income (loss), 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.

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 \$1,106,351 and \$565,626 in 2023 and 2022, 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

Chesapeake Hospital Authority

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reports have been substantially resolved with the respective fiscal intermediary through June 30, 2020.

- **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, 2021.
- **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.

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

<i>Years Ended June 30,</i>	2023	2022
Medicare	\$ 136,028,451	\$ 124,427,107
Medicaid	79,938,452	55,632,357
Anthem	87,663,498	83,267,526
Self-Pay	1,691,754	1,087,655
Other third-party payors	148,589,355	145,791,437
Net patient service revenue	\$ 453,911,510	\$ 410,206,082

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>	2023	2022
Supplemental Medicaid amounts included in net patient service revenue	\$ 38,955,177	\$ 16,089,180
Net receivable from supplemental Medicaid included in estimated third-party payor settlements, net	\$ 8,432,744	\$ 1,742,574

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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 \$11,857,000 and \$12,899,000 for the years ended June 30, 2023 and 2022, respectively.

Income Taxes

The Authority and the Foundation are exempt from federal income taxes as a political subdivision of the Commonwealth of Virginia and Section 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.

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, 2023 and 2022, 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).

Reclassifications

Reclassifications have been made to the previously reported 2022 balances to conform to the 2023 presentation. Such reclassifications did not impact the June 30, 2022 net position or change in net position for the year then ended.

3. Cash and Cash Equivalents

At June 30, 2023 and 2022, the carrying values of the Authority's deposits were \$49,194,599 and \$81,658,647, respectively. The bank balances of these deposits at June 30, 2023 and 2022, were approximately \$44,924,065 and \$47,771,000, respectively.

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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.

In addition to banks, the Authority maintains a deposit with the Local Government Investment Pool (LGIP) program that offers professionally managed investment portfolios that comply with the Investment of Public Funds Act. The Virginia Department of the Treasury (Virginia Treasury) administers the LGIP program for public entities of the Commonwealth. The Virginia Treasury LGIP portfolio is a diversified portfolio structured to provide public entities an investment alternative that seeks to minimize the risk of principal loss while offering daily liquidity, a stable value and a competitive rate of return. The LGIP program deposits at June 30, 2023 and 2022, were approximately \$5,304,000 and \$32,282,000, respectively.

4. Assets Whose Use is Limited and Investments

Assets whose use is limited held in the enterprise fund at June 30, 2023 and 2022 are summarized as follows:

<i>June 30,</i>	2023	2022
Internally designated by the Board:		
Mutual funds- equities	\$ 5,619,738	\$ 7,249,488
Foundation:		
Cash and cash equivalents	25,642,383	26,208,505
Mutual funds - equities	130,450,741	107,939,696
Mutual funds - fixed income	32,968,999	33,440,745
Mutual funds - mixed	12,565,600	16,620,120
Hedge funds	27,452,995	28,722,148
Pledges receivable	35,748	64,174
Total internally designated by the Board	234,736,204	220,244,876
Bond indenture funds:		
Cash and cash equivalents	5,113,675	5,001,075
Total bond indenture funds	5,113,675	5,001,075
Externally restricted by donors:		
Cash and cash equivalents	279,050	765,936
Mutual funds - equities	2,208,828	2,421,008
Pledges receivable	1,757,098	1,698,794
Total externally restricted by donors	4,244,976	4,885,738
Total assets whose use is limited	\$ 244,094,855	\$ 230,131,689

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Assets whose use is limited held in the pension trust fund at December 31, 2022 and 2021 are summarized as follows:

<i>December 31,</i>	2022	2021
Pension trust fund		
Externally restricted under pension plan agreement		
Cash and money market	\$ 6,130,401	\$ 9,485,928
Mutual funds - equities	47,087,926	52,637,621
Mutual funds - mixed	9,381,852	13,246,447
Mutual funds - fixed income	15,787,173	19,669,891
Structured notes	-	522,990
Hedge funds	15,540,925	17,627,971
Total externally restricted under pension plan agreement	\$ 93,928,277	\$ 113,190,848

The Authority's assets whose use is limited held in the enterprise fund at June 30, 2023 and 2022, mature as follows:

As of June 30, 2023					
<i>Description</i>	Fair value	Investment maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 31,035,108	\$ 31,035,108	\$ -	\$ -	-
Mutual funds - equities	138,279,307	138,279,307	-	-	-
Mutual funds - mixed	12,565,600	10,970,836	741,216	853,548	-
Mutual funds - fixed income	32,968,999	30,275,209	380,288	2,313,502	-
Hedge funds	27,452,995	27,452,995	-	-	-
Pledges receivable	1,792,846	1,792,846	-	-	-
Total	\$ 244,094,855	\$ 239,806,301	\$ 1,121,504	\$ 3,167,050	\$ -

As of June 30, 2022					
<i>Description</i>	Fair value	Investment maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 31,975,516	\$ 31,975,516	\$ -	\$ -	-
Mutual funds - equities	117,610,192	117,610,192	-	-	-
Mutual funds - mixed	16,620,120	13,958,221	463,153	2,198,746	-
Mutual funds - fixed income	33,440,745	10,631,120	3,601,418	16,739,191	2,469,016
Hedge funds	28,722,148	28,722,148	-	-	-
Pledges receivable	1,762,968	1,762,968	-	-	-
Total	\$ 230,131,689	\$ 204,660,165	\$ 4,064,571	\$ 18,937,937	\$ 2,469,016

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Notes to Financial Statements

The Authority's assets whose use is limited held in the pension trust fund at December 31, 2022 and 2021, mature as follows:

As of December 31, 2022					
<i>Description</i>	Fair value	Investment maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 6,130,401	\$ 6,130,401	\$ -	\$ -	-
Mutual funds - equities	47,087,926	47,087,926	-	-	-
Mutual funds - mixed	9,381,852	7,238,720	1,156,527	986,400	204
Mutual funds - fixed income	15,787,173	3,507,444	1,403,605	10,037,756	838,369
Hedge funds	15,540,925	15,540,925	-	-	-
Total	\$ 93,928,277	\$ 79,505,416	\$ 2,560,132	\$ 11,024,156	\$ 838,573

As of December 31, 2021					
<i>Description</i>	Fair value	Investment maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 9,485,928	\$ 9,485,928	\$ -	\$ -	-
Mutual funds - equities	52,637,621	52,637,621	-	-	-
Mutual funds - mixed	13,246,447	10,411,185	1,573,032	1,262,230	-
Mutual funds - fixed income	19,669,891	3,081,810	410,063	13,270,899	2,907,119
Hedge funds	17,627,971	17,627,971	-	-	-
Structured notes	522,990	522,990	-	-	-
Total	\$ 113,190,848	\$ 93,767,505	\$ 1,983,095	\$ 14,533,129	\$ 2,907,119

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, 2023 and 2022, the Authority's fixed income securities had an average credit rating of A+ and BBB, 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, 2023 and 2022, the modified duration did not exceed 140% of the stated benchmark.

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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, 2023 and 2022, all of the Authority's fixed income investments and equity securities are held by the Authority's custodial banks 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, 2023 and 2022, the Authority did not have any significant exposure to foreign currency risks.

Investment Income (Loss), Net

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

<i>Years Ended June 30,</i>	2023	2022
Interest and dividend income	\$ 4,724,635	\$ 6,727,839
Realized gains, net	804,046	24,500,947
Unrealized gains (losses), net	14,003,018	(52,931,560)
Investment fees	(261,004)	(431,179)
Investment income (loss), net	\$ 19,270,695	\$ (22,133,953)

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

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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, 2023 and 2022:

As of June 30, 2023				
Description	Total	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 31,035,108	\$ 31,035,108	\$ -	\$ -
Mutual funds - equities	138,279,307	138,279,307	-	-
Mutual funds - mixed	12,565,600	12,565,600	-	-
Mutual funds - fixed income	32,968,999	32,968,999	-	-
Pledges receivable	1,792,846	-	1,792,846	-
	\$ 216,641,860	\$ 214,849,014	\$ 1,792,846	\$ -

Total investments measured
at NAV \$ 27,452,995

Total assets whose use is
limited \$ 244,094,855

As of June 30, 2022				
Description	Total	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 31,975,516	\$ 31,975,516	\$ -	\$ -
Mutual funds - equities	117,610,192	117,610,192	-	-
Mutual funds - mixed	16,620,120	16,620,120	-	-
Mutual funds - fixed income	33,440,745	33,440,745	-	-
Structured notes	-	-	-	-
Pledges receivable	1,762,968	-	1,762,968	-
	\$ 201,409,541	\$ 199,646,573	\$ 1,762,968	\$ -

Total investments measured
at NAV \$ 28,722,148

Total assets whose use is
limited \$ 230,131,689

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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, 2022 and 2021:

As of December 31, 2022					
Description	Total	Fair Value Hierarchy Level			
		Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 6,130,401	\$ 6,130,401	\$ -	\$ -	
Mutual funds - equities	47,087,926	47,087,926	-	-	
Mutual funds - mixed	9,381,852	7,238,720	-	-	
Mutual funds - fixed income	15,787,173	15,787,173	-	-	
	\$ 78,387,352	\$ 76,244,220	\$ -	\$ -	
Total investments measured at NAV	\$ 15,540,925				
Total assets whose use is limited	\$ 93,928,277				

As of December 31, 2021					
Description	Total	Fair Value Hierarchy Level			
		Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 9,485,928	\$ 9,485,928	\$ -	\$ -	
Mutual funds - equities	52,637,621	52,637,621	-	-	
Mutual funds - mixed	13,246,447	13,246,447	-	-	
Mutual funds - fixed income	19,669,891	19,669,891	-	-	
Structured notes	522,990	-	522,990	-	
	\$ 95,562,877	\$ 95,039,887	\$ 522,990	\$ -	
Total investments measured at NAV	\$ 17,627,971				
Total assets whose use is limited	\$ 113,190,848				

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Notes to Financial Statements

The table below discloses the unfunded commitments, redemption frequency and redemption notice period for enterprise fund investments measured at net asset value as of June 30, 2023:

<i>June 30, 2023</i>		Unfunded Commitments as of June 30, 2023		Redemption Frequency	Redemption Notice Period
Long/short equity hedge fund	\$ 14,783,198	\$	-	Monthly	35-60 days
Long/short equity hedge fund	4,324,890		-	Monthly	3-15 days
Fund of funds	8,344,907		-	Monthly, Quarterly	70-100 days
Total assets	\$ 27,452,995	\$	-		

The table below discloses the unfunded commitments, redemption frequency and redemption notice period for pension trust fund investments measured at net asset value as of December 31, 2022:

<i>December 31, 2022</i>		Unfunded Commitments as of December 31, 2022		Redemption Frequency	Redemption Notice Period
Long/short equity hedge fund	\$ 10,332,159	\$	-	Monthly, Quarterly	35-60 days
Long/short equity hedge fund	1,833,322		-	Monthly	3-15 days
Fund of funds	3,375,444		-	Monthly	70-100 days
Total assets	\$ 15,540,925	\$	-		

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 has been determined using NAV per share of the investments.

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Notes to Financial Statements

5. Capital Assets

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

	Restated Beginning balance	Additions	Transfers and disposals	Ending balance
Capital assets being depreciated				
Land improvements	\$ 19,990,004	\$ -	\$ -	\$ 19,990,004
Buildings	199,961,956	3,082,744	55,490,569	258,535,269
Intangible right-to-use assets	14,384,297	68,496	(24,226)	14,428,567
Intangibles	9,639,649	-	(112,000)	9,527,649
Equipment	338,608,791	7,443,037	13,848,168	359,899,996
Right-to-use leased assets	20,988,081	1,900,373	-	22,888,454
	603,572,778	12,494,650	69,202,511	685,269,939
Less: accumulated depreciation and amortization	452,735,772	26,251,111	(2,833,252)	476,153,631
	150,837,006	(13,756,461)	72,035,763	209,116,308
Capital assets not depreciated				
Land	4,019,949	-	-	4,019,949
Construction in progress	80,858,052	30,730,656	(73,106,752)	38,481,956
Capital assets, net	\$ 235,715,007	\$ 16,974,195	\$ (1,070,989)	\$ 251,618,213

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

	Beginning balance	Additions	Transfers and disposals	Ending balance
Capital assets being depreciated				
Land improvements	\$ 19,990,004	\$ -	\$ -	\$ 19,990,004
Buildings	196,499,447	3,483,775	(21,266)	199,961,956
Intangible right-to-use asset	14,044,850	409,359	(69,912)	14,384,297
Intangibles	9,520,649	119,000	-	9,639,649
Equipment	330,989,299	7,907,094	(287,602)	338,608,791
Right-to-use leased assets	20,644,887	1,699,249	(1,356,055)	20,988,081
	591,689,136	13,618,477	(1,734,835)	603,572,778
Less: accumulated depreciation and amortization	426,531,013	26,274,671	(69,912)	452,735,772
	165,158,123	(12,656,194)	(1,664,923)	150,837,006
Capital assets not depreciated				
Land	4,019,949	-	-	4,019,949
Construction in progress	44,565,683	39,372,334	(3,079,965)	80,858,052
Capital assets, net	\$ 213,743,755	\$ 26,716,140	\$ (4,744,888)	\$ 235,715,007

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The estimated cost to complete construction in progress at June 30, 2023 is approximately \$55,851,000. This amount relates principally to the Authority's master facility construction plan for the expansion of the Cancer Treatment Center, addition of a patient tower, and renovations to the women's services area.

6. Long-Term Obligations

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

	Beginning balance	Additions	Payments and authorizations	Ending balance	Amounts due within one year
Hospital Facility Revenue					
Bonds:					
Series 2019	\$ 108,540,000	\$ -	2,620,000	\$ 105,920,000	\$ 2,785,000
Unamortized bond premium	11,326,696	-	1,398,718	9,927,978	-
	119,866,696	-	4,018,718	115,847,978	2,785,000
CRIC equipment loans	544,198	-	270,048	274,150	274,150
CRSCVB Line of credit	893,000	-	217,192	675,808	675,808
Deferred compensation obligation	587,232	-	81,303	505,929	97,716
SCC note payable - Atlantic Union Bank	2,282,721	-	240,342	2,042,379	262,123
Total long-term obligations	\$ 124,173,847	\$ -	4,827,603	\$ 119,346,244	\$ 4,094,797

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

	Beginning balance	Additions	Payments and authorizations	Ending balance	Amounts due within one year
Hospital Facility Revenue					
Bonds:					
Series 2019	\$ 111,020,000	\$ -	2,480,000	\$ 108,540,000	\$ 2,620,000
Unamortized bond premium	12,789,988	-	1,463,292	11,326,696	-
	123,809,988	-	3,943,292	119,866,696	2,620,000
CRIC equipment loans	782,400	31,848	270,050	544,198	294,049
CRSCVB Line of credit	741,780	172,771	21,551	893,000	893,000
Deferred compensation obligation	660,271	98,501	171,540	587,232	147,028
SCC note payable - Atlantic Union Bank	2,532,623	3,039	252,941	2,282,721	252,941
Total long-term obligations	\$ 128,527,062	\$ 306,159	4,659,374	\$ 124,173,847	\$ 4,207,018

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Hospital Facility Revenue Bonds and Notes Payable

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 prior series of 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 was 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. On August 13, 2020, SCC executed a new loan agreement to refinance the remaining outstanding principal of the previous loan in the amount of \$2,738,519. Under the new loan agreement, principal and interest payments are due monthly in the amount of \$25,689 and is scheduled to mature in August 2030. Interest accrues at a fixed rate of 2.38% per annum. The loan is secured by first priority deed of trust of SCC's building.

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, 2023 and 2022, the entire line was available to be drawn and is scheduled to expire February 2024.

CRSCVB secured a \$3 million line of credit through a commercial bank and is scheduled to expire on July 14, 2024. Interest is due monthly and accrued interest at a rate of the Secured Overnight Financing Rate (SOFR) plus 1.6% per annum.

On April 28, 2020, the Authority secured a revolving line of credit of up to \$20 million with a commercial bank. The revolving line of credit is scheduled to expire on July 14, 2024. Unpaid principal bears interest at a rate of SOFR plus 1.03%. As of June 30, 2023 and 2022, no amounts have been drawn against the revolving line of credit. The balance of unused credit is assessed a fee of 0.25% per annum.

Chesapeake Hospital Authority

Notes to Financial Statements

Debt service requirements on the Series 2019 Bonds, SCC note payable, CRIC equipment loans, and the line of credit for the next five years and thereafter are as follows at June 30, 2023:

<i>Years ending June 30,</i>	Bond Principal	CRIC Equipment Loans	CRSCVB Line of Credit	SCC Note Payable	Interest
2024	\$ 3,997,081	\$ 274,150	\$ 675,808	\$ 262,123	\$ 4,633,915
2025	3,238,890	-	-	268,890	4,483,515
2026	3,450,451	-	-	275,451	4,323,329
2027	3,672,171	-	-	282,171	4,152,484
2028	3,909,006	-	-	289,006	3,970,399
2029-2033	22,564,738	-	-	664,738	16,716,074
2034-2038	28,285,000	-	-	-	10,674,575
2039-2043	34,360,000	-	-	-	4,598,400
2044	5,435,000	-	-	-	108,700
Total	\$ 108,912,337	\$ 274,150	\$ 675,808	\$ 2,042,379	\$ 53,661,391

Approximately \$3,978,000 and \$4,660,000 in interest was paid during the years ended June 30, 2023 and 2022, 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, 2023 and 2022, the Authority is in compliance with these covenants.

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 \$587,232 and \$587,232 at June 30, 2023 and 2022, respectively. Investment asset value for this corresponding liability was \$975,473 and \$940,257 as of June 30, 2023 and 2022, respectively.

Leases

The Authority, as lessee, leases equipment and space under long-term agreements at market rates with terms ranging through 2039. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of their date of inception.

Chesapeake Hospital Authority

Notes to Financial Statements

Total liability reductions subsequent to June 30, 2023 are as follows:

<i>Year Ending June 30,</i>	Lease Liabilities	Interest	Total
2024	\$ 2,350,385	\$ 982,844	\$ 3,333,229
2025	2,114,762	850,579	2,965,341
2026	1,679,155	739,387	2,418,542
2027	1,580,218	644,579	2,224,797
2028	1,495,532	554,740	2,050,272
2020-2033	5,023,177	1,781,867	6,805,044
2034-2038	3,026,029	468,083	3,494,112
Thereafter	703,245	274,607	977,852
Total	\$ 17,972,503	\$ 6,296,686	\$ 24,269,189

Subscription Liability

The Authority entered into SBITA under long-term agreements at market rates with terms ranging through 2028. The agreements qualify as other than short-term agreements under GASB 96 and, therefore, have been recorded at the present value of the future minimum payments as of their date of inception.

Total liability reductions subsequent to June 30, 2023 are as follows:

<i>Year Ending June 30,</i>	Subscription Liabilities	Interest	Total
2024	\$ 2,614,566	\$ 553,887	\$ 3,168,453
2025	2,466,707	380,165	2,846,872
2026	2,540,294	209,956	2,750,250
2027	1,199,949	54,265	1,254,214
2028	26,107	1,724	27,831
Total	\$ 8,847,623	\$ 1,199,997	\$ 10,047,620

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. The related impact is reported as nonoperating income of \$1,499,877. 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, 2023 and 2022 was based on Plan membership data as of January 1, 2020 and 2019 and rolled forward to the measurement date, or June 30, 2022 and 2021, respectively as follows:

<i>Year Ended June 30,</i>	2023*	2022**
Retirees and beneficiaries receiving benefits	582	535
Terminated plan members entitled to but not yet receiving benefits	689	637
Active plan members	924	1,138
Total members	2,195	2,310

*Based on June 30, 2022 measurement date

**Based on June 30, 2021 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, 2023 and 2022 equaled 1.51% and 1.56% of covered payroll, respectively. These contribution rates are determined based on a measurement date of June 30, 2022 and 2021, 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, 2022 and 2021:

Investment Type	Minimum	Target	Maximum
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

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

Equity securities:

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

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.

At December 31, 2022 and 2021, the following investments represented 5% or more of the Plan's fiduciary net position:

December 31,	2022	2021
Mutual funds		
SPDR S&P 500 ETF Trust	\$ 16,626,421	N/A
Vanguard Index Fund ETF	N/A	\$ 7,669,225

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Notes to Financial Statements

For the years ended December 31, 2022 and 2021, the annual money-weighted rate of return on investments of the Plan, net of investment expense, was 5.8% and 7.7%, 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, 2022 and 2021 was invested as follows:

<i>December 31,</i>	<i>2022</i>	<i>2021</i>
Cash equivalents	\$ 6,130,401	\$ 9,485,928
Mutual funds - equity funds	47,087,926	52,637,621
Mutual funds - mixed	9,381,852	13,246,447
Mutual funds - fixed income	15,787,173	19,669,891
Structured notes	-	522,990
Hedge funds	15,540,925	17,627,971
Total	\$ 93,928,277	\$ 113,190,848

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.

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, 2023 and 2022, was determined using the following actuarial assumptions:

<i>Years Ended June 30,</i>	<i>2023*</i>	<i>2022**</i>
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, 2023 measurement date

** Based on June 30, 2022 measurement date

Chesapeake Hospital Authority

Notes to Financial Statements

In 2022, the expectation of retired life mortality was based on PRI-2012 Employee Tables with the Retiree and Contingent Survivor Tables for annuitants projected forward with Scale MP-2020, and Scale MP-2019 for 2021.

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:

Asset class	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Equities	52.6%	5.5%	2.9%
Equity alternatives	11.5%	5.5%	0.6%
Diversifying alternatives	11.9%	4.0%	0.5%
Fixed income	22.3%	2.0%	0.4%
Cash	1.7%	1.0%	0.0%
Total	100.0%		4.5%
Inflation			2.5%
Expected arithmetic nominal return			7.0%

Discount Rate

The discount rate used to measure the total pension liability based on measurement dates as of June 30, 2021 and 2020 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.

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Notes to Financial Statements

Changes in the Net Pension Liability (Asset)

Investment Type	Increase (decrease)		
	Total Pension liability (a)	Plan fiduciary net position (b)	Net pension Liability (Asset) (a)-(b)
Balance recognized at July 1, 2022*	\$ 110,318,693	\$ 114,094,499	\$ (3,775,806)
Changes recognized for the fiscal year			
Service cost	983,011	-	983,011
Interest	7,448,775	-	7,448,775
Differences between expected and actual experience	963,933	-	963,933
Changes of assumptions	236,950	-	236,950
Contributions from the employer	-	1,099,694	(1,099,694)
Net investment loss	-	(11,062,402)	11,062,402
Benefit payments	(7,480,198)	(7,480,198)	-
Net changes	2,152,471	(17,442,906)	19,595,377
Balance recognized at June 30, 2023**	\$ 112,471,164	\$ 96,651,593	\$ 15,819,571

* Based on June 30, 2021 measurement date

** Based on June 30, 2022 measurement date

Changes in the Net Pension Liability (Asset)

Investment Type	Increase (decrease)		
	Total Pension liability (a)	Plan fiduciary net position (b)	Net pension Liability (Asset) (a)-(b)
Balance recognized at July 1, 2021*	\$ 110,483,740	\$ 101,531,727	\$ 8,952,013
Changes recognized for the fiscal year			
Service cost	1,136,189	-	1,136,189
Interest	7,481,651	-	7,481,651
Differences between expected and actual experience	1,471,972	-	1,471,972
Changes of assumptions	(333,492)	-	(333,492)
Contributions from the employer	-	3,300,000	(3,300,000)
Net investment income	-	19,184,139	(19,184,139)
Benefit payments	(9,921,367)	(9,921,367)	-
Net changes	(165,047)	12,562,772	(12,727,819)
Balance recognized at June 30, 2022**	\$ 110,318,693	\$ 114,094,499	\$ (3,775,806)

* Based on June 30, 2020 measurement date

** Based on June 30, 2021 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, 2023 and 2022, calculated using the discount rate of 7.0%, as well as what the Authority's net pension liability as of June 30, 2023 and 2022, 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 (6.00%)	Current rate (7.00%)	1% increase (8.00%)
Authority's net pension liability (asset) at June 30, 2023*	\$ 26,006,985	\$ 15,819,571	\$ 7,129,582
Authority's net pension liability at June 30, 2022*	\$ 6,213,655	\$ (3,775,806)	\$ (12,316,556)

* Based on June 30, 2022 measurement date

** Based on June 30, 2021 measurement date

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

For the years ended June 30, 2023 and 2022, the Authority recognized pension expense of \$4,347,444 and \$28,553, respectively. At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows or resources related to pension from the following sources:

	Deferred outflows of resources*	Deferred inflows of resources*	Net deferred (inflows) outflows
Differences between expected and actual experience	\$ 1,243,432	\$ -	\$ 1,243,432
Assumption changes	153,517	361,036	(207,519)
Net differences between expected and actual earnings on pension plan investments	9,628,158	-	9,628,158
Contributions made after measurement date	1,266,565	-	1,266,565
Total	\$ 12,291,672	\$ 361,036	\$ 11,930,636

* Based on June 30, 2022 measurement date

Chesapeake Hospital Authority

Notes to Financial Statements

At June 30, 2022, the Authority reported deferred outflow of resources and deferred inflows of resources related to pension from the following sources:

	Deferred outflows of resources*	Deferred inflows of resources*	Net deferred (inflows) outflows
Differences between expected and actual experience	\$ 1,203,241	\$ 10,101	\$ 1,193,140
Assumption changes	-	783,276	(783,276)
Net differences between expected and actual earnings on pension plan investments	-	6,093,420	(6,093,420)
Contributions made after measurement date	1,099,694	-	1,099,694
Total	\$ 2,302,935	\$ 6,886,797	\$ (4,583,862)

* Based on June 30, 2021 measurement date

Deferred outflows of resources resulting from employer contributions made after the measurement date in the amount of \$900,000 as of June 30, 2023 will be recognized as a reduction of the net pension liability in the year ending June 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources as of June 30, 2023 will be recognized in pension expense for each of the years ended June 30 as follows:

<i>Years ending June 30,</i>	<i>Amount</i>
2024	\$ 3,009,355
2025	2,629,570
2026	1,276,258
2027	3,748,888
	\$ 10,664,071

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. For the years ended June 30, 2023 and 2022, the Authority recognized expenses of \$1,455,056 and \$1,411,121, respectively.

Malpractice Insurance

The Authority's malpractice insurance coverage is on a claims-made basis. The Authority is insured for losses up to \$2,500,000 per claim and \$7,500,000 in the aggregate, and the insurance coverage includes a \$500,000 deductible per claim for all claims reported after the effective date (\$1,000,000 annual limit). The Authority also is insured under a \$12,000,000 umbrella policy. Should the

Chesapeake Hospital Authority

Notes to Financial Statements

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>	2023	2022
Other	27%	21 %
Anthem	18	25
Medicare	30	32
Medicaid	9	14
Self pay	5	2
Optima	11	6
Total	100%	100 %

10. CARES Act

In response to the novel coronavirus (COVID-19) global pandemic the government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act, among other things, authorized funding to hospitals and other healthcare providers to be distributed through the Provider Relief Fund (PRF). These funds are not required to be repaid provided the recipients attest to, and comply with, certain terms and conditions, including among other things, that the funds are being used for lost operating revenues and COVID-19 related expenses. During the years ended June 30, 2023 and 2022, the Authority recognized revenue of \$0 and \$4,171,226, respectively, of PRF distributions. PRF amounts are recognized, as permitted by the terms and conditions, based on the

Chesapeake Hospital Authority

Notes to Financial Statements

amount of lost operating revenue that exceeded the amounts received and COVID-19 related expenses incurred and are reported as non-operating revenue. The funds received from HHS are subject to specific terms, conditions and audit by HHS. Noncompliance with any of the terms or conditions is grounds for HHS to recoup some or all of the payments received by the Authority. Management believes it has complied with the terms and conditions.

The CARES Act also made other forms of financial assistance available to healthcare providers, including through Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advanced Payment Program, which makes available accelerated payments of Medicare funds in order to increase cash flow to providers. During the year ended June 30, 2022, \$24,888,832 of these funds were recouped leaving \$12,535,310 remaining in accrued expenses as of June 30, 2022. The remaining \$12,535,310 was recouped during the year ended June 30, 2023.

The CARES Act also allowed for the deferral of certain employer payroll taxes until at least December 31, 2020. The Authority deferred approximately \$0 and \$2,990,000 of employer taxes as of June 30, 2023 and 2022, respectively.

11. Subsequent Events

The Authority has evaluated subsequent events for potential recognition and/or disclosure through December 13, 2023, the date of issuance of these financial statements and noted no recognizable or disclosable events.

Required Supplementary Information

Chesapeake Hospital Authority

Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)

June 30,	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability:								
Service cost	\$ 983,011	\$ 1,136,189	\$ 2,151,378	\$ 2,526,196	\$ 2,525,955	\$ 2,307,938	\$ 2,738,302	\$ 2,807,227
Interest cost	7,448,775	7,481,651	8,728,520	8,468,219	8,181,104	7,902,724	7,396,726	7,114,608
Differences between expected and actual experiences	963,933	1,471,972	56,462	583,070	(262,593)	(849,039)	3,422,214	(1,499,018)
Changes of assumptions	236,950	(333,492)	(986,385)	(218,954)	(482,149)	(964,761)	(1,053,973)	-
Benefit payments, including refunds of employee contributions	(7,480,198)	(9,921,367)	(11,121,454)	(5,633,137)	(5,410,358)	(4,963,985)	(3,524,534)	(5,096,161)
Changes of benefit terms	-	-	(15,167,883)	(1,499,877)	-	972,342	-	-
Net change in total pension liability	2,152,471	(165,047)	(16,339,362)	4,225,517	4,551,959	4,405,219	8,978,735	3,326,656
Total pension liability - beginning	110,318,693	110,483,740	126,823,102	122,597,585	118,045,626	113,640,407	104,661,672	101,335,016
Total pension liability - ending (a)	112,471,164	110,318,693	110,483,740	126,823,102	122,597,585	118,045,626	113,640,407	104,661,672
Plan fiduciary net position:								
Contributions - employer	1,099,694	3,300,000	4,050,000	4,196,022	4,049,348	3,706,786	5,800,000	3,470,632
Net investment (loss) income	(11,062,402)	19,184,139	2,881,717	5,334,658	3,987,636	10,904,968	(1,698,176)	1,954,206
Benefit payments, including refunds of employee contributions	(7,480,198)	(9,921,367)	(11,121,454)	(5,633,137)	(5,410,358)	(4,963,985)	(3,524,534)	(5,096,161)
Net change in plan fiduciary net position	(17,442,906)	12,562,772	(4,189,737)	3,897,543	2,626,626	9,647,769	577,290	328,677
Plan fiduciary net position - beginning	114,094,499	101,531,727	105,721,464	101,823,921	99,197,295	89,549,526	88,972,236	88,643,559
Plan fiduciary net position - ending (b)	96,651,593	114,094,499	101,531,727	105,721,464	101,823,921	99,197,295	89,549,526	88,972,236
Authority's net pension liability (asset) - ending (a) - (b)	\$ 15,819,571	\$ (3,775,806)	\$ 8,952,013	\$ 21,101,638	\$ 20,773,664	\$ 18,848,331	\$ 24,090,881	\$ 15,689,436
Plan fiduciary net position as a percentage of the total pension liability	85.93%	103.42%	91.90%	83.36%	83.06%	84.03%	78.80%	85.01%
Covered-employee payroll	\$ 59,665,134	\$ 70,515,926	\$ 81,119,663	\$ 88,964,993	\$ 94,210,438	\$ 91,781,434	\$ 89,564,423	\$ 90,949,571
Authority's net pension liability (asset) as a percentage of covered-employee payroll	26.51%	-5.35%	11.04%	23.72%	22.05%	20.54%	26.90%	17.25%

See accompanying notes to required supplementary information.

Information is not available for the preceding years, to the extent 10 years of information is not presented.

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

<i>Years Ended June 30,</i>	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 856,288	\$ 1,466,258	\$ 1,766,728	\$ 3,966,827	\$ 4,196,022	\$ 4,049,348	\$ 3,706,786	\$ 3,853,646	\$ 3,926,838	\$ 4,434,020
Contributions made in relation to the actuarially determined contribution	900,000	1,099,694	3,300,000	4,050,000	4,196,022	4,049,348	3,706,786	5,800,000	3,470,632	4,434,020
Contribution (excess) deficiency	\$ (43,712)	\$ 366,564	\$ (1,533,272)	\$ (83,173)	\$ -	\$ -	\$ -	\$ (1,946,354)	\$ 456,206	\$ -
Covered-employee payroll	\$ 59,665,134	\$ 70,515,926	\$ 81,119,663	\$ 88,964,993	\$ 94,210,438	\$ 91,781,434	\$ 89,564,423	\$ 90,949,571	\$ 95,108,825	\$ 97,962,090
Contributions as a percentage of covered-employee payroll	1.51 %	1.56 %	4.07 %	4.55 %	4.45 %	4.14 %	4.14 %	6.38 %	3.65 %	453.00 %

See accompanying notes to required supplementary information.

Information is not available for the preceding years, to the extent 10 years of information is not presented.

Notes to schedule: 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.
Measurement date is June 30 of prior fiscal year.
There have been no method changes in the financial accounting valuation since the prior year.

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 PRI-2012 Employee Tables with the Retiree and Contingent Survivor Tables for annuitants projected forward with Scale MP-2021

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>	Rate
2022	5.79 %
2021	7.74 %
2020	9.20 %
2019	15.80 %
2018	(5.20)%
2017	12.33 %
2016	9.05 %
2015	(0.79)%

Information is not available for the preceding years, to the extent 10 years of information is not presented.

Supplementary Information

Chesapeake Hospital Authority
Combining Schedule of Assets, Deferred Outflows of Resources, Liabilities
Deferred Inflows of Resources, and Net Position
June 30, 2023

	Obligated Group								
	Chesapeake Hospital Authority	Chesapeake General Hospital	Chesapeake Hospital Authority Foundation	Eliminations	Subtotal	Nonobligated Group	Eliminations	Total Reporting Entity	
Assets and Deferred Outflows of Resources									
Current Assets									
Cash and cash equivalents	\$ 1,556,867	\$ 36,194,832	\$ -	\$ -	\$ 37,751,699	\$ 11,442,900	\$ -	\$ 49,194,599	
Patient accounts receivable, net	-	40,565,821	-	-	40,565,821	5,757,518	-	46,323,339	
Supplies inventories	-	7,791,178	-	-	7,791,178	775,242	-	8,566,420	
Settlements due from third-party payors	-	11,672,664	-	-	11,672,664	523,379	-	12,196,043	
Current portion of assets whose use is limited	-	-	-	-	-	35,748	-	35,748	
Other current assets	109,511	6,630,258	-	-	6,739,769	497,242	-	7,237,011	
Total current assets	1,666,378	102,854,753	-	-	104,521,131	19,032,029	-	123,553,160	
Noncurrent assets whose use is limited:									
Internally designated by the board for capital acquisition	-	5,619,737	224,088,415	-	229,708,152	4,992,304	-	234,700,456	
Bond indenture funds	-	5,113,675	-	-	5,113,675	-	-	5,113,675	
Externally restricted by donors	-	-	-	-	-	4,244,976	-	4,244,976	
Total noncurrent assets whose use is limited	-	10,733,412	224,088,415	-	234,821,827	9,237,280	-	244,059,107	
Capital assets									
Land	16,629,811	268,880	-	-	16,898,691	75,000	-	16,973,691	
Buildings, equipment, and land improvements, net of depreciation	4,014,185	146,257,240	-	-	150,271,425	10,824,363	-	161,095,788	
Right of use asset, net of accumulated amortization	-	2,364,100	-	-	2,364,100	13,714,664	-	16,078,764	
Intangible right of use asset, net of accumulated amortization	-	9,147,085	-	-	9,147,085	96,334	-	9,243,419	
Intangible assets, net of accumulated amortization	47,000	2,450,000	-	-	2,497,000	9,697,595	(2,450,000)	9,744,595	
Construction in progress	-	37,601,238	-	-	37,601,238	880,718	-	38,481,956	
Total capital assets	20,690,996	198,088,543	-	-	218,779,539	35,288,674	(2,450,000)	251,618,213	
Other noncurrent assets									
Property held for future use	6,065,454	-	-	-	6,065,454	-	-	6,065,454	
Investment in The Outer Banks Hospital, Inc.	43,169,981	-	-	-	43,169,981	-	-	43,169,981	
Due from affiliates	41,152,508	121,989,596	-	(19,901,357)	143,240,747	811,138	(144,051,885)	-	
Net pension asset	-	-	-	-	-	-	-	-	
Other investments	4,301,852	2,989,413	99,163	-	7,390,428	489,240	(404,251)	7,475,417	
Total assets	117,047,169	436,655,717	224,187,578	(19,901,357)	757,989,107	64,858,361	(146,906,136)	675,941,332	
Deferred outflow of resources									
Total assets and deferred outflow of resources	\$ 129,338,841	\$ 436,655,717	\$ 224,187,578	\$ (19,901,357)	\$ 770,280,779	\$ 69,448,948	\$ (146,906,136)	\$ 692,823,591	
Liabilities, Deferred Inflows of Resources and Net Position									
Current liabilities									
Accounts payable	\$ 54,733	\$ 31,036,957	\$ -	\$ -	\$ 31,091,690	\$ 3,083,210	\$ -	\$ 34,174,900	
Employee compensation	-	8,989,592	-	-	8,989,592	1,512,266	-	10,501,858	
Settlements due to third-party payors	-	5,920,739	-	-	5,920,739	-	-	5,920,739	
Accrued interest	-	2,328,675	-	-	2,328,675	-	-	2,328,675	
Other accrued expenses	49,459	13,464,379	-	-	13,513,838	1,177,329	-	14,691,167	
Current portion of lease liability	-	2,208,457	-	-	2,208,457	4,924,758	-	7,133,215	
Current portion of subscription liability	-	2,547,115	-	-	2,547,115	67,451	-	2,614,566	
Current portion of long-term obligations	-	2,785,000	-	-	2,785,000	1,309,797	-	4,094,797	
Total current liabilities	104,192	69,280,914	-	-	69,385,106	12,074,811	-	81,459,917	
Net pension liability	15,819,571	-	-	-	15,819,571	-	-	15,819,571	
Due to affiliates	-	-	19,901,357	(19,901,357)	-	144,051,885	(144,051,885)	-	
Lease liability, less current portion	-	480,331	-	-	480,331	10,358,957	-	10,839,288	
Subscription liability, less current portion	-	6,197,563	-	-	6,197,563	35,494	-	6,233,057	
Long-term obligations, less current portion	-	113,062,977	-	-	113,062,977	2,188,470	-	115,251,447	
Other long-term liabilities	-	933,891	-	-	933,891	1,972,871	-	2,906,762	
Total liabilities	15,923,763	189,955,676	19,901,357	(19,901,357)	205,879,439	170,682,488	(144,051,885)	232,510,042	
Deferred inflows of resources - pension	361,036	-	-	-	361,036	-	-	361,036	
Net position:									
Net investment in capital assets	110,565,518	-	-	-	110,565,518	-	-	110,565,518	
Unrestricted	2,488,524	246,700,041	203,691,581	-	452,880,146	(107,130,687)	(2,854,251)	342,895,208	
Restricted	-	-	594,640	-	594,640	5,897,147	-	6,491,787	
Total net position	113,054,042	246,700,041	204,286,221	-	564,040,304	(101,233,540)	(2,854,251)	459,952,513	
Total liabilities, deferred inflows of resources, and net position									
	\$ 129,338,841	\$ 436,655,717	\$ 224,187,578	\$ (19,901,357)	\$ 770,280,779	\$ 69,448,948	\$ (146,906,136)	\$ 692,823,591	

Chesapeake Hospital Authority
Combining Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2023

	Obligated Group								
	Chesapeake Hospital Authority	Chesapeake General Hospital	Chesapeake Hospital Authority Foundation	Eliminations	Subtotal	Nonobligated Group	Eliminations	Total Reporting Entity	
Operating revenues									
Net patient service revenue	\$ -	\$ 398,461,797	\$ -	\$ -	\$ 398,461,797	\$ 55,462,699	\$ (12,986)	\$ 453,911,510	
Other operating revenue	7,158,414	9,092,077	(9,355)	-	16,241,136	3,689,474	(3,742,734)	16,187,876	
Total operating revenue	7,158,414	407,553,874	(9,355)	-	414,702,933	59,152,173	(3,755,720)	470,099,386	
Operating expenses									
Salaries	-	140,948,746	-	-	140,948,746	34,890,104	(369,272)	175,469,578	
Fringe benefits	4,347,444	26,715,839	-	-	31,063,283	6,315,507	(65,717)	37,313,073	
Medical supplies	377	89,255,609	-	-	89,255,986	8,565,880	-	97,821,866	
Professional fees	30,701	35,097,409	-	-	35,128,110	4,103,515	(28,800)	39,202,825	
Purchased services	125,627	24,644,447	-	-	24,770,074	4,137,817	-	28,907,891	
Other expenses	589,384	48,040,312	2,400	-	48,632,096	12,465,012	(4,985,627)	56,111,481	
Interest	60,694	4,082,940	-	-	4,143,634	1,016,386	(579,310)	4,580,710	
Depreciation and amortization	374,237	21,488,442	-	-	21,862,679	4,792,070	-	26,654,749	
Total operating expenses	5,528,464	390,273,744	2,400	-	395,804,608	76,286,291	(6,028,726)	466,062,173	
Operating income (loss)	1,629,950	17,280,130	(11,755)	-	18,898,325	(17,134,118)	2,273,006	4,037,213	
Nonoperating income (loss)									
Other nonoperating income	-	1,693,694	-	-	1,693,694	-	(1,693,694)	-	
Investment income (loss), net	-	(1,050,129)	20,236,028	-	19,185,899	664,108	(579,312)	19,270,695	
Total nonoperating income (loss)	-	643,565	20,236,028	-	20,879,593	664,108	(2,273,006)	19,270,695	
Excess (deficit) of revenues over (under) expenses									
other changes in net position	1,629,950	17,923,695	20,224,273	-	39,777,918	(16,470,010)	-	23,307,908	
Affiliate transfers	1,266,563	(1,266,563)	-	-	-	-	-	-	
Other changes in net position	(1,260,768)	1,247,601	2,400	-	(10,767)	(4,415,744)	2,096,100	(2,330,411)	
Change in net position	1,635,745	17,904,733	20,226,673	-	39,767,151	(20,885,754)	2,096,100	20,977,497	
Net position									
Beginning of the year	111,418,297	228,795,308	184,059,548	-	524,273,153	(80,347,786)	(4,950,351)	438,975,016	
End of the year	\$ 113,054,042	\$ 246,700,041	\$ 204,286,221	\$ -	\$ 564,040,304	\$ (101,233,540)	\$ (2,854,251)	\$ 459,952,513	



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 business-type activities, as of and for the years ended June 30, 2023 and 2022 and the aggregate remaining fund information as of and for the years ended December 31, 2022 and 2021, of Chesapeake Hospital Authority (the Authority) and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 13, 2023.

Report on 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) as a basis for designing 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 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 were not identified.

Report on 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

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direct and material effect on the financial statements. However, 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, P.C.

December 13, 2023



Chesapeake Hospital Authority

Schedule of Expenditures of Federal Awards and Report Required by the Uniform Guidance

Year Ended June 30, 2023

Chesapeake Hospital Authority

Schedule of Expenditures of Federal Awards and
Report Required by the Uniform Guidance
Year Ended June 30, 2023

Chesapeake Hospital Authority

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Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Members
Chesapeake Hospital Authority

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Chesapeake Hospital Authority's (the Authority) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2023. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Authority's federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



The Authority is responsible for preparing a corrective action plan to address the audit finding included in our auditor's report. The Authority's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Authority is responsible for preparing a corrective action plan to address the audit finding included in our auditor's report. The Authority's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended June 30, 2023, and have issued our report thereon dated December 14, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, P.C.

December 18, 2024

Chesapeake Hospital Authority

Schedule of Expenditures of Federal Awards

Year ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass- Through Entity Identifying Number	Provided To Subrecipients	Total Federal Expenditures
Department of Justice				
Passed through Virginia Hospital Research and Education Foundation d/b/a VHHA Foundation Crime Victim Assistance	16.575	077923761	\$ -	\$ 120,299
Department of Health and Human Services				
COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution Program	93.498	N/A	-	2,945,041
Total Expenditures of Federal Awards			\$ -	\$ 3,065,340

The accompanying notes are an integral part of this schedule.

Chesapeake Hospital Authority

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Chesapeake Hospital Authority (the Authority) under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution Program (PRF Program) amount on the Schedule includes \$877,537 for reimbursement of lost revenue and \$1,743,907 of out-of-period expenditures which are recognized in CARES Act stimulus funds in the Statements of Revenues, Expenses, and Changes in Net Position in prior periods. These amounts are reported in the Schedule in accordance with the terms and conditions included in the U.S. Department of Health and Human Services (HHS) Post-Payment Notice of Reporting Requirements specific to the PRF program.

3. Indirect Cost Rate

The Authority elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Donated Personal Protective Equipment (Unaudited)

During the year ended June 30, 2023, the Authority did not receive any donations of personal protective equipment from federal agencies and recipients of federal assistance funds.

5. Entities included in the Schedule

The accompanying Schedule includes the following entities as identified by individual tax identification number (TIN) and entity name:

TIN	Entity Name
23-7133975	Chesapeake General Hospital DBA CRMC
54-2010320	Surgery Center of Chesapeake, LLC
26-2366542	Chesapeake Regional Medical Group
20-5039854	Chesapeake Neuroinstitute, LLC
63-1242196	Chesapeake Diagnostic Imaging Center, LLC
54-1513749	First Meridian Medical, LLC
54-2003078	Positron Emission Tomography of Hampton Roads

Chesapeake Hospital Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over the major federal program:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for the major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☒ yes ☐ no

Identification of the major federal program:

Assistance Listing Number(s)

93.498

Name of Federal Program or Cluster

COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

Chesapeake Hospital Authority

Schedule of Findings and Questioned Costs Year Ended June 30, 2023

Section II - Financial Statement Findings

There are no audit findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS).

Section III - Federal Award Findings and Questioned Costs

2023-001 - Reporting - Submission of the Data Collection Form

Identification of the Federal Program:

93.498 COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution Program

Criteria: In accordance with 2 CFR Section 200.512(a), the audit must be completed and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period, adjusted for any extensions permitted by the Office of Management and Budget.

Condition: The reporting package and data collection form for the year ended June 30, 2023, were not filed by the deadline of March 31, 2024, to the Federal Audit Clearinghouse.

Cause: Although the schedule and notes thereto were prepared accurately and timely, additional time was required to comply fully with reporting on, and audit of, compliance requirements of the federal award programs.

Effect: The reporting package and data collection form for the year ended June 30, 2023, were not submitted to the Federal Audit Clearinghouse in a timely manner.

Questioned Costs: None.

Context: The reporting package and data collection form for the year ended June 30, 2023, were submitted to the Federal Audit Clearinghouse after the due date of March 31, 2024.

Repeat Finding: Yes.

Recommendation: We recommend the Authority continue to refine policies, procedures and internal controls, including tracking and monitoring of reporting requirements, to ensure that the audit, reporting package, and data collection form are electronically filed with the Federal Audit Clearinghouse within the applicable deadline.

View of Responsible Officials: The Authority's management agrees with the federal award finding identified in the audit. Management's response to this finding is described in the accompanying management's corrective action plan.

Management's Section

Summary Schedule of Prior Audit Findings

2022-001 - Internal Controls over Allowable Costs

Identification of the Federal Program:

93.498 COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution Program

Prior Year Finding:

During our audit of nonpayroll expenditures charged to the PRF Program, we noted that a total amount of \$28,018 of professional service expenses was included twice in the total federal expenditures reported within the PRF Program. As such, the PRF Program's total nonpayroll expenditures was overstated by \$28,018 while the lost revenue claimed was understated by the same amount, wherein the net impact is zero.

Current Year Status:

This finding has been corrected in December 2024.

2022-002 - Reporting - Submission of the Data Collection Form

Identification of the Federal Program:

93.498 COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution Program

Prior Year Finding:

The reporting package and data collection form for the year ended June 30, 2022, were not filed by the deadline of March 31, 2023, to the Federal Audit Clearinghouse.

Current Year Status:

Finding was not fully remediated as of June 30, 2023 and is part of finding 2023-001.

Management's Corrective Action Plan

2023-001 - Reporting - Submission of the Data Collection Form

Individuals Responsible for Corrective Action Plan:

J. Neal Bolton, Director of Revenue Management & Budget

Shemaine Rose, Controller

Anticipated Completion Date: December 2024

Management acknowledges that the reporting package and data collection form for the year ended June 30, 2023, was not filed with the Federal Audit Clearinghouse on or before the deadline of March 31, 2024. Management maintains that appropriate schedules and notes thereto were prepared accurately and timely, and that the delay was due primarily to the unique nature of Provider Relief Funds being reported, which resulted in evolving compliance requirements over the funding and reporting periods.

Management will file the reporting package and data collection form immediately upon completion and will continue to monitor and adhere to future Federal compliance updates to prevent such delays in the future.