UNIVERSITY OF VIRGINIA MEDICAL CENTER

Report on the Audit for the Fiscal Year Ended June 30, 2018

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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, 2018, with comparative information for the year ended June 30, 2017. 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 600 licensed bed hospital with a State and Magnet designated, Level 1 trauma center, nationally recognized cancer, stroke, and heart centers located on the Charlottesville campus, as well as several primary and specialty clinics throughout Virginia. The Medical Center also has a 40 licensed-bed Transitional Care Hospital located west of the Charlottesville campus.

Financial Highlights

	2018	2017
Operating revenues	$ 1,703.3	$ 1,607.3
Operating income	$ 91.7	$ 99.6
Net non-operating revenue	(14.0)	20.9
Net income	$ 77.7	$ 120.7

* millions

At the end of fiscal year 2018, the operating income was $91.7 million, compared to fiscal year 2017 operating income of $99.6 million. The current fiscal year performance in operating revenues resulted from an increase in demand for inpatient and outpatient care services, a higher patient acuity and case mix index, and an increase in patient days as compared to fiscal year 2017, however increases in revenues experienced offsets by significant increases in salaries, wages and fringe benefits, supply, pharmaceutical, and purchased service expense as compared to fiscal year 2017.

The operating income in fiscal year 2018 reflects day-to-day operations. Contributing factors for higher operating expenses for fiscal year 2018, as compared to fiscal year 2017, were the following: increased traveler nursing FTE's, increased health insurance usage and other benefits besides pensions, medical supply and pharmaceutical inflation and usage.

Net non-operating revenue decreased by $34.9 million from fiscal year 2017 to fiscal year 2018. The Medical Center experienced somewhat favorable conditions in the United States capital markets, investment income (both realized and unrealized) increased by $12.9 million and an increase in affiliate income of $14.1 million from fiscal year 2017 to 2018. However, the Medical Center recognized a $22 million loss on the Fontaine building purchase and an increase in transfers and other nonoperating expenses to the School of Medicine, and University Physicians Group, of $43.3 million. In addition, other factors contributing to the net revenue decrease were as follows: decrease in gifts and an increase in interest expense.

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) and with the Financial Accounting Standards Board (FASB) 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, liabilities, deferred inflows and deferred outflows of the Medical Center. Net position is the difference between total assets, deferred outflows and total liabilities, deferred inflows 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 Statement of Net Position, representing a $16.9M increase.

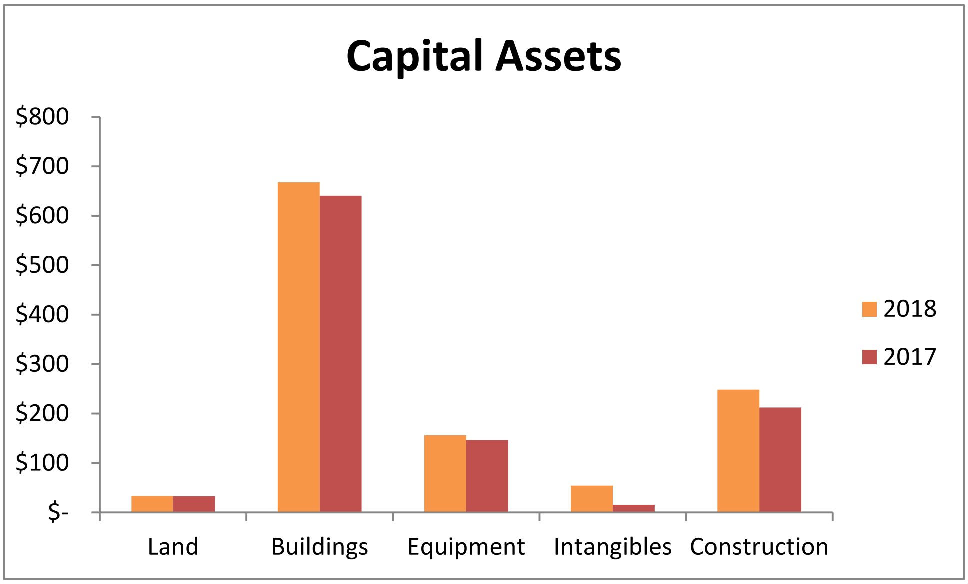
Statement of Net Position
As of June 30, 2018 and June 30, 2017

	2018	2017	Increase(Decrease) Amount	Increase(Decrease) Percent
Assets and deferred outflows:				
Current assets	$ 382.1	$ 383.0	$ (0.9)	-0.2%
Capital assets	1,160.1	1,048.0	112.1	10.7%
Other non-current assets	1,341.9	1,342.8	(0.8)	-0.1%
Deferred outflows	34.7	28.4	6.2	21.9%
Total assets and deferred outflows	$ 2,918.8	$ 2,802.3	$ 116.6	4.2%
Liabilities and deferred inflows:				
Current liabilities	324.5	269.9	54.6	20.2%
Non-current liabilities	990.9	950.6	40.3	4.2%
Deferred inflows	9.4	4.7	4.7	101.7%
Total liabilities and deferred inflows	1,324.8	1225.2	99.6	8.1%
Net position				
Net investment in capital assets	540.6	504.2	36.4	7.2%
Restricted for				
Nonexpendable	53.1	53.1	0.0	0.0%
Expendable	39.1	38.1	1.0	2.5%
Unrestricted	961.3	981.7	(20.4)	-2.1%
Net Position	1,594.0	1,577.1	17.0	1.1%
Total Liabilities, deferred inflows, and net position	$ 2,918.8	$ 2,802.3	$ 116.6	4.2%

During fiscal year 2018, the Medical Center's financial position remained positive. The Medical Center's net position increased, primarily due to a consistent operating income and volumes, vigilant expense management and favorable conditions in the United States capital markets prior to considering the impact of the net position adjustment related to GASB75.

The value of capital assets net of depreciation increased $112.2 million from the prior fiscal year. Major projects during fiscal year 2018 include the Medical Center's hospital emergency room department and bed tower, the purchase and renovation of the Northridge facility, the Fontaine building purchase, 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 inflows increased by $99.7 million, primarily due to the implementation of *GASB 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions,* $77.5 million and an increase in amounts owed to insurance payors of $20.2 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, 2018 and 2017 is as follows:

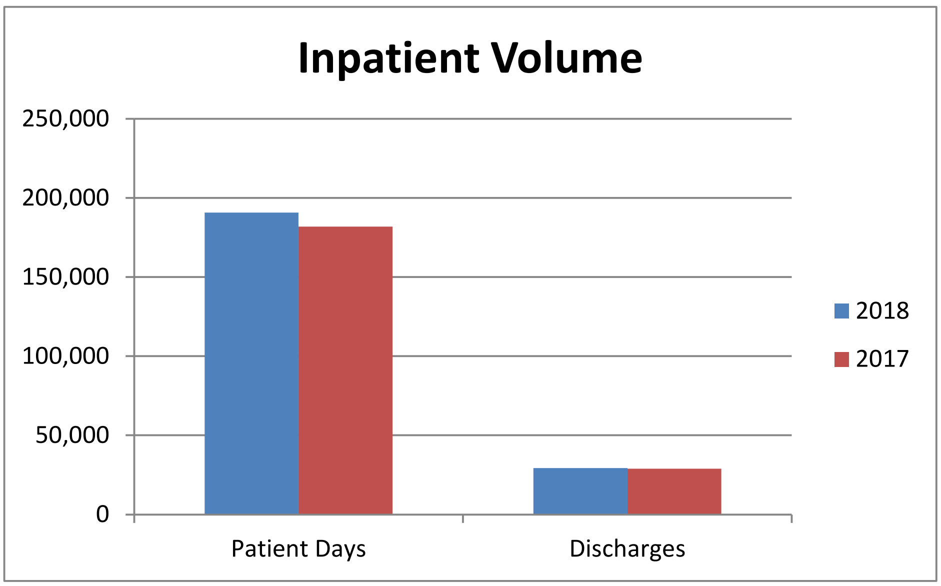
Statement of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2018 and 2017

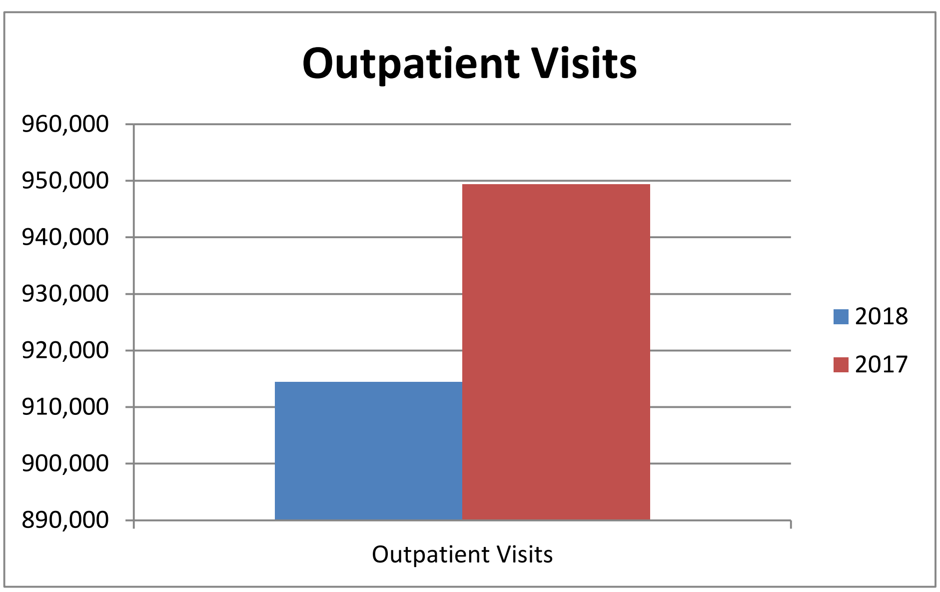
	2018	2017	Increase(Decrease) Amount	Increase(Decrease) Percent
Net patient service revenue	$ 1,642.1	$ 1,545.4	$ 96.7	6.3%
University allocations	8.4	4.0	4.4	111.3%
Other	52.8	58.0	(5.2)	-8.9%
Total operating revenue	1,703.3	1,607.4	95.9	6.0%
Salaries and benefits	714.2	675.7	38.5	5.7%
Other operating expenses	897.4	832.1	65.3	7.8%
Total operating expenses	1,611.6	1,507.8	103.8	6.9%
Operating income	91.7	99.6	(7.9)	-8.0%
Non-operating income	45.4	42.4	2.9	6.9%
Income before other revenue and transfers	137.0	142.0	(5.0)	-3.5%
Transfers to UVA	(59.4)	(21.5)	(37.8)	175.8%
Increase in net position	77.7	120.5	(42.8)	-35.5%
Net position-beginning of year	1,577.1	1,456.6	120.6	8.3%
Prior period net position adjustment	(60.9)	-	(60.9)	
Net position-beginning of year, adjusted	$ 1,516.2	$ 1,456.6	$ 59.7	4.1%
Net position-end of year	$ 1,594.0	$ 1,577.1	$ 16.9	1.1%

Operating Revenue

Total operating revenue for fiscal year 2018 was 6.0 percent above prior year. Contributing to the increase in net patient service revenue are the following factors: case mix adjusted for average length of stay increased by 6.1 percent, inpatient days increased by 4.8 percent and transplants increased by 2.8 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.

For fiscal year 2018, indigent care has totaled $322.1 million, which is 5.8 percent of gross revenue as compared to fiscal year 2017, which was $307.2 million and 5.9 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.



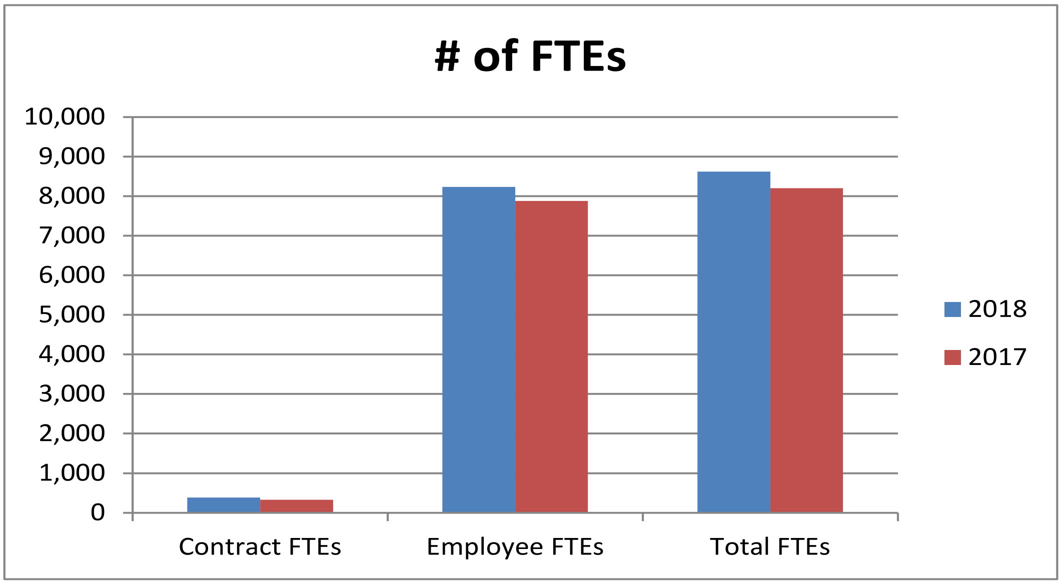


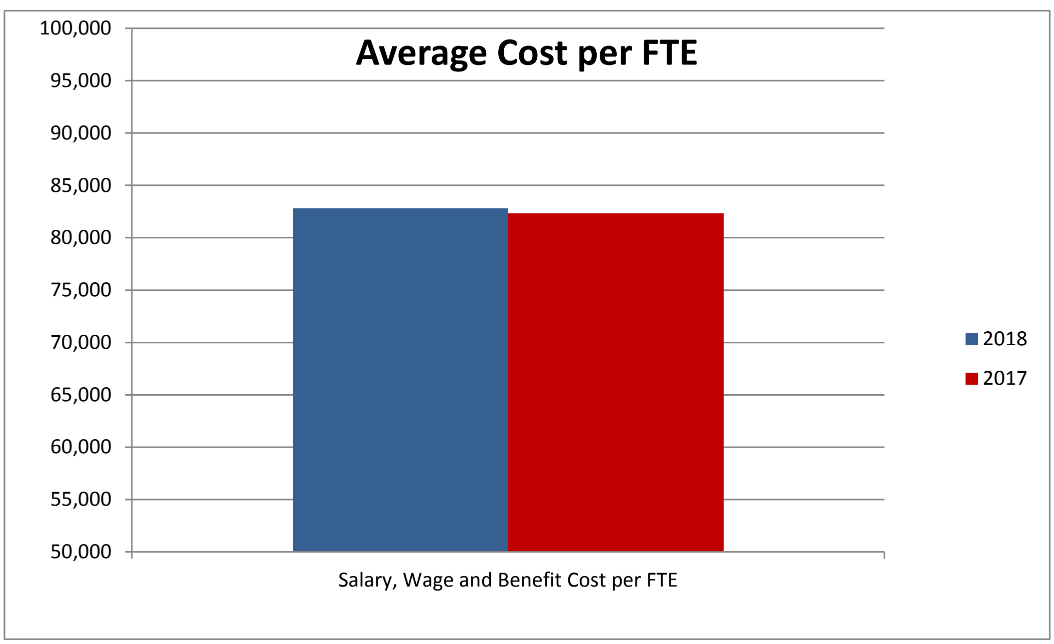
Operating Expenses

Total operating expenses for fiscal year 2018 were 6.9 percent above the prior year.

Total labor expenses (including salaries and wages, fringe benefits and contract labor) grew 5.7 percent as compared to fiscal year 2017. The primary driver, as it relates to salaries and fringe benefits, includes an increase of $20 million in staff salaries, as well as an increase in the postemployment benefit of $6.1 million. In addition, 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.

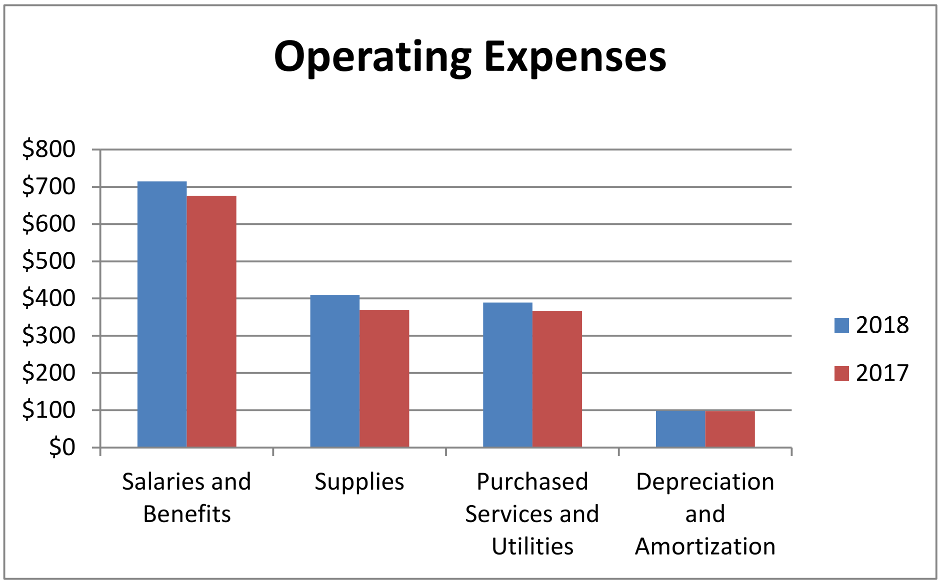
Total paid employees, including contracted employees, are summarized below:





Other operating expenses rose 7.9 percent from the prior year, primarily due to increases in purchased services, and continuing inflationary pressures from suppliers of pharmaceuticals and medical supplies. Higher acuity patients, increased patient days, and longer lengths of stays contributed to the increase in operating expenses for fiscal year 2018.

* 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, 2018 and 2017 is as follows:

Statement of Cash Flows
For the years ended June 30, 2018 and 2017

			Increase(Decrease)	
	2018	2017	Amount	Percent
Cash flows from operating activities	$ 198.7	$ 184.4	$ 14.3	7.8%
Cash flows from non-capital financing activities	(85.4)	(31.7)	(53.7)	169.7%
Cash flows from capital and related financing activities	$ (263.3)	$ (227.5)	(35.8)	15.7%
Cash flows from investing activities	$ 103.3	$ 42.5	60.7	142.7%
Net increase(decrease) in cash and cash equivalents	$ (46.7)	$ (32.2)	(14.5)	45.0%
Cash and cash equivalents-beginning of the year	$ 113.1	$ 145.3	(32.2)	-22.2%
Cash and cash equivalents-end of the year	$ 66.4	$ 113.1	(46.7)	-41.2%

The cash generated from operating activities increased by 7.8 percent from fiscal year 2017 to fiscal year 2018, primarily due to an increase of 6.3 percent in net patient service revenues.

Cash flows from non-capital financing and non-investing activities decreased $53.7 million from fiscal year 2017. During fiscal year 2018, the Medical Center received $1 million less in gifts, as well as spent 7.8 million of Buchanan funds. In addition, as a result of moving a cash flow line item from investing to non-capital and non-investing, created a decrease of $44.8 million.

Cash used for capital and related capital activities increased 15.7 percent in fiscal year 2018. The primary reasons for the increase is the Medical Center did not obtain any new loans from the University for capital projects.

Cash flows from investing activities increase by 142.7 percent, as a result of favorable market conditions, and favorable performance of Medical Center affiliates.

Economic Factors Affecting the Future

CMS issued final regulations that any clinic started after November 2, 2015 will not receive the higher Outpatient Perspective Payment System (OPPS) reimbursement, but instead would be paid at the physician fee schedule rates. This only impacts Medicare outpatient payments. CMS regulations went a step beyond by stating that relocating a clinic forces that offsite clinic out of OPPS and into the lower paid Physician Fee Schedule. This issue will be material into the future and will negatively impact our bottom line going forward. As of June 30, 2018, we only have two clinics that have moved and are getting the lower rates. But, in Mid-2018, we broke ground on an orthopedic building. All of those clinics will be impacted by this provision and will be paid at the lower rate which was specifically planned two years ago in anticipation of this change. The ED expansion tower will not be impacted as it is considered onsite to the Medical Center.

In the 2018 Medicare Outpatient regulations, CMS also applied a reduction to 340 B drugs. This has lowered the reimbursement we receive for drugs from Medicare purchased at the lower 340 B drug discount rate.

CMS has also taken several other positions to lower reimbursement to safety net hospitals, such as the proposed resolution to Commercial Primary Medicaid Secondary rule for the Medicaid DSH audit, and the implementation of lowered Medicare Uncompensated DSH payments for all hospitals.

In 2018, the legislature of the state of Virginia voted to expand Medicaid. This will impact the Medical Center and its patients in numerous ways. The expanded Medicaid starts on 1/1/2019 and converts a large portion of our Indigent Care patients into the Medicaid population. We do not see an immediate impact to the Medical Center in FY 2019 or 2020. We are planning for reductions to Medicare DSH as a result of Medicaid expansion in years after 2020.

FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET POSITION
As of June 30, 2018
With Comparative Amounts as of June 30, 2017

	2018	2017
Current assets:		
Cash and cash equivalents (Note 2)	52,419,759	100,029,266
Accounts receivable, net of estimated uncollectibles of (Note 3)	286,641,271	236,349,482
$567,571,150 at June 30, 2018 and $499,241,136 at June 30, 2017		
Due from University of Virginia	2,427,436	1,695,468
Inventories and prepaid expenses	40,562,306	44,944,650
Notes receivable	-	5,716
Total current assets	382,050,773	383,024,583
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	14,051,209	13,094,640
Investments in pooled endowment funds (Note2)	659,059,242	603,270,488
Investments (Note 2)	362,830,314	324,643,291
Investments in affiliated companies (Note 5)	85,447,007	86,872,330
Land (Note 6)	33,898,328	32,879,634
Contruction in Progress (Note 6)	248,454,037	212,573,540
Depreciable land improvements, buildings, and equipment, less accumulated depreciation/amortization of		
$1,043,607,189 at June 30, 2018 and $1,006,961,840 at June 30, 2017	877,754,609	802,573,325
Assets whose use is limited:		
Assets held by Trustee (Note 7)	184,666,292	277,493,939
Due from the University of Virginia - non current	35,895,132	37,417,943
Total noncurrent assets	2,502,056,170	2,390,819,129
Deferred outflows of resources (Note 16)	34,667,896	28,432,339
Total assets and deferred outflows of resources	2,918,774,838	2,802,276,051

The accompanying notes to financial statements are an integral part of this statement.
Due to reclassifications some of the FY17 amounts do not agree to the previous years' audited statements.

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET POSITION
As of June 30, 2018
With Comparative Amounts as of June 30, 2017

	2018	2017
Current liabilities:		
Accounts payable and accrued expenses (Note 8)	139,184,329	161,246,043
Due to third-party payors	82,737,066	62,493,617
Current installments of long-term debt (Note 9)	22,826,253	21,897,297
Due to University of Virginia	73,021,512	17,614,101
Grants payable - current portion	4,052,878	3,742,406
Unearned Revenue	2,683,888	2,886,346
Total current liabilities	324,505,926	269,879,810
Long-term liabilities:		
Long-term debt (Note 9)	778,442,895	796,492,951
Grants payable - noncurrent portion	42,107,817	52,649,915
Other Long-term liabilities (Note 9)	2,929,935	2,929,935
Other Post Employment Benefits (Note 18)	101,928,632	24,473,208
Net Pension Liability (Note 17)	63,756,000	72,375,000
Noncontrolling Interest in Subsidiary	1,760,518	1,686,166
Total long-term liabilities	990,925,797	950,607,176
Deferred inflows of resources (Note 17)	9,410,772	4,665,000
Total liabilities and deferred inflows of resources	1,324,842,495	1,225,151,986
NET POSITION		
Net investment in capital assets	540,574,183	504,200,255
Restricted:		
Nonexpendable	53,099,192	53,099,192
Expendable	39,105,491	38,148,922
Unrestricted	961,153,477	981,675,695
Net position	1,593,932,343	1,577,124,065
Total liabilities, deferred inflows and net position	2,918,774,838	2,802,276,051

The accompanying notes to financial statements are an integral part of this statement.
Due to reclassifications some of the FY17 amounts do not agree to the previous years' audited statements.

UNIVERSITY OF VIRGINIA MEDICAL CENTER - All Business Units
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
As of June 30, 2018
With Comparative Amounts as of June 30, 2017

	2018	2017
Operating revenue:		
Net patient service revenue (Note 11)	$1,642,114,773	$1,545,404,272
University allocations (Note 12)	8,357,526	3,957,549
Other	52,821,252	57,976,505
Total operating revenue	1,703,293,550	1,607,338,326
Operating Expenses:		
Salaries and wages	559,470,841	527,247,719
Fringe benefits	154,701,400	148,473,549
Supplies	409,225,584	368,494,822
Purchased services and other expenses	367,116,695	341,059,466
Utilities	22,375,958	24,991,215
Provision for depreciation and amortization	98,686,661	97,466,889
Total operating expenses	1,611,577,141	1,507,733,660
Income from operations	91,716,410	99,604,665
Nonoperating revenue (expenses):		
Gifts	2,366,770	3,461,282
Investment income	842,848	2,376,380
Net increase (decrease) in the fair value of investments	103,570,794	89,062,450
Net gain (loss) from investments in affiliated companies (Note 5)	1,818,762	(14,016,834)
Noncontrolling Interest in Subsidiary Income	(3,319,952)	(1,592,822)
Interest expense	(20,302,098)	(17,856,473)
Gain (Loss) on disposal of fixed assets	(25,000,521)	(2,284,719)
Gain Sharing School of Medicine (Note 13)	-	(7,464,590)
Other	(14,605,807)	(9,244,718)
Net nonoperating revenues	45,370,796	42,439,956
Income before other revenues, expenses, gains or losses	137,087,206	142,044,621
Transfers	(59,400,703)	(21,493,265)
Increase (decrease) in net position	77,686,503	120,551,356
NET POSITION		
Net position - beginning of year	1,577,124,065	1,456,572,709
Prior Period Adjustment (Note 1.T)	(60,878,225)	
	1,516,245,840	
Net position - end of year	1,593,932,343	1,577,124,065

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 2018
With Comparative Amounts as of June 30 2017

	2018	2017
Cash flows from operating activities:		
Receipts from patients and third-parties	$ 1,600,466,311	$ 1,553,422,925
Receipts from other revenue	57,446,760	65,195,666
Payments to employees	(705,937,935)	(675,420,024)
Payments to suppliers	(730,876,128)	(733,829,645)
Payment for utilities	(22,375,958)	(24,991,215)
Net cash provided by operating activities	198,723,049	184,377,706
Cash flows from non-capital financing and non investing activities:		
Payments on grants	(5,958,528)	1,841,627
Gifts	2,164,312	3,258,818
Other	(81,579,404)	(36,755,519)
Net cash provided (used) by non-capital financing activities	(85,373,620)	(31,655,074)
Cash flows from capital and related financing activities:		
State appropriation for construction		
Purchase of capital assets	(226,189,146)	(225,214,397)
Principal paid on capital debt	(21,897,297)	(27,408,300)
Principal paid on capital leases	(201,504)	(204,927)
Interest paid on capital debt	(21,262,264)	(17,856,473)
Proceeds from University loan	2,110,986	43,047,465
Proceeds from UVA Imaging loan	2,991,051	
Increase to capital lease	0	124,335
Proceeds from sale of capital assets	1,181,812	(0)
Net cash used by capital and related financing activities	(263,266,362)	(227,512,297)
Cash flows from investing activities:		
Interest on investments	(113,917)	36,609,373
Sale of investments	106,064,044	220,258,678
Purchase of investments	(2,684,615)	(216,024,958)
Transfer from affiliate	3,244,086	1,959,990
Payment affiliate	(3,245,601)	(255,582)
Net cash provided by investing activities	103,263,996	42,547,501
Net decrease in cash and cash equivalents	(46,652,938)	(32,242,165)
Cash and cash equivalents - beginning of the year	113,123,904	145,366,069
Cash and cash equivalents - end of the year	$ 66,470,966	$ 113,123,904

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF CASH FLOWS
As of June 30 2018
With Comparative Amounts as of June 30 2017

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	91,716,410	$ 99,604,665
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	98,686,661	97,466,889
Changes in Assets, Liabilities, Deferred Outflows and Deferred Inflows		
Accounts receivables	24,632,818	17,729,915
Inventories and prepaid expenses	4,382,344	(2,531,848)
Deferred outflows of resources	(7,321,399)	(4,516,571)
Accounts payable and accrued expenses	(43,082,283)	(25,408,341)
Changes in pension and OPEB liabilities	24,962,727	5,817,998
Deferred inflows of resources	4,745,772	(3,785,000)
Net cash provided by operating activities	$ 198,723,049	$ 184,377,706
Noncash investing, capital and financing activities		
Change in fair market value	104,527,560	$ (54,829,457)
Gain(loss) on purchase and disposal of capital assets	25,000,521	2,284,719
Loss on investment in Novant JOC	(3,033,200)	23,071,607
Change in noncontrolling interest subsidiary	(74,351)	1,259,519
Loss Blue Ridge Pace		77,420
Dissolution Blue Ridge Pace	200,165	
CVHN Dissolution	36,226	
VRS Special Revenue Allocation		1,783,000
Goodwill reclassification		8,716,668
Assets acquired by the Assumption of a Liability	8,490,894	2,929,935
Revaluation of investment		(5,967,854)
Gain on investment in Healthsouth	1,385,565	
Change in liability to Culpeper Regional Hospital	(4,373,098)	

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

NOTES TO FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

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 Medical Center is part of the University's financial reporting entity and is fully consolidated within the University's reporting entity. 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. Changes in Financial Accounting and Reporting

The Medical Center implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions for the fiscal year ended June 30, 2018.* GASB Statement No. 75 addresses accounting and financial reporting for Other Postemployment Benefits (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed and expanded. The comparative information presented for the fiscal year ended June 30, 2017 does not include the necessary adjustments related to the implementation of GASB Statement 75 for the 2017 financial statements to be comparative with the 2018 financial statements. The information needed to make these adjustments is not available for prior years. The Medical Center implemented GASB Statement No. 75 beginning with the period ended June 30, 2018, with a $61.5 million OPEB liability and $11.0 million OPEB asset for a decrease in beginning position for VRS administered OPEBs of $50.5 million. The University also recognized a $10.4 million OPEB liability as a beginning net position adjustment for University administered OPEBs.

D. 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.

E. 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.

Novant Health University of Virginia Health System

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, 2014, the Medical Center acquired the remaining 51 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 accounted for Culpeper Hospital using the consolidation method of accounting. On December 31, 2015, the Medical Center contributed Culpeper Regional Hospital to Novant Health, for a 40% investment in the new joint operating company, called Novant Health University of Virginia Health System. The Medical Center uses the equity method of accounting to account for the joint operating company.

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 5.

F. 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.

G. Due To(From) Estimates

State and federal regulations are used to determine the accruals for Due To(From) estimates. Estimates are derived using excel spreadsheet models of the Medicare and Medicaid cost reports that have been developed over a number of years and are tested for reasonableness and accuracy each year. Upon finalization of cost reports, estimates are compared to actuals. The Medical Center routinely and conservatively reserves $5 million for each respective years' cost report adjustment until the cost report is settled. Management's conservative approach and professional judgement stems from the risk of an auditor's change in interpretation of various standards, changes in calculations, or case decisions at the Provider Reimbursement Review Board. The Medical Center uses the actual cost report as this minimizes the risk of ambiguity or oblique areas within the estimates. The Medical Center follows all applicable laws in the preparation of estimates, as well as, the actual cost reports each year. The Medical Center's reserve policy, procedures, estimates and cost reports are reviewed annually by outside auditors to provide further assurance of the accuracy and reasonableness of the financial statements.

Occasionally, reserve decisions are made as a result of specific circumstances. When specific circumstances arise, the Medical Center obtains external documentation to support the reserve decision. Management exercises significant professional judgment when making the determination regarding specific reserve decisions.

H. 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.

I. Settlements with 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.

J. Fair Value Measurements

The Medical Center follows the guidance in GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value and establishes guidelines and a framework for measuring fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Medical Center categorizes its fair value measurements within the fair value hierarchy established by Statement No. 72. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets as of the reporting date.

Level 2 – Inputs are observable, for example, for quoted prices for similar assets or liabilities in active markets or for identical assets or liabilities in inactive markets.

Level 3 – Inputs are unobservable, reflect the assumptions of management, and are significant to the fair value measurement.

The Medical Center establishes the fair value of its investments in investment funds that do not have a readily determinable fair value by using net asset value (NAV) per share (or its equivalent) as reported by the external fund manager when NAV per share is calculated as of the measurement date in a manner consistent with the FASB's measurement principles for investment companies. These investments are not reported in the fair value hierarchy.

K. 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 in 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.

The Medical Center establishes the fair value of its investments in investment funds that do not have a readily determinable fair value by using the net asset value (NAV) per share (or its equivalent) as reported by the external fund manager when NAV per share is calculated as of the measurement date in a manner consistent with the FASB's measurement principles for investment companies. These investments are not reported in the fair value hierarchy. 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.

L. Inventories and Prepaid Expenses

Inventories are generally valued at cost, which approximates market due to high turnover, and consist primarily of expendable supplies held for consumption.
Prepaid expenses primarily represent those expenses surrounding service, maintenance, and insurance contracts, workers' compensation, and rental agreements.

M. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, or if donated, at acquisition 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.

N. 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.

O. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan are single employer pension plans that are treated like cost sharing plans. 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.

P. Other Post-Employment Benefits

The Medical Center participates in postemployment benefit programs sponsored by the Commonwealth and administered by the Virginia Retirement System (VRS). For the Medical Center, these programs include the Group Life Insurance Program and Retiree Health Insurance Credit Program.

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees or participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

State Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

University OPEB Plans

The Medical Center, administered by the University, also provides Optional Retirement Retiree Life Insurance and Retiree Health Plan OPEBs that are not part of the Commonwealth-provided OPEB plans. These are defined benefit plans not administered through a trust as defined in GASB Statement No. 75. The University's total OPEB liability, deferred outflows of resources related to OPEBs, deferred inflows of resources related to OPEBs, and OPEB expense are recognized and measured in accordance with the parameters of GASB Statement No.75. There are currently no assets accumulated in a trust for the University administered OPEBs.

Q. Comparative Data

The Medical Center presents its financial statements on a comparative basis. 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, 2017, from which the summarized information is derived. Certain amounts from the prior fiscal year have been reclassified to conform to current-year presentation. Also, the summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the 2017 financial statements to be comparative with the 2018 financial statements. The information needed to make these adjustments is not available for prior years.

R. 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.

Schedule of Deferred Outflows and Inflows for Fiscal Year Ended June 30, 2018

Deferred Outflows		**Deferred Inflows**	
Goodwill	$ 16,654,150	OPEB-VRS administered	$ 1,109,000
Pension Expense	6,510,145	OPEB-UVA administered	2,688,772
OPEB-UVA administered	380,375	VRS Pension Liability	5,613,000
OPEB-VRS administered	11,123,226		
Total	$ 34,667,896		$ 9,410,772

S. 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, 2017

Net position as originally stated at June 30, 2017	$ 1,577,124,065
Change in reporting for the implementation of GASB 75, Accounting and Financial Reporting for Post Employment Benefits other than Pensions	
Other Post Employment Benefit Liability-VRS Administered	(50,528,000)
Other Post Employment Benefit Liability-University Administered	(10,350,225)
Total prior period adjustment	(60,878,225)
Net position restated at June 30, 2017	$ 1,516,245,840

T. 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.

U. 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 are eliminated in the Statement of Revenues, Expenses, and Changes in Net Position to avoid inflating revenues and expenses.

V. Transfers

When requested, the Medical Center transfers amounts to the University throughout the fiscal year. These transfers, supported by memorandums of understanding, are not considered operating expenses to the Medical Center, given the purpose of these transfers are in support of the University, primarily the School of Medicine. During fiscal year 2018, the Medical Center reported transfers of $59.4M to the University. The purpose of these transfers were for salary and research support, as well as furthering the University's strategic plan.

W. Grants Payable

Grants Payable primarily consists of a $40.7 million liability to Culpeper Hospital Foundation as of June 30, 2018.

2. CREDIT RISK UNDERLYING CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, Cash Equivalents, Investments, and Endowments:

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 2018.

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 for 2018.

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, which exceed five percent of total investments. The Medical Center investments are 100 percent invested in the University of Virginia Short Term and Long Term Pools, and as such, are not subject to concentration of credit risk disclosure under GASB 40.

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 2018.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2018.

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. 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*.

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.

Type of Investment	Fair Value	Concentration Risk
INVESTMENTS:		
U.S. Government Securities:		
FNMA	-	0%
University of Virginia Long Term Pool	$ 659,059,242	100%
Total Investments	659,059,242	
Total Cash Equivalents and Investments	$ 659,059,242	

The Medical Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The University had the following recurring fair value measurements as of June 30, 2018:

INVESTMENTS MEASURED AT FAIR VALUE

		BALANCE AT JUNE 30, 2018	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	INVESTMENTS MEASURED AT NAV[1]	AMOUNTS NOT MEASURED AT FAIR VALUE
CASH AND CASH EQUIVALENTS							
	Cash on hand	$ 14,051,209		-	-	-	-
TOTAL CASH AND CASH EQUIVALENTS		**$ 14,051,209**	**-**	**-**	**-**	**-**	**-**
DEPOSITS WITH THE UNIVERSITY							
	Deposits with the University	52,577,020	-	-	-	-	-
DEPOSITS WITH THE UNIVERSITY		**$ 52,577,020**	**-**	**-**	**-**	**-**	**-**
LONG-TERM INVESTMENTS							
	Investments in affiliates	85,447,007	-	-	-	-	85,447,007
	Long term pool	1,825,100				1,825,100	
	UVIMCO LTP	361,005,214	-	-	-	361,005,214	-
			-	-	-	-	-
TOTAL LONG-TERM INVESTMENTS		**$ 448,277,320**	**-**	**-**	**-**	**362,830,314**	**85,447,007**
ENDOWMENT							
	UVIMCO LTP	659,059,242	-	-	-	659,059,242	-
TOTAL ENDOWMENT		**$ 659,059,242**	**-**	**-**	**-**	**659,059,242**	**-**

1 Certain investments that are measured at fair value using the NAV per share (or its equivalent) have not been categorized in the fair value hierarchy. The amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Net Position.

UVIMCO's primary investment objective for the LTP is to maximize long-term real return commensurate with the risk tolerance of the University. To obtain this objective, UVIMCO actively manages the LTP in an attempt to achieve returns that consistently exceed the returns on a passively investable benchmark with similar asset allocation and risk. See the University's financial statements for more information regarding UVIMCO. The valuation method for investments measured at NAV per share or its equivalent is presented on the following table.

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)

		FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY (IF CURRENTLY ELIGIBLE)	REDEMPTION NOTICE PERIOD
	UVIMCO LTP	$ 1,021,889,556	-	Monthly	(a)
TOTAL INVESTMENTS MEASURED AT NAV		**$ 1,021,889,556**	**-**		

(a) Subject to the notification requirements and caps set forth in the deposit and management agreement between the University and UVIMCO as discussed in Note 1 of the Univeristy of Virginia financial statements

ENDOWMENTS

The market value of the Medical Center's endowment on June 30, 2018 was $659.1 million. Biannual distributions are made from the University's endowment to the Medical Center's endowment accounts. The University's endowment spending policy ties annual increase to inflation as defined by the Higher Education Price Index. The current inflation factor in use by the University is 2.2 percent. If the increase causes the endowment distribution to fall outside a range defined as 4.0 percent to 6.0 percent of the market value of the endowment, then the Finance Committee of the Board may recommend increasing or decreasing the spending rate. For fiscal year 2018, the Medical Center received $11 million in endowment distribution, consisting of $8.3 million for spending distribution (4.90 percent) and $2.7 million for administrative fees. For the year ended June 20, 2018, the Medical Center had the following endowment-related activities:

		TYPE OF ENDOWMENT FUND		
SUMMARY OF ENDOWMENT ACTIVITY *(in thousands)*		**DONOR - RESTRICTED**	**QUASI**	**TOTAL**
Investment earnings	$	11,720	55,064	66,784
Spending distributions		(5,629)	(5,366)	(10,995)
TOTAL CHANGE IN ENDOWMENT FUNDS	**$**	6,091	49,698	55,789

3. ACCOUNTS RECEIVABLE

As of June 30, 2018, the components of accounts receivable consist of the following:

Patient Accounts Receivable (net)	$	240,007,039
UVA Receivable-Health Insurance		8,388,418
Morrison's-Cafeteria Renovations		3,141,757
UPG-Renal Renovations		1,799,463
Culpeper Hospital		664,857
MMIC-mobile surgery units		547,500
Bank of America		250,614
Sanofi Pasteur-flu vaccine		234,435
County Rescue Squads		181,759
State of Virginia		139,403
Novant-Miscellaneous		110,674
County of Albemarle		62,346
College of Pharmacy		56,789
Other-Misc. AR		79,615
Deposits Receivable-vendor deposits		19,207,711
Novant-Revaluation		6,494,487
UPG-Funds Flow		5,970,860
Payroll Receivable		(696,455)
Total Accounts Receivable (net)	$	286,641,271

4. 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.

In April 2017, the previously acquired HOPE enterprise was fully absorbed into normal clinical operations. Goodwill remaining from the acquisition of HOPE will be amortized over a period of 15 years beginning April 1, 2017.

5. INVESTMENTS IN 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.

In December 2017, the Central Virginia Health Network, Inc. was dissolved. The dissolution check was recorded in June 2018, $308,265.

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.

PACE was dissolved in June 2018.

Valley Regional Health and University of Virginia Radiosurgery Center, LLC

The Medical Center entered into a 10 % 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.

Novant Health University of Virginia Health System

On December 31, 2015, the University of Virginia Medical Center entered into a joint operating agreement with Novant Health to form a new joint operating company named, Novant Health University of Virginia Health System, establishing a 40% investment in the new joint operating company. Effective January 1, 2016, the Medical Center used the equity method of consolidation in order to reflect the Medical Center's investment in the joint operating company.

Schedule of Affiliates
As of June 30, 2018

	Common Stock and Equity Contribution	Share of accumulated income (loss)	Net investment
Healthsouth, LLC	$ -	$ 18,805,689	$ 18,805,689
Valley Health Regional	4,861	(5,198)	(337)
PACE Equity	245,000	(245,000)	0
Valiance, LLC	249,147	0	249,147
University HealthSystem Consortium	4,087,425	0	4,087,425
JOC/Novant	$ 94,041,170	$ (31,741,287)	$ 62,299,883

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 Healthsystem, University Physicians Group representatives, community members, and President appointees.

During the May 2014 Board Meeting for HealthCare Partners, Inc, a resolution was passed for HealthCare Partners to acquire a 15% membership interest in BroadAxe Care Coordination, LLC., without imposing any obligations on the part of the University Physicians Group, for $599,925. On October 30, 2015, this transaction was processed, and is considered an equity contribution by the Medical Center and HealthCare Partners. BroadAxe, also known as Locus-Health Broad Axe, is a remote patient monitoring system used by the Medical Center to manage our reduction with readmissions.

6. PROPERTY, PLANT, AND EQUIPMENT

A summary of the property, plant, and equipment accounts and the related accumulated depreciation as of June 30, 2018, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 32,879,634	$ 1,018,694		$ 33,898,328
Construction in Progress	212,573,540	123,242,035	94,954,590	240,860,984
Depreciable Capital Assets				
Land improvements	11,446,351	2,708,295	2,423,452	11,731,194
Buildings	1,168,633,425	79,654,270	22,396,706	1,225,890,989
Equipment-Fixed	24,478,836	266,630	1,078,207	23,667,259
Equipment-Movable	475,684,422	53,606,620	49,682,725	479,608,317
Total depreciable capital assets	1,680,243,034	136,235,815	75,581,090	1,740,897,759
Less accumulated depreciation				
Land improvements	9,304,263	389,991	92,308	9,601,945
Buildings	530,340,368	42,137,203	11,780,596	560,696,975
Equipment-fixed	19,867,366	663,507	951,270	19,579,603
Equipment-movable	333,756,026	39,053,714	45,256,689	327,553,051
Total accumulated depreciation	893,268,025	82,268,056	58,080,864	917,455,217
Depreciable land improvements, buildings and equipment, net	786,975,008	53,967,759	17,500,226	823,442,541
Depreciable Intangible Assets	129,292,132	51,538,357	366,449	180,464,040
Less accumulated amortization: Intangible Assets	113,693,816	12,463,210	5,054	126,151,972
Depreciable intangible assets	15,598,316	39,075,147	361,395	54,312,067
Total depreciable capital and intangible assets (net)	$802,573,324	$93,042,906	$17,861,621	$877,754,608

7. ASSETS HELD BY TRUSTEES

Assets held by trustees consist of assets whose use is limited under indenture agreements. The Series 2016 bond resolution 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 a 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 of UVA and restricted by bond agreements consist of the following as of June 30, 2018:

Bond Sinking Fund-2016A	$ 184,666,292

8. ACCOUNTS PAYABLE

As of June 30, 2018, the components of accounts payable and accrued expenses consist of the following:

Accrued Leave	$ 38,043,913
Vendor Accounts Payable	21,643,178
Accrued Payroll	21,717,202
Funds Flow-UPG Clin Srvcs/Other	12,936,179
Other Accounts Payable	9,160,345
Retainage Payable	8,490,894
Funds Flow-UPG Med Dir, Admin	4,563,064
Other Payroll Liabilities	4,154,639
Accrued Allotments	4,030,692
Funds Flow-UPG Indigent Care	3,000,000
Other Accrued expenses	11,444,224
	$ 139,184,329

9. LONG-TERM OBLIGATIONS

*In thousands

Description	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:							
Series 2012 Pooled	4.75	2032	$ 92,404		$ 4,502	$ 87,902	$ 4,721
Series 2013 Pooled	4.75	2033	13,112		461	12,651	483
Series 2014 Pooled (1)	4.75	2034	13,251		688	12,563	722
Series 2014 Pooled (2)	4.75	2034	6,811		757	6,054	794
Series 2014 Pooled (4)	4.75	2034	26,832		1,131	25,701	1,186
Series 2014 Pooled (5)	4.75	2034	238,003		11,199	226,804	11,743
Series 2016 Pooled (1)	4.15	2036	376,738	2,111		378,849	-
Series 2017 Pooled (1)	4.56	2037	23,924		760	23,164	795
Series 2017 Pooled (2)	4.56	2037	18,833		591	18,242	618
Total bonds payable			809,908	2,111	20,089	791,930	21,062
Notes payable:							
UVA Imaging			2,520	2,991	1,809	3,702	1566
Total notes payable			2,520	2,991	1,809	3,702	1566
Capitalized leases:							
Kirtley			5,840		203	5,637	198
Transitional Care Hospital			124		124	0	
Total capitalized leases:			5,964	0	327	5,637	198
Installment Purchases:							
Installment Purchase			2,930			2,930	
Total long-term obligations			$ 821,322	$ 5,102	$ 22,225	$ 804,199	$ 22,826

Fiscal Year	Total long-term obligations Principal	Interest	Total
2019	$ 22,826,254	$ 19,213,612	$ 42,039,866
2020	27,343,648	$ 18,206,883	45,550,531
2021	39,159,150	$ 31,186,054	70,345,204
2022	42,413,722	$ 30,655,545	73,069,267
2023	44,345,116	$ 28,734,725	73,079,840
2024-2028	250,267,253	$ 111,973,346	362,240,599
2029-2033	270,913,261	$ 51,241,888	322,155,149
2034-2038	102,056,904	$ 8,607,026	110,663,930
2039-2043	3,443,873	$ 3,627,792	7,071,665
2044-2048	1,429,903	$ 7,440,173	8,870,076
	$804,199,084	$310,887,044	$1,115,086,128

10. FINANCING OF MAJOR CONSTRUCTION AND RENOVATION PROJECTS

In May 2016, the Medical Center acquired financing for the Emergency Department and Tower Expansion through the University of Virginia's Internal Debt Program, Series 2016, (note 9). The University Hospital Expansion-Emergency Department, Operating Rooms and Inpatient Bed Expansion will provide for the expansion of the current Emergency Department into the adjacent site, where the helipad was previously located. In addition, there will be an expansion of the surgical services suites on the second level and the development of a 6-story inpatient tower, along with the expansion of ancillary services on the lower level. Current construction estimates are 425,000 square feet for new construction and 95,000 square feet for renovation.

The Medical Center acquired the Fontaine property in February 2018 for $26 million.

11. NET PATIENT SERVICE REVENUE

The Medical Center's patient service revenue is as follows for the year ended June 30, 2018:

The Medical Center received $96,877,413 in fiscal year 2018 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. This represents 3 quarterly payments of $32,292,471 a fourth quarterly payment is not received until July of the next fiscal year and therefore is not reflected in the financial statements or the footnote, but the accrued revenue is included in the Medicaid Due to (From) estimate.

Of the payment received for disproportionate share, relating to the care provided to indigent patients, $12,000,000 was set aside for the University Physicians Group for related physician services and is included in the purchased services expense. Of that $12,000,000, only 9,000,000 was transferred to UPG as of 6/30/2018 and the remainder is accrued for $3,000,000.

Gross patient service revenue:	
Inpatient	
Routine	$718,734,697
Ancillary	1,900,692,871
Outpatient services	
Ancillary	2,802,186,798
Pharmacy	109,209,371
Continuum	327,337
Total gross patient revenue	5,531,151,074
Allowances for indigent care and contractual adjustments	(3,889,036,302)
Net patient service revenue	$1,642,114,773

12. 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 2018 was $5,057,302.

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 2018 was $ 3,300,224.

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.

13. 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. As a result of the funds flow model implementation, this Memorandum of Understanding between the Medical Center and the School of Medicine ended in fiscal year 2017.

14. COMMITMENTS

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

Year Ending June 30,	Operating Leases
2019	$ 11,360,151
2020	10,120,060
2021	6,544,237
2022	5,481,752
2023	4,098,794
2024-2028	7,049,896
2029-2033	2,678,925
2034-2038	575,361
Total	$47,909,177

The total rental expense for operating leases for the year ended June 30, 2018, was $15,997,501.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2018 totaling $452,110,461 of which $276,929,819 incurred as of June 30, 2018.

15. 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 FY18, there were 79 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 $18,197,250 as expense payable to the Physicians Group for the provision of supervisory and administrative services, $35,896,425 for other services which includes expenses related to the Strategic Investment Pool, and $,484,600 for rental of space for the year ended June 30, 2018. In addition, the Medical Center recorded non-operating expenses of $6,240,613 payable to the Physicians Group.

The Medical Center recorded income from the Physicians Group of $21,992,877 for clinic facility fees and other services, and $840,005 for the rental of space for clinics for the year ended June 30, 2018.

16. 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 financial statement.

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.

17. 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 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.	**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.	**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	**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
contributions to provide funding for the future benefit payment.		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. **Defined Contributions Component:** 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** **Defined Benefit Component:** See definition under Plan 1 **Defined Contribution Component:** 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** **Defined Benefit Component:** **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. **<u>Defined Contribution</u> <u>Component:</u>** Not applicable.

Contribution

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, 2018, 13.49% 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, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-122 biennium. 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. Contributions from the state agency to the VRS State Employee Retirement Plan were $5,756,144 and $5,769,346 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the state agency reported a liability of $63,756,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the state agency's proportion of the VRS State Employee Retirement Plan was 1.10% as compared to 1.10% at June 30, 2016.

For the year ended June 30, 2018, the state agency recognized pension expense of $2,355,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, 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, 2018, 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	$ 135,000	$ 1,929,000
Change in assumptions	619,000	-
Net difference between projected and actual earnings on pension plan investments	-	2,724,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	960,000
Employer contributions subsequent to the measurement date	5,756,144	
Total	$ 6,510,144	$ 5,613,000

$5,756,144 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, 2019. 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	
2019	(3,048,000)
2020	42,000
2021	(22,000)
2022	(1,831,000)

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 201, 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, 2017.

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-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85%of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table-RP 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

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, 2017, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Plan
Total Pension Liability	$ 23,617,412
Plan Fiduciary Net Position	17,789,888
Employers' Net Pension Liability (Asset)	$ 5,827,524
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%

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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.535	1.43%
Total	100.00%		4.80%

Inflation	2.50%
• Expected arithmetic nominal return	7.30%

- The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, 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, 2019, 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, 2019 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:

		1.00% DECREASE (6.00%)	**CURRENT DISCOUNT RATE (7.00%)**	**1.00% INCREASE (8.00%)**
State agency's proportionate share of the VRS State Employee Retirement				
Net pension liability	$	94,177	63,757	38,210

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 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 Comprehensive Annual Financial Report (CAFR) may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017- 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 no payable as of June 30, 2018.

Deferred Compensation Plans

Medical Center employees may elect to participate in the Commonwealth's Deferred Compensation 457 Plan or the Medical Center's 403(b) Plan. Participating employees can contribute to either plan each pay period, with the Commonwealth matching at 50 percent up to $20 per pay period, or $40 per month. This dollar amount match can change depending on the funding available in the Commonwealth's budget. The Employer Matching Plan falls under Section 401(a) of the Internal Revenue Code.

The Deferred Compensation Plan for the Medical Center employees hired on or after September 30, 2002, allows employee contributions up to four percent of their salary and an employer match of 50 percent of the employee's four percent amount, not to exceed two percent of the employee's salary. Employer contributions under this plan were approximately $4.3 million for the year ended June 30, 2018.

The University of Virginia provides executive deferred compensation retirement benefits for certain officers and executives of the University and the Medical Center. The University makes contributions on behalf of each participant as determined by the Board of Visitors. For the year ended June 30, 2018, the University contributed $1.3 million to these accounts.

18. 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 $18,880,493 for the year ended June 30, 2018. Contributions to the Optional Retirement Plans were calculated using base salaries of $402,800,131 for the year ended June 30, 2018. The contribution percentage amounted to 4.7 percent for the year ended June 30, 2018.

19. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Virginia Retirement System Other Post-Employment (OPEB) Plans

As described in Note 1, the Medical Center employees participating in the Virginia Retirement System are eligible for the VRS Group Life, and Health Insurance Credit. The specific information for each of the plans, including eligibility, coverage, and benefits is described in the following paragraphs.

Group Life Insurance Program

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts

The benefits payable under the Group Life Insurance Program have several components.

- **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

Reduction in benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were $446,397 and $532,895 for the years ended June 30, 2018 and June 30, 2017, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the entities reported a liability of $2,794,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .18565% as compared to .18585% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of $28,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 62,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	105,000
Change in assumption	-	144,000
Employer contributions subsequent to the measurement date	446,397	
Total	$ 446,397	$ 311,000

$ 446,397 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods asfollows:

Year ended June 30

FY 2019	$ (64,000)
FY2020	(64,000)
FY2021	(64,000)
FY2022	(64,000)
FY2023	(38,000)
Thereafter	(17,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5 percent
Salary increases, including inflation –	
General state employees	3.5 percent – 5.35 percent
Teachers	3.5 percent – 5.95 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
JRS employees	4.5 percent
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent
Investment rate of return	7.0 Percent, net of investment expenses, 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 the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

<u>Mortality rates – SPORS Employees</u>

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year

Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability (Asset)	$ 1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

The total GLI OPEB 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 GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 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 the System's 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 System's 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)	Targe t Allocation	Arithme tic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's proportionate share of the Group Life Insurance Net OPEB liability	$3,613,000	$2,794,000	$ 2,129,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218.

Payables to the VRS Group Life Insurance OPEB Plan

The Medical Center did not have any payables at the end of FY2018.

State Employee Health Insurance Credit Program

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the State Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
Eligible Employees
The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS.

Benefit Amounts

The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:

- **At Retirement** – For State employees who retire, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount.
- **Disability Retirement** – For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher.

  For State police officers employees with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher.

  For State police officers employees with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2018 was 1.18% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the state agency to the VRS State Employee Health Insurance Credit Program were $ 5,267,829 and $ 4,445,474 for the years ended June 30, 2018 and June 30, 2017, respectively.

State Employee Health Insurance Credit Program OPEB Liabilities, State Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to State Employee Health Insurance Credit Program OPEB

At June 30, 2018, the state agency reported a liability of $ 58,152,000 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The state agency's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the state agency's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total ofthe actuarially determined employer contributions for all participating employers. At June 30, 2017, the state agency's proportion of the VRS State Employee Health Insurance Credit Program was 6.38664% at June 30, 2017 as compared to 5.68513 % at June 30, 2016.

For the year ended June 30, 2018, the state agency recognized VRS State Employee Health Insurance Credit Program OPEB expense of $ 6,090,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the state agency reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on HIC OPEB plan investments	-	142,000
Change in assumption	-	656,000
Changes in proportionate share	5,409,000	
Employer contributions subsequent to the measurement date	5,267,829	
Total	$ 10,676,829	$ 798,000

$5,267,829 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the state agency's contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year ended June 30

FY 2019	$	877,000
FY2020		877,000
FY2021		877,000
FY2022		877,000
FY2023		912,000
Thereafter		191,000

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation		2.5 percent
Salary increases, including inflation –		
	General state employees	3.5 percent – 5.35 percent
	SPORS employees	3.5 percent – 4.75 percent
	VaLORS employees	3.5 percent – 4.75 percent
	JRS employees	4.5 percent
Investment rate of return		7.0 percent, net of plan investment expenses, 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 the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience

Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

State Employee HIC OPEB Plan

Total State Employee HIC OPEB Liability	$ 990,028
Plan Fiduciary Net Position	79,516
State Employee net HIC OPEB Liability (Asset)	$ 910,512
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability	8.03%

The total State Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net State Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 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 VRS System investments was determined using a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithme tic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the state agency for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB 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 State Employee HIC OPEB liability.

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

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

	1.00% Decrease 6.00%	Current Discount 7.00%	1.00% Increase 8.00%
Medical Center's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	$ 64,301,000	$ 58,152,000	$ 52,864,000

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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 State Employee Health Insurance Credit Program OPEB Plan

The Medical Center did not have any payables at the end of FY2018.

University of Virginia Other Post Employment (OPEB) Plans

As described in Note 1, the University employees participating in the University and Optional Retirement Plan or the UVA Retiree Health Plan are eligible for various OPEBs administered by the University. The specific information for each of the plans, including eligibility, coverage and benefits is set out in the table below:

Optional Retirement Retiree Life Insurance Plans.

University faculty and Medical Center employees who participate in the Optional Retirement Plans receive $10,000 in retiree life insurance. The University pays the total cost of the insurance. Benefit provisions for these plans are established and maintained by the University under the authority of the Board. There are no assets accumulated in the trust. The University does not issue stand-alone financial statements for the plans.

Retiree Health Plan.

University employees who retire before becoming eligible for Medicare participate in the Retiree Health Plan, a single-employer defined benefit plan administered by the University, until they are eligible for Medicare. At that time, University retirees can participate in the Commonwealth's Medicare Supplement Plan. The Retiree Health Plan mirrors the University's Health Plan for medical and pharmacy benefits provided to active employees. Benefits provided include preventative care, family planning and maternity, hospital care, surgery, behavioral health care, and other medical services. The amount of coverage ranges depending on the Health Plan option chosen by the employee and type of care. Benefit provisions for the Retiree Health Plan are established and maintained by the University under the authority of the Board. The University does not issue stand-alone financial statements for this plan.

The University also provides dental benefits through the UVA Dental Plan for retirees enrolled in the UVA Health Plan that elected dental coverage. Enrollment in the UVA Dental Plan must be completed at initial enrollment in the health benefits program. Dental enrollment can also be added or dropped during the open enrollment period each year. If dropped by the employee, the employee and/or their covered family members will not be able to re-enroll in the dental plan. As of June 30.2018, the premiums paid by retirees exceed dental claims, as such, there is no liability associated with this plan.

The contribution requirements of plan members and the University are based on projected pay-as-you-go financing requirements. For fiscal year 2018, the University and Medical Center contributed $932,604 to the plan for retiree costs. Retirees receiving benefits contributed $3,770,648, or approximately 80 percent of the total costs, through their required contributions, ranging from $658 to $3,387 per month.

The actuarial valuation was based on personnel information from University records as of April 1, 2016. The benefit terms of the Retiree Life Insurance and the Retiree Health Plan covered the following employees:

Inactive employees currently receiving benefits	524
Inactive employees entitled to but not yet receiving benefits	0
Active employees	7,731
	8,255

TOTAL OPEB LIABILITY

The Medical Center's total OPEB liability for University administered programs of $40,982,632 for the fiscal year ending June 30, 2018 was measured as of July 1, 2017, and was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll-forward the census data and actuarially determined liability to the measurement date using standard methodology.

The liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary Increases	4.0 percent
Discount Rate	3.58 percent
Healthcare cost trend rates	7.25 percent for June 30, 2017, decreasing 0.25 percent per year to an ultimate rate of 5.00 percent for fiscal year 2026 and later years.
Retirees' share of benefit-related costs	Retirees pay the full average cost, based on a blend of active employee and retiree costs. Retiree premiums are assumed to increase at the same medical trend rates as overall retiree claims costs.

The discount rate was based on the Bond Buyer GO 20-Bond Municipal Bond Index.

The University selected the economic, demographic and health care claim cost assumptions and prescribed them for use for purposes of compliance with GASB 75. Aon provided guidance with respect to these assumptions.

CHANGES IN THE TOTAL OPEB LIABILITY

	2018
Total OPEB liability	
Service Cost	$ 3,508,399
Interest Cost	1,110,940
Changes in Benefit Term (2)	4,735,948
Differences Between Expected and Actual Experiences	-
Changes of Assumptions (1)	(3,196,088)
Benefit Payments	(1,288,000)
Net Change in Total OPEB Liability	4,871,199
Total OPEB Liability-(Beginning)	36,111,433
Total OPEB Liability-(Ending)	$ 40,982,632

1) Changes of assumptions reflect a change in the discount rate from 2.85 percent in 2017 to 3.58 percent in 2018.

2) Changes in benefit terms reflect a change in the life insurance benefit for Medical Center employees. In 2017, their benefit was tiered ranging from 50% of salary to $5,000 based on date of hire. Effective January 1, 2018, all employees receive a $10,000 life insurance benefit regardless of their employment date.

The following presents the total OPEB liability of the University, as well as what the University's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current discount rate:

Discount Rate Sensitivity	1% Decrease -2.58%	Current Rate -3.58%	1% Increase -4.58%
Total OPEB Liability	$ 45,519,908	$ 40,982,632	$ 37,194,352
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	$ 45,519,908	$ 40,982,632	$ 37,194,352

The following presents the total OPEB liability of the University administered programs, as well as what the University's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.25 percent decreasing to 4 percent) or 1-percentage-point higher (8.25 percent decreasing to 6 percent) than the current healthcare cost trend rates:

Healthcare Cost Trend Sensitivity	1% Decrease	Current Rate	1% Increase
Total OPEB Liability	$ 37,539,493	$ 40,982,632	$ 45,013,994
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	$ 37,539,493	$ 40,982,632	$ 45,013,994

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended June 30, 2018, the University recognized an OPEB expense of $8,847,971. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on OPEB plan investments	-	-
Change in assumption	-	(2,688,772)
Changes in proportionate share	-	-
Employer contributions subsequent to the measurement date	-	-
Total	$ -	$ (2,688,772)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30

FY 2019	$ (507,316)
FY2020	(507,316)
FY2021	(507,316)
FY2022	(507,316)
FY2023	(507,316)
Thereafter	(152,192)

20. CONTINGENCIES

June 12, 2017, Palmetto advised UVA that it had overpaid Renal Outlier Payments for FY 14 – FY 17 by $7,451,279. The Medical Center booked a reserve, as part of Due to Third Party payors, related to this issue in the amount of $7,451,279 in the FY 17 financial statements. The status of the contingency remains unchanged, but we believe it is probable UVA will have a liability from this issue.

21. SUBSEQUENT EVENTS

On July 1, 2018, the Medical Center entered into a 50/50 joint venture with Kings Daughters Children's Hospital to establish a limited liability company called Fortify Children's Health. Fortify Children's Health is a statewide pediatric physician network created in order to provide better access to pediatric care throughout the Commonwealth.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

VIRGINIA RETIREMENT SYSTEM PENSION PLANS

Schedule of University of Virginia Medical Center 's Share of Net Pension Liability
VRS State Employee Retirement Plan
For Fiscal Years Ended June 30, 2018, 2017, 2016, and 2015*

	2018	2017	2016	2015
Medical Center's Proportion of the Net Pension Liability (Asset)	1.1000%	1.0941%	1.0981%	1.1239%
Medical Center's Proportionate Share of the Net Pension Liability	$ 63,756,000	$ 72,375,000	$ 68,435,000	$ 62,919,000
Medical Center's Covered Payroll	41,631,254	38,688,242	36,672,364	49,730,407
Medical Center's Proportionate Share of the Net Pension Liability as a Percentage of its Medical Center Covered-Employee Payroll	153.14%	187.07%	186.61%	126.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only four years of data are available. However, additional years will be included as they become available.

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

VRS State Employee Retirement Plan
Schedule of Employer Contributions
For Fiscal Years Ended June 30, 2015 through June 30, 2018

FY	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
2018	UVA Medical Center	$ 5,756,144	$ 5,756,144	$ -	$ 41,425,057	13.90%
2017	UVA Medical Center	5,769,346	5,769,346	-	41,631,254	13.86%
2016	UVA Medical Center	5,345,457	5,345,457	-	38,688,242	13.82%
2015	UVA Medical Center	5,245,180	5,245,180	-	36,672,364	14.30%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, four years of data are available. However, additional years will be included as they become available.

Notes to Required Supplementary Information-Virginia Retirement System Pension Plans

Changes of benefit terms — There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017, are not material.

Changes of assumptions — The following changes in actuarial assumptions were made for the VRS State Employee Retirement Plan effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS-VIRGINIA RETIREMENT SYSTEM OPEBS

Schedule of Medical Center's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018*

	2018
Medical Center Proportion of the Net GLI OPEB Liability (Asset)	0.18565%
Medical Center Proportionate Share of the Net GLI OPEB Liability (Asset)	2,794,000
Medical Center Covered Payroll	41,631,254
Medical Center's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	6.71%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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

Schedule of Medical Center Contributions-Group Life
For the Year Ended June 30, 2018

Date		Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution		Contribution Deficiency (Excess)		Employer Covered Payroll	Contributions as a % of Covered Payroll
2018	$	446,397	446,397	$	-	$	41,425,057	1.08%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

Schedule of Medical Center's Share of Net OPEB Liability
Health Insurance Credit Program
For the Year Ended June 30, 2018*

	2018
Medical Center Proportion of the Net HIC OPEB Liability (Asset)	6.38664%
Medical Center Proportionate Share of the Net HIC OPEB Liability (Asset)	58,152,000
Medical Center's Covered Payroll	412,664,212
Medical Center's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	14.09%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	8.03%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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

Schedule of Medical Center Contributions-Health Insurance Credit
For the Year Ended June 30, 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Medical Center Covered Payroll	Contributions as a % of Covered Payroll
2018	$ 5,267,829	5,267,829	$ -	$ 439,856,021	1.20%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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

Notes to Required Supplementary Information – Virginia Retirement System OPEBs

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS-UVA ADMINISTERED OPEBS

Total OPEB Liability and Related Ratios*

	2018
OPEB Liability (Ending)	
Retiree Health Plan	32,879,228
Optional Retirement Retiree Life Insurance	8,103,404
Covered-Employee Payroll	
Retiree Health Plan	231,930,000
Optional Retirement Retiree Life Insurance	35,927,653
OPEB Liability as a Percentage of Covered Payroll	
Retiree Health Plan	14.18%
Optional Retirement Retiree Life Insurance	22.55%

*Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentations only one year of data is available. However, additional years will be included as they become available.
* GASB 75 was effective first for employer fiscal years beginning after June 15, 2017

Notes to Required Supplementary Information – UVA ADMINISTERED OPEBS

No assets have accumulated in a trust that meets the criteria defined by GASB 75 to pay related benefits.

Changes of benefit terms – The life insurance benefit for the Medical Center was updated. The benefit is now $10,000 regardless of retirement date.

Changes of assumptions – The discount rate increased from 2.85 percent to 3.58 percent.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 27, 2018

The Honorable Ralph S.
Northam Governor of
Virginia

The Honorable Thomas K.
Norment, Jr. 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 **University of Virginia Medical Center**, a division of the University of Virginia, as of and for the year ended June 30, 2018, 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 University of Virginia Medical Center as of June 30, 2018, and the respective changes in financial position and cash flows 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 of 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, 2018, 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

As discussed in Note 1 of the accompanying financial statements, the University of Virginia Medical Center implemented Governmental Accounting Standards Board Statement No. 75 related to accounting and financial reporting for postemployment benefits other than pensions. Our opinion is not modified with respect to these matters.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University of Virginia Medical Center's 2017 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 7, 2017. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 2017 financial statements to be comparative with the 2018 financial statements as described in Note 1.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 3 through 10, the Schedule of the University of Virginia Medical Center's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information – Virginia Retirement System Pension Plans on pages and 80 through 81; the Schedule of the Medical Center's Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit and Group Life Insurance programs on pages 81 through 83; the Schedule of Total OPEB Liability and Related Ratios and the Notes to the Required Supplementary Information for the University's Retiree Health and Optional Retirement Retiree Life Insurance plans on page 83. 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 27, 2018, 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

UNIVERSITY OF VIRGINIA MEDICAL CENTER
Charlottesville, Virginia

UNIVERSITY OFFICIALS

Dr. Teresa Ann Sullivan
President
University of Virginia

Dr. Richard Shannon, M.D.
Executive Vice President, Health Affairs
University of Virginia

Dr. David S. Wilkes, M.D.
Dean, School of Medicine
University of Virginia