UNIVERSITY OF VIRGINIA MEDICAL CENTER

Report on the Audit for the Fiscal Year Ended June 30, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the University of Virginia's Medical Center (Medical Center) for the year ended June 30, 2015, with comparative information for the year ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

The Medical Center is one of the three operating divisions of the University of Virginia. The Executive Vice President, Health Affairs of the University of Virginia provides overall leadership and management of the Medical Center. The Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a 612 licensed bed hospital with a state designated Level 1 trauma center located on the Charlottesville campus. The Medical Center also has a 40 licensed bed Transitional Care Hospital located west of the Charlottesville campus. In addition, primary and specialty care are provided at clinic locations throughout central Virginia communities.

Financial Highlights

	2015	2014
Operating revenues	$ 1,509.0	$ 1,314.6
Operating income	$ 95.6	$ 87.6
Net non-operating revenue	21.5	57.2
Net income	$ 117.1	$ 144.8
* millions		

At the end of fiscal year 2015, the operating income was $95.6 million, compared to fiscal year 2014 operating income of $87.6 million. The current fiscal year performance resulted from an increase in demand for inpatient and outpatient care services, further limited by significant increases in supply and pharmaceutical expense as compared to fiscal year 2014.

The operating income in fiscal year 2015 reflects day-to-day operations. In addition, during fiscal year 2015, the Medical Center experienced an increase in inpatient and outpatient demand and a higher case mix index as compared to fiscal year 2014.

Net non-operating revenue decreased by $35.7 million from fiscal year 2014 to fiscal year 2015. Due to unfavorable conditions in United States capital markets, investment income (both realized and changes in fair market value) decreased by $45.4 million from fiscal year 2014 to fiscal year 2015. However additional increases in gifts and investment income, totaling $18.3 million from fiscal year 2014 to fiscal year 2015 helped to offset the overall decrease in net non-operating revenue. Also included in non-operating revenue are others items such as gainsharing with the School of Medicine, earnings from affiliates, loss on disposal of assets, interest payments, and other transfers to operating units of the University of Virginia. The sum of these other items is to increase net non-operating revenue by $5.6 million from fiscal year 2014.

Financial Statements

The Medical Center's financial report includes three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*, GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, and with the Financial Accounting Standards Board requirements for Health Care Organizations.

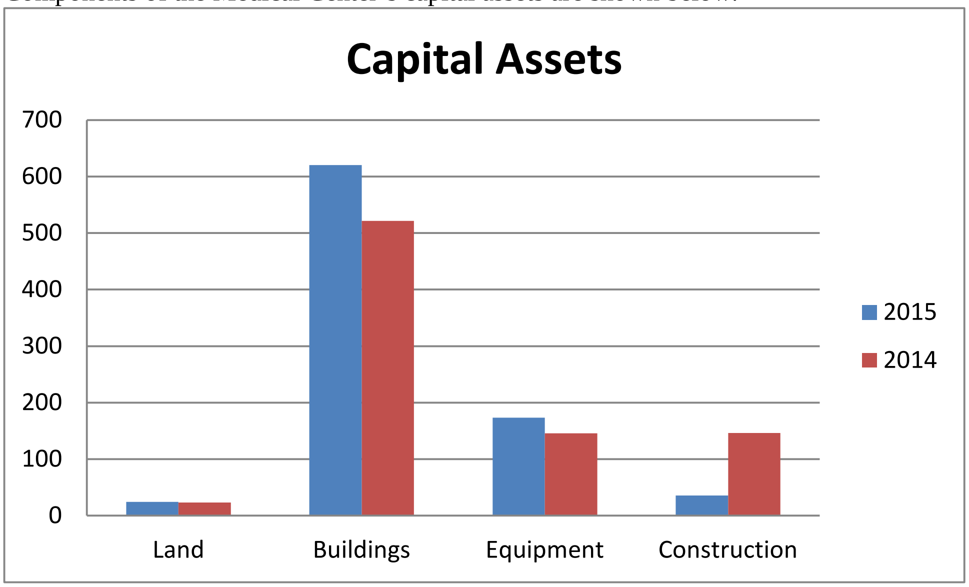
The Statement of Net Position presents the financial position of the Medical Center at the end of the fiscal year, including all assets and liabilities of the Medical Center. Net position is the difference between total assets and total liabilities and is one of the indicators used to evaluate the current financial condition of the Medical Center. In contrast, the change in net position indicates whether the overall financial condition improved or worsened during the year. Shown below is a summary of the Medical Center's Statements of Net Position.

	Statement of Net Position			
	As of June 2015 and June 2014			
			Increase(Decrease)	
	2015	2014	Amount	Percent
Assets and deferred outflows:				
Current assets	$ 587.0	$ 493.0	$ 94.0	19.1%
Capital assets	898.1	836.7	61.3	7.3%
Other non-current assets	859.6	899.9	-40.2	-4.5%
Deferred outflows	5.2	-	5.2	
Total assets and deferred outflows	$ 2,349.9	$ 2,229.6	$ 120.2	5.4%
Liabilities and deferred inflows:				
Current liabilities	305.3	294.6	10.7	3.6%
Non-current liabilities	577.6	502.0	75.6	15.1%
Deferred inflows	15.7	-	15.7	
Total liabilities and deferred inflows	898.6	796.6	102.0	12.8%
Net position				
Net investment in capital assets	486.5	423.2	63.3	15.0%
Restricted for				
Nonexpendable	53.1	53.1	0.0	0.0%
Expendable	35.1	48.0	-12.9	-26.9%
Unrestricted	876.6	908.7	-32.1	-3.5%
Net Position	$ 1,451.3	$ 1,433.0	$ 18.4	1.3%
*-in millions				

During fiscal year 2015, the Medical Center's financial position remained positive. While net position increased $94.1 million, primarily due to a consistent operating income and the gift income recognized for the Battle Building, as a result of the adoption of GASB 68, *Accounting and Financial Reporting for Pensions*, a net position adjustment of $75.9 million, resulting in a net increase in net position of $18.4 million.

The value of capital assets net of depreciation increased $61.3 million from the prior fiscal year. Major projects in fiscal year 2015 include the completion of the Battle Building, and continued renovation of multiple patient care units in the Hospital.

Components of the Medical Center's capital assets are shown below:



*in millions

Total liabilities and deferred outflows increased by $102.0 million primarily due to GASB 68, which requires the Medical Center and other state agencies to carry the net pension liability for those employees covered under the Virginia Retirement System, $75.9 million, as well the additional $45 million liability the Medical Center incurred for acquiring the remaining 51% of Culpeper Regional Hospital. And finally, a reduction of current payables and debt of $7 million.

Statement of Revenues, Expenses and Changes in Net Position

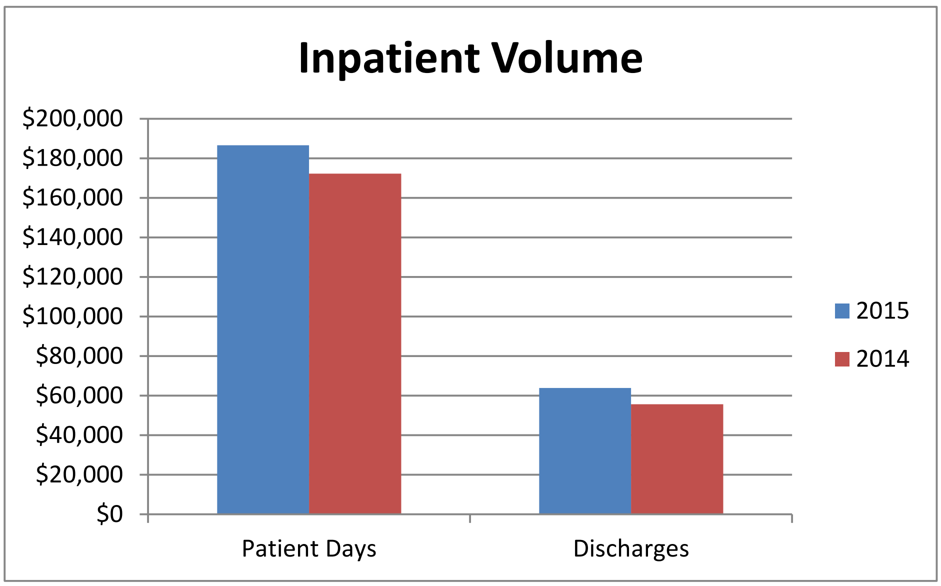
Changes in total net position as presented in the Statements of Net Position is based on activity shown in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of these statements is to present the Medical Center's operating and non-operating revenues and expenses and any other revenues, expenses, gains, and losses. A summarized comparison of revenues, expenses and other changes in net position for the years ended June 30, 2015 and 2014 is as follows:

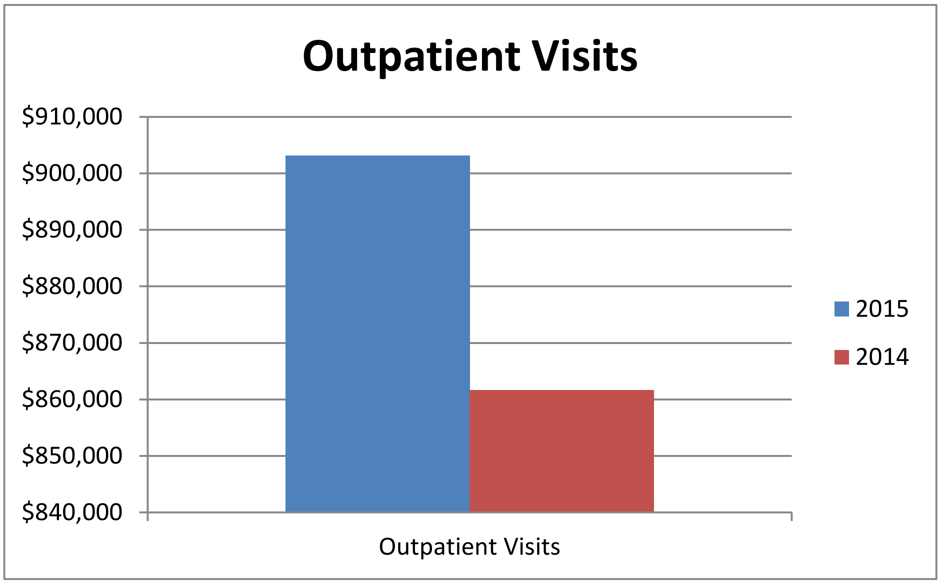
	Statement of Revenues, Expenses and Changes in Net Position			
	For the years ended June 30, 2015 and 2014			
			Increase(Decrease)	
	2015	2014	Amount	Percent
Net patient service revenue	$1,428.7	$1,237.2	$191.6	15.5%
University allocations	33.8	28.3	5.5	19.6%
Other	46.5	49.2	-2.7	-5.5%
Total operating revenue	1,509.0	1,314.6	194.4	14.8%
Salaries and benefits	620.4	537.2	83.3	15.5%
Other operating expenses	793.0	689.8	103.1	14.9%
Total operating expenses	1,413.4	1,226.9	186.5	15.2%
Operating income	95.6	87.6	8.0	9.2%
Non-operating income	21.5	57.2	-35.8	-62.5%
Income before other revenue and transfers	117.1	144.8	-27.7	-19.1%
Transfers to UVA	-23.0	-8.4	-14.5	172.5%
Increase in net position	94.2	136.3	-42.1	-30.9%
Net position-beginning of year	1,433.0	1,296.7	136.3	10.5%
Prior period net position adjustment	-75.9	0.0	-75.9	0.0%
Net position-beginning of year, adjusted	$ 1,357.1	$ 1,296.7	$ 60.4	4.7%
Net position-end of year	$ 1,451.3	$ 1,433.0	$ 18.3	1.3%
*-in millions				

Operating Revenue

Total operating revenue for fiscal year 2015 was 14.8 percent above prior year. Contributing to the increase in net patient service revenue were adjusted discharges increased by 7.7 percent and outpatient visits increased by 4.8 percent. As part of the Medical Center's Strategic Plan there has been focused efforts to grow patient activity throughout Central Virginia expanding the Medical Center's primary service areas and to increase the number of patients that come to the Medical Center from secondary service areas. The Medical Center has negotiated annual payment increases with managed care companies and receives annual payment updates from the Medicare program.

It has been widely reported that due to the current unemployment rates and slow economic growth indigent care has been increasing across the nation. For fiscal year 2015, indigent care has totaled $269.5 million, which is 5.8 percent of gross revenue. Unlike most other hospitals, the Medical Center receives cost- based payments from a combination of State and Federal dollars to pay the Medical Center and its Faculty. However, the trend in indigent care and issues with the State budget and healthcare reform are reasons for concern as we look to future years.



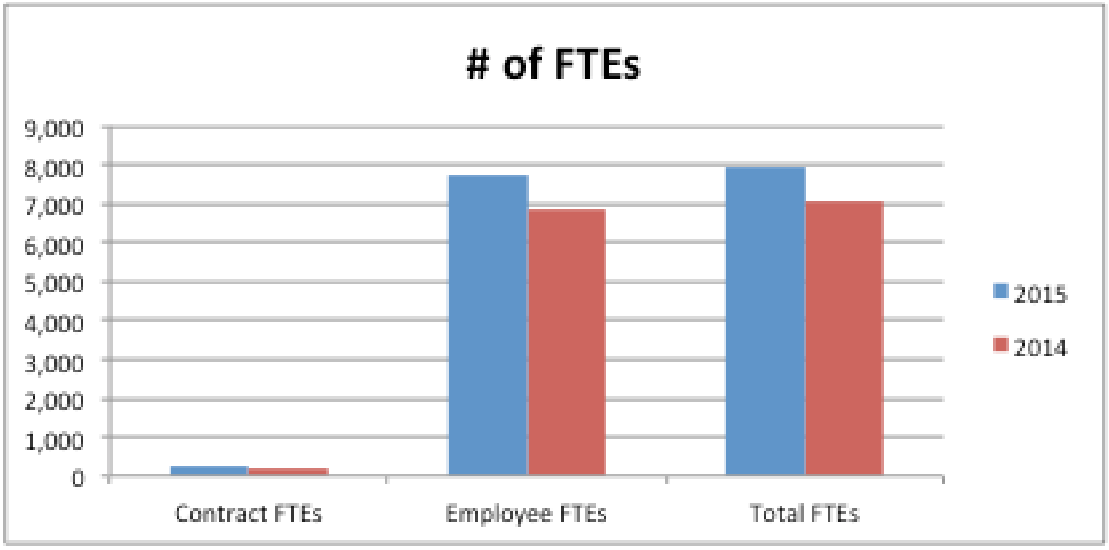


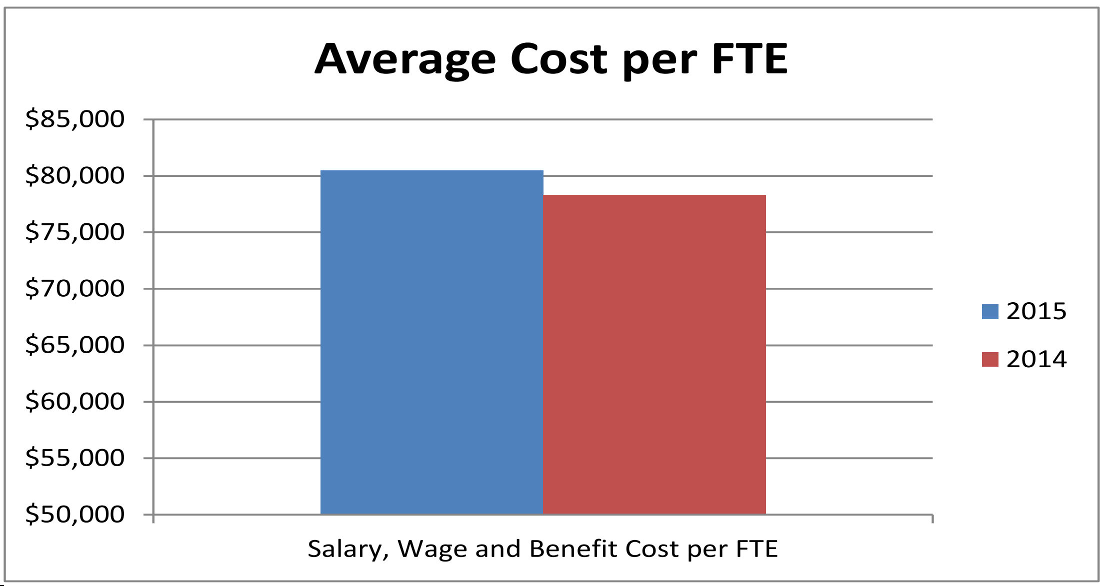
Operating Expenses

Total operating expenses for fiscal year 2015 were 15.2 percent above the prior year.

Total labor expenses (including salaries and wages, fringe benefits and contract labor) grew 15.5 percent as compared to fiscal year 2014. The Medical Center continues an ongoing, collaborative effort to increase staffing levels to meet patient demand and to adjust employee compensation to remain market competitive.

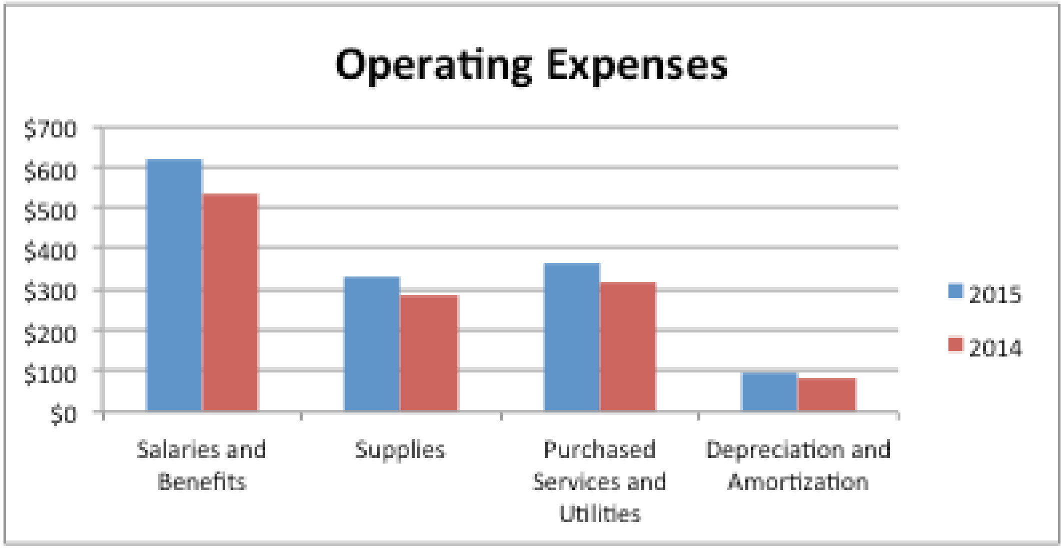
Total paid employees, including contracted employees, are summarized below:





Other operating expenses rose 14.9 percent from the prior year, primarily due to contractual increases in purchased services, continuing inflationary pressures from suppliers of pharmaceuticals and medical supplies, depreciation and utilities.

* in millions



Statement of Cash Flows

The Statement of Cash Flows provides additional information about the Medical Center's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2015 and 2014 is as follows:

Statement of Cash Flows
For the years ended June 30, 2015 and 2014

			Increase(Decrease)	
	2015	2014	Amount	Percent
Cash flows from operating activities	$ 178.8	$ 205.7	$ (27.0)	-13.2%
Cash flows from non-capital financing activities	6.5	11.2	(4.7)	-42.2%
Cash flows from capital and related financing activities	(202.8)	(124.5)	(78.4)	63.0%
Cash flows from investing activities	53.6	(32.5)	86.1	-264.8%
Net increase(decrease) in cash and cash equivalents	36.0	59.9	(23.9)	-39.9%
Cash and cash equivalents-beginning of the year	285.5	225.5	59.9	26.6%
Cash and cash equivalents-end of the year	$321.5	$285.5	$36.0	12.6%

* in millions

The cash generated from operating activities decreased by 13.2% percent from fiscal year 2014 to fiscal year 2015 as a result of increases in salaries, medical supplies and pharmaceuticals.

Cash flows from non-capital financing activities decreased $4.7 million from fiscal year 2014. During fiscal year 2015, the Medical Center received $7 million less gift funds and paid Buchanan grants of $3.0 million more than previous year.

Cash used for capital and related capital activities increased $78.4 million in fiscal 2015. The primary reason for the increase is the Medical Center did not acquire any debt at the end of fiscal year 2015, while decreasing the amount spent for capital by $10.7 million. In addition, interest expense and principal payments decreased by $3.8 million from the previous year.

Economic Factors Affecting the Future

Since 1996, Medicare has implemented several initiatives to prevent improper payments to health care providers. The latest such initiative is Recovery Audit Contractors. The overall goal is to reduce payments due to billing errors. Recovery Audit Contractors are private companies with whom Medicare has contracted to perform audits. The Recovery Audit Contractor has recently begun work with Virginia providers including the Medical Center. To prepare for the Recovery Audit initiative a multidisciplinary team consisting of Audit, Compliance, Medical Records, Revenue Cycle and Finance leaders in the Medical Center have built tools and workflows to support this process.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in March 2010. The two Acts provide for a number of changes that will affect the health care industry over the next decade. The regulations to implement the Acts are beginning to take effect; however, the substantive portions of the Acts were deferred until 2014. The impact on the Medical Center cannot be known at this time but rather will emerge over the next three years.

Another factor is the expansion of Medicaid in the Commonwealth. If Medicaid is not expanded in Virginia there is potential for significant negative impacts to the Medical Center’s net patient service revenues.

FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET POSITION
As of June 30, 2015
With Comparative Amounts as of June 30, 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 311,391,305	$ 262,474,665
Accounts receivable, net of estimated uncollectibles of $425,589,368 at June 30, 2015 and $402,898,456 at June 30, 2014	233,115,231	197,278,526
Due from University of Virginia	248,329	291,265
Inventories and prepaid expenses	42,152,699	32,956,508
Notes receivable	4,030	8,010
Total current assets	586,911,595	493,008,973
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	10,080,379	22,983,460
Investments in pooled endowment funds (Note2)	569,387,993	539,927,873
Goodwill (Note 3)	12,678,051	10,682,775
Investments (Note 2)	146,589,119	139,976,971
Investments in affiliated companies (Note 4)	24,696,793	72,777,257
Land (Note 5)	24,220,370	23,018,495
Contruction in Progress (Note 5)	35,744,241	146,494,613
Depreciable land improvements, buildings, and equipment, less accumulated depreciation/amortization of $915,786,928 at June 30,2015 and $778,178,705 at June 30, 2014 (Note 5)	838,099,881	667,231,962
Assets whose use is limited:		
Investments (Note 2)	53,786,474	69,899,024
Due from the University of Virginia - non current	42,427,746	43,646,988
Total noncurrent assets	1,757,711,045	1,736,639,418
Deferred outflows of resources (Note 16)	5,245,179	-
Total assets and deferred outflows of resources	$ 2,349,867,819	$ 2,229,648,391

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET POSITION
As of June 30, 2015
With Comparative Amounts as of June 30, 2014

	2015	2014
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	$ 180,125,361	$ 155,647,789
Due to third-party payors	85,212,656	73,239,256
Current installments of long-term debt (Note 8)	18,688,676	17,342,946
Grants payable - current portion	1,068,434	2,548,814
Due to Culpeper Regional Hospital-current	16,944,194	23,397,069
Unearned Revenue	3,291,269	22,427,487
Total current liabilities	305,330,590	$ 294,603,361
Long-term liabilities:		
Long-term debt (Note 8)	472,411,833	492,457,859
Grants payable - noncurrent portion	40,659,917	7,572,718
Net Pension Liability (Note 16)	62,919,000	
Noncontrolling Interest in Subsidiary	1,626,718	1,992,323
Total long-term liabilities	577,617,468	502,022,900
Deferred inflows of resources (Note 16)	15,660,000	-
Total liabilities and deferred inflows of resources	898,608,058	796,626,260
NET POSITION		
Net investment in capital assets	486,411,635	423,188,092
Restricted for		
Nonexpendable	53,099,192	53,099,192
Expendable	35,134,661	48,037,742
Unrestricted	876,614,273	908,697,103
Net position	1,451,259,761	1,433,022,130
Total liabilities, deferred outflows and net position	$ 2,349,867,819	$ 2,229,648,391

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
As of June 30, 2015
With Comparative Amounts as of June 30, 2014

	2015	2014
Operating revenue:		
Net patient service revenue (Note 10)	$1,428,735,590	$1,237,157,489
University allocations (Note 11)	33,782,117	28,259,526
Other	46,459,277	49,173,091
Total operating revenue	1,508,976,984	1,314,590,107
Operating Expenses:		
Salaries and wages	488,091,250	424,692,805
Fringe benefits	132,277,428	112,483,933
Supplies	331,891,094	287,465,340
Purchased services and other expenses	338,476,881	293,677,321
Utilities	26,841,680	25,443,566
Provision for depreciation and amortization	95,815,845	83,259,684
Total operating expenses	1,413,394,179	1,227,022,648
Income from operations	95,582,805	87,567,459
Nonoperating revenue (expenses):		
Gifts	24,573,822	6,232,773
Investment income	11,206,685	9,771,401
Net increase (decrease) in the fair value of investments	30,325,360	76,029,494
Net gain (loss) from investments in affiliated companies (Note 4)	8,604,308	1,873,230
Noncontrolling Interest in Subsidiary Income	(2,139,653)	(1,811,205)
Interest expense	(20,448,945)	(14,651,892)
Loss on disposal of fixed assets	150,022	(3,343,483)
Gain Sharing School of Medicine (Note 12)	(11,206,744)	(10,490,992)
Other	(19,528,735)	(6,402,021)
Net nonoperating revenues	21,536,120	57,207,305
Income before other revenues, expenses, gains or losses	117,118,925	144,774,764
Transfers	(22,973,294)	(8,431,579)
Increase (decrease) in net assets	94,145,631	136,343,185
NET POSITION		
Net position - beginning of year	1,433,022,130	1,296,678,945
Prior period net position adjustment (Note 1N)	(75,908,000)	
Net position-beginning of the year, adjusted	1,357,114,130	
Net position - end of year	1,451,259,761	1,433,022,130

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF VIRGINIA MEDICAL CENTER

STATEMENT OF CASH FLOWS

As of June 30 2015

With Comparative Amounts as of June 30 2014	2015	2014
Cash flows from operating activities:		
Receipts from patients and third-parties	$ 1,421,277,134	$ 1,249,670,679
Receipts from other revenue	31,067,018	62,390,075
Payments to employees	(620,959,772)	(527,303,756)
Payments to suppliers	(625,765,465)	(553,594,677)
Payment for utilities	(26,841,680)	(25,443,566)
Net cash provided by operating activities	178,777,235	205,718,756
Cash flows from non-capital financing activities:		
Payments on grants	1,019,620	(1,240,896)
Gifts	5,437,604	12,445,539
Net cash provided (used) by non-capital financing activities	6,457,224	11,204,643
Cash flows from capital and related financing activities:		
State appropriation for construction		
Purchase of capital assets	(163,845,375)	(174,585,415)
Principal paid on capital debt	(18,277,766)	(27,891,161)
Principal paid on capital leases	(683,378)	(670,810)
Interest paid on capital debt	(20,466,067)	(14,655,599)
Proceeds from incurring loan from the University	261,095	93,001,501
Proceeds (increase) to capital leases		
Proceeds from sale of capital assets	193,305	348,889
Net cash used by capital and related financing activities	(202,818,186)	(124,452,595)
Cash flows from investing activities:		
Interest on investments	5,459,777	8,703,501
Sale of investments	16,112,550	(3,232,997)
Other	(20,935,332)	(26,369,076)
Transfer to affiliate	49,093,911	455,582
Payment affiliate	3,866,381	(12,097,613)
Net cash provided by investing activities	53,597,287	(32,540,603)
Net increase in cash and cash equivalents	36,013,559	59,930,201
Cash and cash equivalents - beginning of the year	285,458,125	225,527,924
Cash and cash equivalents - end of the year	$ 321,471,684	$ 285,458,125
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 95,582,805	$ 87,567,459
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	95,815,845	83,259,684
Pension expense	2,671,000	
Change in assets and liabilities		
Accounts receivables	(23,816,390)	(17,969,465)
Inventories and prepaid expenses	(9,196,191)	(3,998,436)
Deferred outflows of resources	(5,245,180)	
Accounts payable and accrued expenses	22,965,346	56,859,514
Net cash provided by operating activities	$ 178,777,235	$ 205,718,756

The accompanying Notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Mission

The Medical Center is a division of the University of Virginia. The Medical Center's mission is to provide excellence, innovation, and superlative quality in the care of patients, the training of health professionals, and the creation and sharing of health knowledge within a culture that promotes equity, diversity and inclusiveness. Only those activities directly associated with the furtherance of this mission are considered to be operating activities. Other activities that result in gains or losses unrelated to the Medical Center's primary mission are considered to be non-operating.

A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth.

B. Basis of Accounting

The Medical Center has adopted the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) for providers of healthcare services.

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities.*

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Subsidiary and Affiliated Companies

The consolidated financial statements include the accounts of the following controlled subsidiary companies where ownership is greater than 50 percent.

University of Virginia Imaging, LLC

On March 26, 2002, the Medical Center entered into an agreement with Outpatient Imaging Affiliates of Virginia, LLC to establish University of Virginia Imaging, LLC (UVI). The limited liability corporation was formed to operate an outpatient diagnostic imaging center to help respond to the need for radiology services in the Charlottesville area.

The Medical Center currently operates an outpatient imaging department offering MRI, plain film radiography, fluoroscopy, and ultrasound in office space at the Fontaine Research Park, Transitional Care Hospital, and the Zions Crossroads facility. UVI provides services to outpatients from the Medical Center's primary and secondary service areas.

Since the Medical Center owns 80 percent of UVI, its financial activity is presented under the consolidation method.

Community Medicine, LLC

On November 14, 2000, the University established the Community Medicine University of Virginia, LLC (Community Medicine). Community Medicine was established as a limited liability corporation (LLC) under the laws of the Commonwealth to house physician practices. This model gives physicians an organizational structure that allows them the opportunity to practice independently in a virtual private practice environment with all the risks and gains associated with an independent model. As an LLC, which is a wholly owned subsidiary of the University, Community Medicine is considered a disregarded entity for tax purposes and its financial activity is accounted for under the consolidation method.

Community Medicine commenced operations on July 1, 2001 and the Medical Center's investment totaled $1,810,000.

Hematology Oncology Patient Enterprises, Inc.

The Medical Center purchased Hematology Oncology Patient Enterprises, Inc. (HOPE) on July 15, 2012 for $15,000,000. HOPE is wholly owned by the Medical Center, and is comprised of the following clinics: Pantops, Farmville, Culpeper, and Augusta. The purchase was the cornerstone of forming UVA HOPE Cancer Care which is a network of doctors and nurses who deliver high quality cancer treatment throughout the region. The physicians at HOPE explore all treatment with a patient focused approach using the latest medical, surgical, and radiological therapies along with support therapies, massage, nutrition, mind and body medicine, naturopathy and spiritual wellness.

Culpeper Hospital

On December 31, 2008, the University of Virginia Medical Center and Culpeper Regional Hospital entered into a partnership agreement, whereby the Medical Center obtained a 49 percent interest in Culpeper Regional Hospital, with a $41.2 million investment. The Medical Center used the equity method of consolidation in order to reflect the Medical Center's investment in Culpeper Regional Hospital until September 30, 2014.

On October 1, the Medical Center acquired the remaining 41 percent of Culpeper Regional Hospital for $45,000,000, providing the Culpeper and surrounding communities a new level of care that includes expanded services and greater access to specialty providers. Culpeper Regional Hospital is a 60-bed community hospital providing primary care, as well as specialty services in orthopedics, cardiology, and cancer. Effective October 1, 2014, the Medical Center accounts for Culpeper Hospital using the consolidation method of accounting.

Investments in affiliates in which the Medical Center has substantial interest (approximately 20 to 50 percent), or for which the Medical Center exercises significant influence, but not control, over policy decisions are accounted for by the equity method and are described in Note 4.

E. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. Net patient service revenue also includes funds from the Commonwealth's Department of Medical Assistance Services for disproportionate share and indirect medical education payments and funds from third-party payers for estimated retroactive adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

F. Indigent Care

The Medical Center accepts all patients regardless of their ability to pay. A patient is classified as indigent by reference to established Commonwealth policies. The criteria for identifying indigent patients is based on asset and income guidelines that are updated annually in accordance with the federal poverty income guidelines as provided by the federal Office of Management and Budget. Because the Medical Center does not pursue collection of amounts determined to qualify as indigent care, they are not reported as revenue.

G. Receivables From Third Parties and Contractual Adjustments

A significant portion of the Medical Center's services is rendered to patients covered by Medicare, Medicaid, or other third-party payers. The Medical Center entered into contractual agreements with these third parties to accept payment for services in amounts less than scheduled charges.

Certain annual settlements of amounts due for patient services covered by third parties are determined through cost reports that are subject to audit and retroactive adjustment by the third parties. Provisions for possible adjustments of cost reports have been estimated and reflected in the accompanying financial statements. Since the determination of cost reimbursement settlements of amounts earned in prior years has been based on reasonable estimation, the difference in any year between the originally estimated amount and the final determination is reported in the year of determination.

H. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash and all highly liquid investments with maturity of three months or less when purchased. Donated investments are reported at the fair market value at the date of receipt. The major portion of the investments of the Medical Center's endowment funds is pooled under the University of Virginia Growth and Income

Fund, the general endowment pool for the University. Annually, endowment earnings on the consolidated endowment pool are distributed to the participating funds based on the participating share of each fund in the pool.

Investments are carried at fair value as determined by quoted market prices. Unrealized appreciation or depreciation of investments is included in the current period net of earnings. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

I. Inventories

Inventories are valued at the lower of cost, generally determined on the weighted average method, or market and consist primarily of expendable supplies held for consumption.

J. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, or if donated, at fair market value at the date of donation. The Medical Center capitalizes expenditures for equipment costing $2,000 or more and having a useful life of two years or greater in accordance with the *Medicare Reimbursement Manual*.

Depreciation on property, plant, and equipment, excluding land and construction-in-progress, is computed over the estimated useful lives of the assets using the straight-line method. The general range of estimated useful lives is 10 to 40 years for buildings and fixtures and 3 to 20 years for equipment.

The Medical Center utilizes the half-year convention for recognizing depreciation expense related to equipment, both fixed and moveable. A half-year of depreciation is recognized on all equipment in the fiscal year of acquisition. Likewise, a half-year of depreciation is recognized in the fiscal year at the end of the equipment's useful life. Depreciation on buildings is recognized from the date that the asset is placed in service to the date on which it is retired.

K. Accrued Leave

The amount of leave earned, but not taken by salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of June 30, all earned leave not taken and the amount payable under the catastrophic leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or $5,000 per employee with five or more years of service. The liability is based on the probability that an employee with less than five years of service will eventually become vested and has a right to receive payment for sick leave benefits. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value.

M. Comparative Data

The basic financial statements include certain prior year summarized comparative information, in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the Medical Center's financial statements for the year ended June 30, 2014, from which the summarized information is derived. In addition, the summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement 68 for the 2014 financial statements to be comparative with the 2015 financial statements. The information is not available for prior years.

N. Restatement of Net Position

NET POSITION		
The following prior period adjustments were made to the beginning net position previously reported in the Medical Center's financial statements at June 30, 2014		
Net position as originally stated at June 30, 2014	$	1,433,022,130
Change in reporting for the implementation of GASB 68, Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions made Subsequent to the Measurement Date:		
Net Pension Liability		(79,766,000)
Deferred outflows-Medical Center's contributions made during fiscal year 2014		3,858,000
Total prior period adjustment		(75,908,000)
Net position restated at June 30, 2014	$	1,357,114,130

O. Deferred Inflows and Outflows of Resources

Deferred outflows of resources are the consumption of net assets applicable to a future reporting period and have a positive effect on net position similar to assets. Deferred inflows are the accumulation of net assets applicable to a future reporting period and have a negative effect on net position similar to liabilities.

P. Net Position

The Medical Center's net position is required to be classified for accounting and reporting purposes into the following categories:

Net Investment in Capital Assets. This category represents all of the Medical Center's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted. The Medical Center classifies the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose, or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by the Medical Center, is classified as nonexpendable net position.

This includes the corpus portion (historical value) of gifts to the Medical Center's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested.

Expendable. The Medical Center's net position subject to externally imposed restrictions that can be fulfilled by actions of the Medical Center pursuant to those restrictions or that expire by the passage of time is classified as expendable net position. This includes net appreciation of the Medical Center's permanent endowment funds that has not been stipulated by the donor to be reinvested permanently.

Unrestricted. The net position that is neither restricted nor invested in capital assets, net of related debt, is classified as unrestricted net position. The Medical Center's unrestricted net position may be designated for specific purposes by the Board. Substantially all of the Medical Center's unrestricted net position is allocated for academic and research initiatives or programs, for capital programs, or for other purposes.

Expenses are charged to either restricted or unrestricted net position based on a variety of factors, including consideration of prior and future revenue sources, the type of expenditure incurred, the Medical Center's budgetary policies surrounding the various revenue sources, and whether the expense is a recurring cost.

Q. Eliminations

Certain Medical Center operations provide goods and services to internal customers. These Medical Center operations include activities such as wholly owned clinics, and hospitals. The net effect of these internal transactions has been eliminated in the Statement of Revenues, Expenses, and Changes in Net Position to avoid inflating revenues and expenses.

2. CREDIT RISK UNDERLYING CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, Cash Equivalents and Investments:

The following risk disclosures are required by GASB Statement Number 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements* as amended by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Medical Center has no category 3 deposits or investments for 2015.

Credit risk – The credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk. The Medical Center does not have any credit risk.

Concentration of credit risk - The risk of loss attributed to the magnitude of a governments investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than five percent of the Medical Center investments are in the University of Virginia Growth and Income Fund. The Medical Center investments are 100 percent invested in the University of Virginia Growth and Income Fund.

Interest rate risk - The risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The Medical Center does not have an interest rate risk policy.

Foreign currency risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Medical Center has no foreign investments or deposits for 2015.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2015.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the Medical Center are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the Medical Center are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for Medical Center's deposits. Cash and Cash Equivalents represent cash with the treasurer, cash on hand, certificates of deposit, and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). Cash and Cash Equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Additional disclosures required for cash equivalents under GASB Statement Number 40 are presented with the investments in the following tables.

Investments

The investment policy of the Medical Center is established by the Board of Visitors and monitored by the Board's Finance and Audit Committee. Authorized investments are set forth in the "Investment of Public Funds Act", Sections 2.2-4500 through 2.2-4516, Code of Virginia. Authorized investments include U.S. Treasury and agency securities; corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA rated obligations of foreign governments, bankers' acceptances and bank notes, negotiable certificates of deposit, repurchase agreements, and money market funds.

Investments fall into two groups: short and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Credit and Concentration of Credit Risks

Type of Investment	Fair Value	Credit Rating	Concentration Risk
INVESTMENTS:			
University of Virginia Long Term Pool	$ 569,387,993		100%
Total Investments	569,387,993		
Total Cash Equivalents and Investments	$ 569,387,993		

Interest Rate Risk – Maturities

Type of Investment	<1 year	1-5 years	6-10 years	Total
University of Virginia Long Term Pool	$ 569,387,993			$ 569,387,993
Total investments	$ 569,387,993	$ -		$ 569,387,993

3. GOODWILL

In July 2004, the Medical Center purchased Virginia Ambulatory Surgery Center, (VASI), now known as the University of Virginia Outpatient Surgery Center. As a result of the purchase, the Medical Center recorded $6.9 million of goodwill to be amortized over a period of 40 years.

In November 2004, the Medical Center purchased Amherst and Lynchburg renal facilities. As a result of the purchase, the Medical Center recorded goodwill of $3.4 and $4.0 million, respectively, for the Amherst and Lynchburg facilities. The goodwill is to be amortized over a period of 20 years.

4. AFFILIATED COMPANIES

Central Virginia Health Network, Inc.

In May 1995, the Medical Center joined the Central Virginia Health Network, Inc. (CVHN), a partnership of eight Richmond area hospitals. CVHN was formed to provide an efficient and coordinated continuum of care, with services ranging from acute hospital treatment to primary physician care and home health services.

The Medical Center originally paid $100 for 10,000 shares of common stock and $109,900 as additional paid-in capital. In addition, the Medical Center is obligated for monthly dues to CVHN of $15,913. Complete financial statements can be obtained from the registered agent: Steven D. Gravely, Esq., Mezzullo and McCandlish, Post Office Box 796, Richmond, Virginia 23206.

University of Virginia / HEALTHSOUTH, LLC

The Medical Center entered into a joint venture with HEALTHSOUTH Corporation to establish an acute rehabilitation facility located at the Fontaine Research Park to provide patient services to the region. The Medical Center made a capital contribution of $2.2 million to the joint venture in May 1996, which represents a 50 percent interest. Complete financial statements can be obtained from the managing member: HEALTHSOUTH Corporation, 7700 East Parham Road, Richmond, Virginia 23294.

Valiance Health, LLC

In November 1997, the Medical Center became a participant with Rockingham Memorial Hospital and Augusta Health Care, Inc., in Valiance Health, LLC (Valiance), a joint venture integrating and coordinating the delivery of healthcare services in central and western Virginia. The Medical Center contributed $100,000 in initial capital, which entitles it to a pro-rata distribution of any profits and losses of Valiance. In October 2003, the Medical Center contributed an additional $400,000 in capital to Valiance, bringing the Medical Center's total investment to $500,000.

University Health System Consortium (UHC)

In December 1986, the Medical Center became a member of the University Health System Consortium (UHC). Founded in 1984, UHC is an alliance of the clinical enterprises of academic health centers. While focusing on the clinical mission, UHC is mindful of and supports the research and education missions. The mission of the UHC is to advance knowledge, foster collaboration, and promote change to help members compete in their respective healthcare markets. In keeping with this mission, UHC helps members pool resources, create economies of scale, improve clinical and operating efficiencies, and influence the direction and delivery of healthcare. Accordingly, UHC is organized and operated on a cooperative basis for the benefit of its member health systems as patrons.

UHC is a not-for-profit organization. It is incorporated as a nonstock corporation and designated as a nonexempt cooperative, which is taxable under Subchapter T, section 1382-1388, of the Internal Revenue Code. As such, UHC's bylaws provide for distributions of patronage dividends to its patrons. This allocation is based on the value of business done with or for each patron by UHC. The Medical Center records the portion of the patronage dividends that were held by UHC as patronage equity.

PACE

The Medical Center contributed $245,000 for a 24.5% investment in Charlottesville PACE (Program of All Inclusive Care for the Elderly). The Charlottesville PACE financial transactions will be recorded using the equity method of accounting. The program delivers various medical and support services to senior residents in Charlottesville and surrounding counties. Patients in the program have an alternative to residential nursing home care providing daily access to doctors and physical therapists, home health care, and personal care.

Valley Regional Health and University of Virginia Radiosurgery Center, LLC

The Medical Center entered into a 10 percent minority interest, partnership, with Winchester Medical Center in fiscal year 2014. Winchester Medical Center expanded its cancer program with the addition of stereotactic radiosurgery (SRS) and stereotactic body radiotherapy (SBRT), offered in partnership with the Medical Center. By collaborating with nationally recognized leaders in stereotactic radiosurgery, this advanced non-surgical technology is available to patients in the Winchester and surrounding areas, who would have otherwise had to travel to receive care.

As of June 30, 2015

	Common Stock and Equity Contribution	Share of accumulated income (loss)	Net investment
Central Virginia Health Network, Inc.	$ 232,500	$ (41,026)	$ 191,474
Healthsouth, LLC	$ -	$ 14,790,916	$ 14,790,916
Valiance, LLC	$ -	$ 249,147	$ 249,147
University HealthSystem Consortium	$ -	$ 784,363	$ 784,363
PACE Equity	$ 245,000	$ (228,830)	$ 16,170
Valley Health Regional	$ -	4,861	$ 4,861

HealthCare Partners, Inc.

In May 1995, HealthCare Partners, Inc., a non-stock, non-profit corporation, was established to support networking, external business relationships with neighboring hospitals and physicians groups, and expansion of primary care activities. The Medical Center and the University Physicians' Group are the primary contributors to the funding of the corporation. Healthcare Partners, Inc. is governed by a board of directors composed of the following members: Medical Center Operating Board Chairman, the Chief Executive Officer and Chief Financial Officer of the Medical Center, University Physicians Group representatives, community members, and President appointees.

5. PROPERTY, PLANT, AND EQUIPMENT

A summary of the property, plant, and equipment accounts and the related accumulated depreciation as of June 30, 2015, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 23,018,496	$ 1,201,874		$ 24,220,370
Construction in Progress	$ 146,494,613	$ 34,141,410	$ 144,891,783	$ 35,744,241
Depreciable Capital Assets				
Land improvements	$ 11,344,895	$ 681,487	$ 527,934	$ 11,498,448
Buildings	932,768,238	154,714,816	16,155,857	1,071,327,197
Equipment-Fixed	21,973,216	1,767,302		23,740,518
Equipment-Movable	373,717,115	170,179,217	11,791,205	532,105,127
Total depreciable capital assets	$ 1,339,803,465	$ 327,342,822	$ 28,474,996	$ 1,638,671,291
Less accumulated depreciation				
Land improvements	$ 8,341,098	$ 343,573	$ 929	$ 8,683,742
Buildings	414,362,406	39,678,867	24	454,041,249
Equipment-fixed	17,506,842	1,340,283		18,847,125
Equipment-movable	264,375,604	101,123,660	17,370,380	348,128,884
Total accumulated depreciation	$ 704,585,953	$ 142,486,382	$ 17,371,334	$ 829,701,002
Depreciable land improvements, buildings and equipment, net	$ 635,217,512	$ 184,856,441	$ 11,103,663	$ 808,970,290
Depreciable Intangible Assets	$ 105,607,202	$ 9,610,045	$ 1,728	$ 115,215,519
Less accumulated amortization:				
Intangible Assets	$ 73,592,752	$ 12,493,175		$ 86,085,927
Depreciable intangible assets	$ 32,014,450	$ (2,883,131)	$ 1,728	$ 29,129,591
Total depreciable capital and intangible assets (net)	$ 667,231,962	$ 181,973,310	$ 11,105,391	$ 838,099,881

6. ASSETS HELD BY TRUSTEES

Assets held by trustees consist of assets whose use is limited under indenture agreements. The Series 2008, 2010, 2012, 2013, and 2014 bond resolutions require deposits be made in a specific order to various accounts and funds held by the University of Virginia Internal Loan Program as follows:

A. To the credit of the Interest Account on a monthly basis, the amount of interest due and payable on the first day of the succeeding month with respect to the bonds of each series then outstanding;

B. To the credit of the Principal Account on an monthly basis, the amount sufficient to pay maturing principal of all bonds on the next principal payment date;

C. To the credit of the Sinking Fund Account, the amount sufficient to retire all bonds to be called by mandatory redemption on the next ensuing mandatory redemption date;

D. To the credit of any other fund or account created pursuant to an applicable Series Resolution.

Funds held by the Treasurer and restricted by bond agreements consist of the following as of June 30, 2015:

Bond Sinking Fund-2008	$ -
Bond Sinking Fund-2010A	1,717,616
Bond Sinking Fund-2012A	0
Bond Sinking Fund-2013A	2,782,794
Bond Sinking Fund-2014A	3,239,809
Bond Sinking Fund-2014B	19,422,055
Bond Sinking Fund-2014C	26,624,200

7. ACCOUNTS PAYABLE

As of June 30, 2015, the components of accounts payable and accrued expenses consist of the following:

Accrued leave	$ 33,637,445
Vendor accounts payable	33,012,001
Accrued allotments	28,913,656
Due to the University	23,592,262
Other accounts payable	23,351,824
Other accrued expenses	23,400,359
Accrued payroll	14,217,814
	$ 180,125,361

8. LONG-TERM DEBT

*In thousands

Description	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:							
Series 1999A Pooled Refinance	4.5-5.25	2019	$ 1,895		$ 1,895	$ -	$ -
Series 2012 Pooled	4.75	2032	104,698		3,905	100,793	4,095
Series 2013 Pooled	4.75	2033	17,002		272	16,730	285
Series 2014 Pooled (1)	4.75	2034	15,130		597	14,533	626
Series 2014 Pooled (2)	4.75	2034	12,318		490	11,828	514
Series 2014 Pooled (3)	4.75	2034	27,937			27,937	934
Series 2014 Pooled (4)	4.75	2034	27,557			27,557	-
Series 2014 Pooled (5)	4.75	2034	270,696		9,612	261,084	10,079
						0	
Total bonds payable			477,233	0	16,771	460,462	16,533
Notes payable:							
UVA Imaging			6,222	261	1,506	4,977	1461
Total notes payable			6,222	261	1,506	4,977	1461
Capitalized leases:							
Kirtley			6,464		212	6,252	208
Transitional Care Hospital			19,881		471	19,410	486
Total capitalized leases:			26,345	0	683	25,662	694
Total long-term debt			$509,800	$ 261	$ 18,960	$491,101	$ 18,688

Future Debt Requirements

Fiscal Year	Principal	Interest	Total
2016	$18,688,676	$21,018,887	$39,707,563
2017	22,286,042	21,072,792	43,358,834
2018	20,033,394	20,612,048	40,645,442
2019	20,987,273	19,667,564	40,654,836
2020	21,987,469	18,677,043	40,664,512
2021-2025	126,900,323	76,823,926	203,724,250
2026-2030	160,085,336	43,745,373	203,830,709
2031-2035	84,914,441	9,816,668	94,731,109
2036-2040	10,010,138	4,058,908	14,069,045
2041-2045	4,031,097	3,017,672	7,048,768
2046-2049	1,176,322	6,281,713	7,458,035
	$491,100,509	$244,792,592	$735,893,103

9. FINANCING OF MAJOR CONSTRUCTION AND RENOVATION PROJECTS

The Clinical Office Building at Fontaine Research Park was purchased in April 2004. The Medical Center borrowed $17.6 million from the University's Pooled Bond Program to buy the building and complete its construction. In 2009, the University, through its Pooled Debt Loan Program, issued $4,078,517 to complete construction and fit-out of the 3rd floor of the Fontaine building. The purpose of this building is to expand the outpatient clinic services for the Medical Center.

At the end of fiscal year 2014, the Medical Center acquired financing for the following: the East and South Chiller Plants, the Education Resource Center, and the Emergency Department Expansion. The Medical Center completed both Chiller plants in fiscal year 2015. Additionally, the Medical Center expects to complete the Education Resource Center in fiscal year 2017. And finally, plans for the Emergency Department Expansion continue to evolve as the Medical Center adapts to the needs and demands of its patient population.

10. NET PATIENT SERVICE REVENUE

The Medical Center's patient service revenue is as follows for the year ended June 30, 2015:

Gross patient service revenue:			
Inpatient			
Routine			$457,149,937
Ancillary			1,763,008,715
Outpatient services			
Ancillary			2,331,129,256
Clinics			74,142,098
Total gross patient revenue			4,625,430,007
Allowances for indigent care and			
contractual adjustments			(3,196,694,417)
Net patient service revenue			$1,428,735,590

The Medical Center received $91,704,943 in fiscal year 2014 from the Commonwealth's Department of Medical Assistance Services. These payments are included in net patient service revenue as an adjustment to allowances for indigent care and contractual adjustments.

Of the payment received for disproportionate share, relating to the care provided to indigent patients, $15,900,000 was transferred to Health Services Foundation (currently known as the University Physicians Group) for related physician services and is included in the purchased services expense.

11. UNIVERSITY ALLOCATIONS

The School of Medicine faculty assists the Medical Center in its mission of providing healthcare and medical education. A survey is conducted annually to determine the value of this effort. An allocation is made on the Statement of Revenues, Expenses, and Changes in Net Position to reflect the value of this effort as income. This allocation is offset in the operating expenses by an equal amount in purchased services. The amount of this allocation for fiscal year 2015 was $30,573,053.

Likewise, the University provides the Medical Center with various general and administrative support services. An analysis is prepared annually to determine the cost of providing these services. The same type of allocation as above is made to the Statement of Revenues, Expenses, and Changes in Net Position to reflect the difference between the direct charge to the Medical Center and the actual cost of these services. The amount of this allocation for fiscal year 2015 was $ 3,209,064.

Although these allocations have no direct effect on operating income, they do affect the Medical Center's reimbursement from third-party payers by increasing allowable costs.

12. GAIN SHARING WITH THE SCHOOL OF MEDICINE

Beginning with fiscal year 2003, the Medical Center and the School of Medicine entered into a Memorandum of Understanding for gain sharing. The amount of gain sharing with the School of Medicine is a tiered arrangement based on the Medical Center's income in excess of minimum requirements established by the Board of Visitors. As a result of the Medical Center exceeding the minimum requirements established by the Board of Visitors, for fiscal year 2015, the gain sharing amount is $10,260,416 plus the School of Medicine's income percentage for its ownership in HOPE of $946,328, resulting in a total gainshare amount of $11,206,744.

13. COMMITMENTS

Future minimum lease payments by year and in the aggregate under operating leases are:

Year Ending June 30,		Operating Leases
2016		$ 8,960,732
2017		6,177,905
2018		5,927,797
2019		3,550,346
2020		2,572,884
2021-2025		8,135,320
2026-2030		4,543,363
2031-2035		2,878,364
2036-2040		823,200
2041-2045		823,200
2046-2050		658,560
		0
Total		$45,051,672

The total rental expense for operating leases for the year ended June 30, 2015, was $11,440,156.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2015 totaling $24,881,928 of which $5,595,213was incurred as of June 30, 2015.

14. UNIVERSITY OF VIRGINIA PHYSICIANS GROUP

The University of Virginia Physicians Group (UPG), a nonprofit educational, scientific, and charitable organization, began operating with the approval of the Board of Visitors as of June 30, 1980, to assist the University in providing hospital and medical care services, medical education programs, and programs of public charity at the University. Prior to August 1, 2011, UPG was formerly known as the University of Virginia Health Services Foundation (HSF).

On August 1, 2000, management of 63 outpatient clinics operated by UPG since July 1, 1994, transferred to the Medical Center. At that time, the Medical Center filed for provider-based status with the federal government and became responsible for all costs associated with the operations of these provider-based clinics except for physicians' costs. As of the end of FY15, there were 77 outpatient clinics. On August 1, 2000, the Medical Center entered into leased employment agreements with UPG for limited personnel who remained UPG employees, but were performing Medical Center duties.

The Medical Center recorded $24,918,343 as expense payable to the Physicians Group for the provision of supervisory and administrative services, $32,160,860 for other services which includes expenses related to the Strategic Investment Pool, and $4,050,045 for rental of space for the year ended June 30, 2015. In addition, the Medical Center recorded non-operating expenses of $6,553,576 payable to the Physicians Group. Prior to FY08 this expense had been recorded as supervisory and administrative services.

The Medical Center recorded income from the Physicians Group of $22,447,617 for clinic facility fees and other services, and $354,332 for the rental of space for clinics for the year ended June 30, 2015.

15. RISK MANAGEMENT AND SELF-INSURANCE

The Medical Center is a participant in the Commonwealth's self-insurance program administered by the Department of Treasury, Division of Risk Management. Participation in this program provides the Medical Center with medical malpractice insurance on an occurrence basis with no aggregate limitation and with such limits of coverage equal to the statutory malpractice recovery limits as specified in Section 8.01-581.15 of the Code of Virginia. In the opinion of management, such coverage is adequate to provide for the ultimate liability, if any, which might result from the settlement of claims currently asserted against the Medical Center, as well as the potential liability for medical incidents of which the Medical Center has knowledge, but for which claims have not yet been asserted against the Medical Center. Accordingly, no provision is included in the financial statements for such potential liabilities.

Sufficient information has not been developed by the Medical Center to provide a reasonable basis for estimation of the potential liability for incurred medical incidents, which have not been reported to the Medical Center; however, in the opinion of management, any potential liability for unreported medical incidents is not expected to have a material effect on the financial position of the Medical Center.

The University sponsors a self-funded, comprehensive program of health care benefits. The program covers all employees of the University and the Medical Center. Fringe benefit expenses include estimates for claims that have been incurred, but not reported. Additional information regarding the medical benefits program is available for the entire University only in the University's annual President's Report.

University employees are covered by a self-insured workers' compensation benefits program administered by the Commonwealth's Department of Human Resources. Information regarding this plan is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

Other risk management insurance plans are administered by the Commonwealth's Department of Treasury, Division of Risk Management. Risk management insurance includes property, boiler and machinery, crime, employee dishonesty bond, general (tort) liability, professional liability, aviation and watercraft, and automobile liability. Detailed information relating to this policy is available at the statewide level only in the CAFR

The University is self-insured for the first $100,000 of each property and boiler and machinery loss, and for the first $20,000 of each vehicle physical damage loss. The University also maintains excess crime/employee dishonesty insurance and insurance for vehicle physical damage insurance on vehicles valued in excess of $20,000.

16. RETIREMENT PLANS-VIRGINIA RETIREMENT SYSTEM

Employees of the Medical Center are employees of the Commonwealth. Approximately 10 percent of all full-time classified salaried employees participate in the VRS State Employee Retirement Plan, a defined benefit pension plan administered by the Virginia Retirement System (VRS), along with plans for other employer groups in the Commonwealth of Virginia. The State Employee Retirement Plan is a single employer plan treated as a cost-sharing employer plan for financial reporting purposes. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2
Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit.

five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.		Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1 **<u>Defined Contribution Component:</u>** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	**Service Retirement Multiplier VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non- hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **<u>Defined Benefit Component:</u>** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

		<u>Defined Contribution Component:</u> Not applicable.
Normal Retirement Age **VRS:** Age 65.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age.	**Normal Retirement Age** **<u>Defined Benefit Component:</u>** **VRS:** Same as Plan 2. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable

		service. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **<u>Eligibility:</u>** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **<u>Eligibility:</u>** Same as Plan 1 **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as Plan 2. **<u>Defined Contribution Component:</u>** Not applicable. **<u>Eligibility:</u>** Same as Plan 1 and Plan 2. **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting

VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component:</u>** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan.

This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate for the year ended June 30, 2015. Contributions from the state agency to the VRS State Employee Retirement Plan were $5,245,180 and $3,801,922 for the years ended June 30, 2015 and June 30, 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the state agency reported a liability of $62,919,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The state agency's proportion of the Net Pension Liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the state agency's proportion of the VRS State Employee Retirement Plan was 1.12% as compared to 1.21% at June 30, 2013.

For the year ended June 30, 2015, the state agency recognized pension expense of $2,671,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, the state agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	0	0
Change in assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	0	11,230,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	0	4,430,000
Employer contributions subsequent to the measurement date	5,245,180	
Total	$ 5,245,180	$ 15,660,000

$5,245,180 reported as deferred outflows of resources related to pensions resulting from the state agency's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2016	$ 4,347,000
2017	$ 4,347,000
2018	$ 4,160,000
2019	$ 2,806,000

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long- term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Plan
Total Pension Liability	$ 21,766,933
Plan Fiduciary Net Position	16,168,535
Employers' Net Pension Liability (Asset)	$ 5,598,398
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the state agency for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the state agency's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	**Current Discount Rate (7.00%)**	**1.00% Increase (8.00%)**
State agency's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$92,170,000	$62,919,000	$38,391,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position

is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2014- annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

The University of Virginia Medical Center had a payable of $1,948,046 as of June 30, 2015. This payable is a legally required contribution to the plan.

17. RETIREMENT PLANS-FACULTY OPTIONAL RETIREMENT PLAN

Substantially, all full-time faculty, including certain administrative staff and health care professionals, participate in Faculty Optional Retirement Plans. These are fixed-contribution plans where the retirement benefits received are based upon the employer and employee contributions (all of which are paid by the Medical Center), and the interest and dividends. Individual contracts issued under the plans for full-time faculty, including certain administrative staff, provide for full and immediate vesting of both the Medical Center's and the participant's contributions. Health Care Professional's employer contributions fully vest after one year of employment.

Total pension costs under the plans were $18,586,922 for the year ended June 30, 2015. Contributions to the Optional Retirement Plans were calculated using base salaries of $316,905,294 for the year ended June 30, 2015. The contribution percentage amounted to six percent for the year ended June 30, 2015.

18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program that provides post-employment life insurance benefits to eligible retired and terminated employees. The Medical Center also provides retiree life insurance to certain retirees.

The Commonwealth provides healthcare credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the Commonwealth's health plan. Additionally, some employees receive healthcare credits for participation in the University of Virginia Health Plan. Information related to these plans is available at the statewide level in the CAFR, as well as the University's financial statements.

19. CONTINGENCIES

In August 2015, the Medical Center was informed that the federal government's Center for Medicare Services (CMS) issued notices to Virginia's Department of Medical Assistance Services (DMAS) disallowing $40,830,020 in Disproportionate Share Hospital adjustment payments to DMAS for fiscal years 2006 through 2009. Based on the receipt of final settlements in the years in question, the Medical Center's portion of the loss would be $26,259,150. CMS contends that DMAS inappropriately applied payments against subsequent year allotments. DMAS has appealed this disallowance and any repayment is deferred, pending the appeals resolution. The appeal has not progressed sufficiently to determine whether DMAS will be required to return any payments to the federal program and, if so, whether DMAS will request that any providers, including the Medical Center, return any payments to DMAS. Medical Center management believes the probability of repayment does not meet the criteria as a probable liability.

20. SUBSEQUENT EVENT

On October 30, 2015, The Rector and Visitors of the University of Virginia on behalf of its Medical Center ("UVA") and Novant Health, Inc. ("Novant") entered into an agreement to form a joint operating company effective January 2016 to operate Culpeper Regional Hospital, Inc., Novant Health Haymarket Medical Center, Novant Health Prince William Medical Center, Novant Health Cancer Center at Lake Manassas and other Novant assets as one entity. The joint operating company has two members, UVA and Novant. The equity in the joint operating company will be owned 60% and 40% by Novant and UVA, respectively.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Schedule of University of Virginia Medical Center 's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Year Ended June 30, 2015*

Medical Center's Proportion of the Net Pension Liability (Asset)	1.1239%
Medical Center's Proportionate Share of the Net Pension Liability	$ 62,919,000
Medical Center's Covered-Employee Payroll	49,730,407
Medical Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	126.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

Schedule of Employer Contributions
For the Year Ended June 30, 2015

Plan	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
UVA Medical Center	5,245,180	5,245,180	0	49,526,307	10.59%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013.and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 10, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins Chairman,
Joint Legislative Audit
and Review Commission

Board of Visitors
The University of Virginia

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the **University of Virginia Medical Center**, a division of the University of Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the University of Virginia Medical Center as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Relationship to the University of Virginia

As discussed in Note 1, the basic financial statements of the University of Virginia Medical Center are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the University of Virginia that is attributable to the transactions for the University of Virginia Medical Center. They do not purport to, and do not, present fairly the University of Virginia's overall financial position as of June 30, 2015, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

The University of Virginia Medical Center's basic financial statements for the year ended June 30, 2015, reflect the provisions of the Governmental Accounting Standards Board's (GASB) Statements No. 68 and No. 71, related to pension accounting and financial reporting for employers. The University of Virginia Medical Center implemented the requirements of GASB Statements No. 68 and 71 in accordance with their required effective date. See Note 1 in the accompanying financial statements for the impact of the standard's implementation. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University of Virginia Medical Center's financial statements for the fiscal year ended June 30, 2014, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 5, 2014. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived, it does not include the necessary adjustments for the 2014 financial statements to be comparative with the 2015 financial statements as described in Note 1.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 10, and the Schedule of the University of Virginia Medical Center's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to Required Supplementary Information on pages 54 through 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2015, on our consideration of the University of Virginia's (including the University of Virginia Medical Center) 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 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 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 University of Virginia Medical Center's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

EMS/alh

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