UNIVERSITY OF VIRGINIA MEDICAL CENTER

Report on the Audit for the Fiscal Year Ended June 30, 2016

-T A B L E O F C O N T E N T S-

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the University of Virginia's Medical Center (Medical Center) for the year ended June 30, 2016, with comparative information for the year ended June 30, 2015. 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 located on the Charlottesville campus. The Medical Center also has a 40 licensed bed Transitional Care Hospital located west of the Charlottesville campus. In addition, primary and specialty care are provided at clinic locations throughout central Virginia communities.

Financial Highlights

	2016	2015
Operating revenues	$ 1,587.6	$ 1,509.0
Operating income	$ 100.4	$ 95.6
Net non-operating revenue	(78.0)	(1.4)
Net income	$ 22.4	$ 94.1

At the end of fiscal year 2016, the operating income was $100.4 million, compared to fiscal year 2015 operating income of $95.6 million. The current fiscal year performance resulted from an increase in demand for inpatient and outpatient care services, a higher acuity and case mix index as compared to fiscal year 2015, however increases in revenues experienced offsets by significant increases in salary, supply, pharmaceutical and contract expense as compared to fiscal year 2015.

The operating income in fiscal year 2016 reflects day-to-day operations. Contributing factors for higher operating expenses for fiscal year 2016, as compared to fiscal year 2015, were the following: increased FTE's, medical supply and pharmaceutical inflation and usage, and increased internal contract expense.

Net non-operating revenue decreased by $76.6 million from fiscal year 2015 to fiscal year 2016. Due to unfavorable conditions in the United States capital markets, investment income (both realized and unrealized) decreased by $51.4 million from fiscal year 2015 to 2016. In addition, other factors contributing to the net revenue decrease were as follows: decreased gifts to the Medical Center, increased losses experienced by affiliate relationships, increased gainshare and other support transfers to the School of Medicine. However, gains on fixed asset helped offset the overall loss.

Financial Statements

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

The Statement of Net Position presents the financial position of the Medical Center at the end of the fiscal year, including all assets and liabilities of the Medical Center. Net position is the difference between total assets and total liabilities and is one of the indicators used to evaluate the current financial condition of the Medical Center. In contrast, the change in net position indicates whether the overall financial condition improved or worsened during the year. Shown below is a summary of the Medical Center's Statements of Net Position, representing a $5.3M increase.

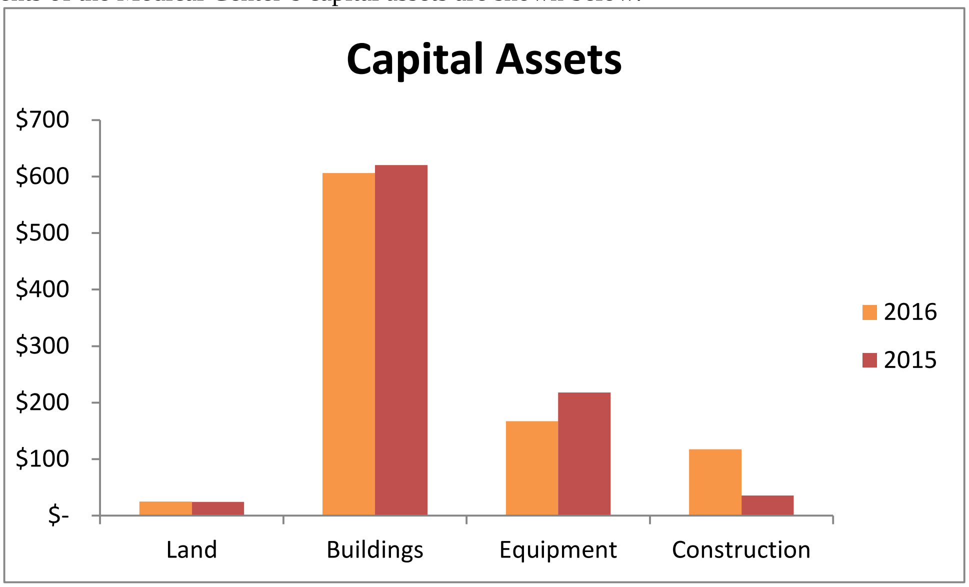
Statement of Net Position
As of June 30, 2016 and June 30, 2015

			Increase(Decrease)	
	2016	2015	Amount	Percent
Assets and deferred outflows:				
Current assets	$ 403.0	$ 587.0	$ (184.0)	-31.3%
Capital assets	916.2	898.1	18.1	2.0%
Other non-current assets	1,333.5	859.6	473.9	55.1%
Deferred outflows	6.2	5.2	1.0	18.8%
Total assets and deferred outflows	$ 2,658.9	$ 2,349.9	$ 309.0	13.2%
Liabilities and deferred inflows:				
Current liabilities	268.2	305.3	(37.1)	-12.2%
Non-current liabilities	925.7	577.6	348.1	60.3%
Deferred inflows	8.5	15.7	(7.2)	-46.0%
Total liabilities and deferred inflows	1,202.3	898.6	303.7	33.8%
Net position				
Net investment in capital assets	465.1	486.5	(21.3)	-4.4%
Restricted for				
Nonexpendable	53.1	53.1	0.0	0.0%
Expendable	36.6	35.1	1.5	4.3%
Unrestricted	901.7	876.6	25.1	2.9%
Net Position	1,456.6	1,451.3	5.3	0.4%
Total Liabilities, deferred inflows, and net position	$ 2,658.9	$ 2,349.9	$ 309.1	13.2%

During fiscal year 2016, the Medical Center's financial position remained positive. While net position increased $22.4 million, primarily due to a consistent operating income, this was offset by the adoption of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, a negative net position adjustment of $17.1 million, resulting in a net increase in net position of $5.3 million.

The value of capital assets net of depreciation increased $18.1 million from the prior fiscal year. Major projects in fiscal year 2016 include the ongoing implementation of EPIC Phase 2 with an anticipated go-live date of July 1, 2017, 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 $303.7 million, primarily due to the internal issuance of $376.1 million in debt for the Emergency Department and Tower. Other liability and deferred inflows increases were as follows: the Medical Center's adoption of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* an increase of $20.7 million, an increase in the net pension liability $5.5 million, and an increase in other payables of $36.3 million. The liability and deferred inflow increases were offset by decreases in the following: decrease in Due to 3rd Party Payors, $ 45.7million, decrease in liability due to Culpeper Hospital $16.9 million, termination of the Transitional Care Hospital capital lease $19.4 million, the retirement of the temporary debt issued for the Emergency Department and Tower, $27.0 million, a decrease of $7.2 million in deferred inflows and finally the fiscal year 2015 current portion of debt paid, $18.7 million.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented in the Statements of Net Position is based on activity shown in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of these statements is to present the Medical Center's operating and non-operating revenues and expenses and any other revenues, expenses, gains, and losses. A summarized comparison of revenues, expenses and other changes in net position for the years ended June 30, 2016 and 2015 is as follows:

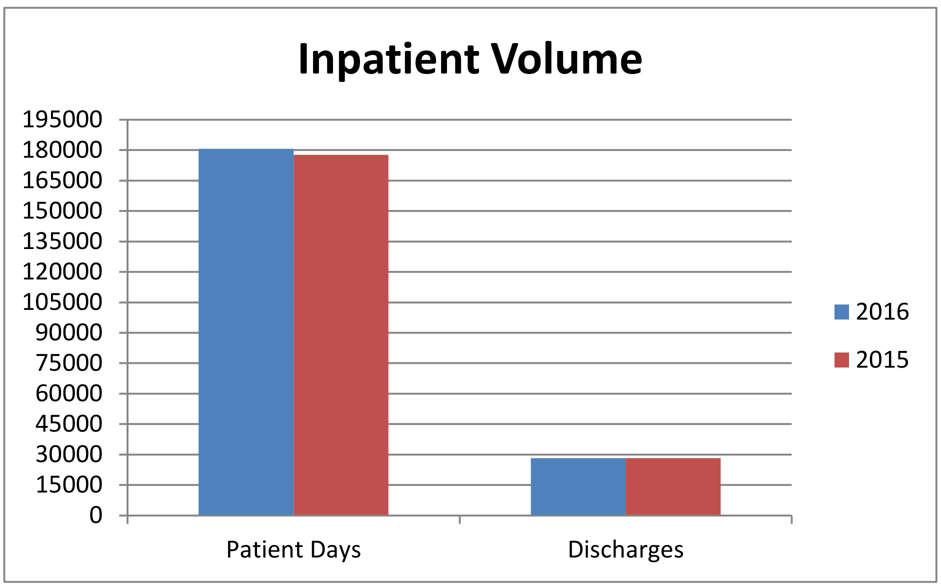
Statement of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2016 and 2015

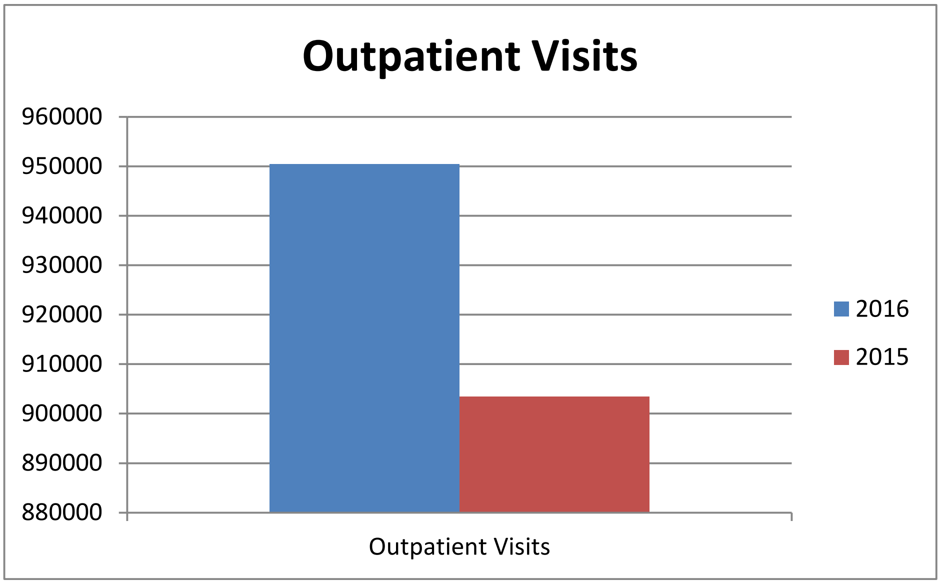
			Increase(Decrease)	
	2016	2015	Amount	Percent
Net patient service revenue	$ 1,501.7	$1,428.7	$73.0	5.1%
University allocations	32.2	33.8	(1.6)	-4.6%
Other	53.7	46.5	7.2	15.5%
Total operating revenue	1,587.6	1,509.0	78.6	5.2%
Salaries and benefits	663.2	620.4	42.8	6.9%
Other operating expenses	824.0	793.0	31.0	3.9%
Total operating expenses	1,487.2	1,413.4	73.8	5.2%
Operating income	100.4	95.6	4.8	5.0%
Non-operating income	(49.8)	21.5	(71.3)	-331.2%
Income before other revenue and transfers	50.6	117.1	(66.5)	-56.7%
Transfers to UVA	(28.2)	(23.0)	(5.2)	22.4%
Increase in net position	22.4	94.1	(71.7)	-76.2%
Net position-beginning of year	1,451.2	1,433.0	18.1	1.3%
Prior period net position adjustment	(17.1)	(75.9)	58.8	-77.4%
Net position-beginning of year, adjusted	$ 1,434.1	$ 1,357.1	$ 76.9	5.7%
Net position-end of year	$ 1,456.5	$ 1,451.2	$ 5.3	0.4%

Operating Revenue

Total operating revenue for fiscal year 2016 was 5.2 percent above prior year. Contributing to the increase in net patient service revenue were all payor case mix increased by 2.9 percent, inpatient days increased by 1.7 percent and outpatient visits increased by 3.5 percent. As part of the Medical Center's Strategic Plan there has been focused efforts to grow patient activity throughout Central Virginia expanding the Medical Center's primary service areas and to increase the number of patients that come to the Medical Center from secondary service areas. The Medical Center has negotiated annual payment increases with managed care companies and receives annual payment updates from the Medicare program.

It has been widely reported that due to the current unemployment rates and slow economic growth indigent care has been increasing across the nation. For fiscal year 2016, indigent care has totaled $304.0 million, which is 6.1 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.



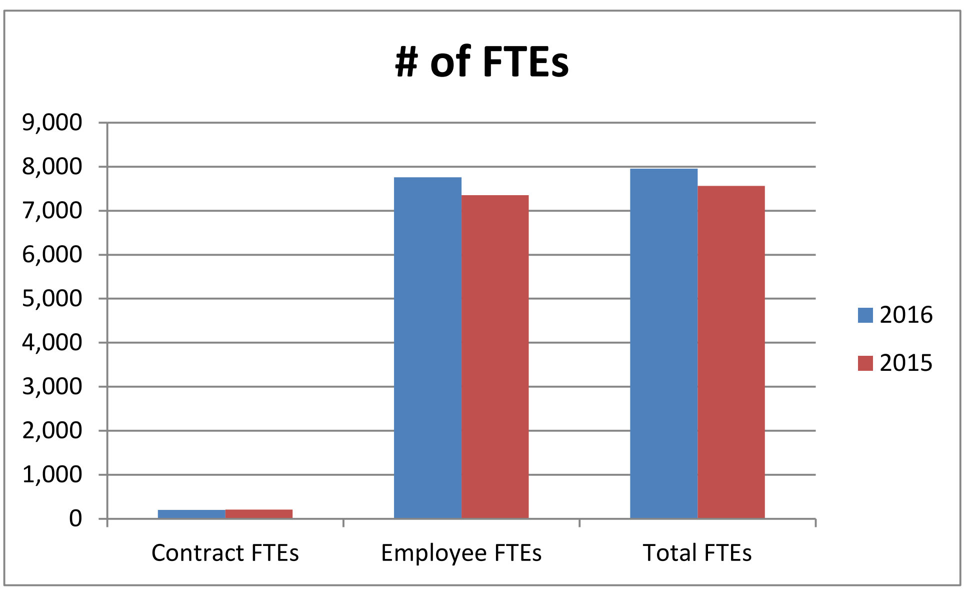


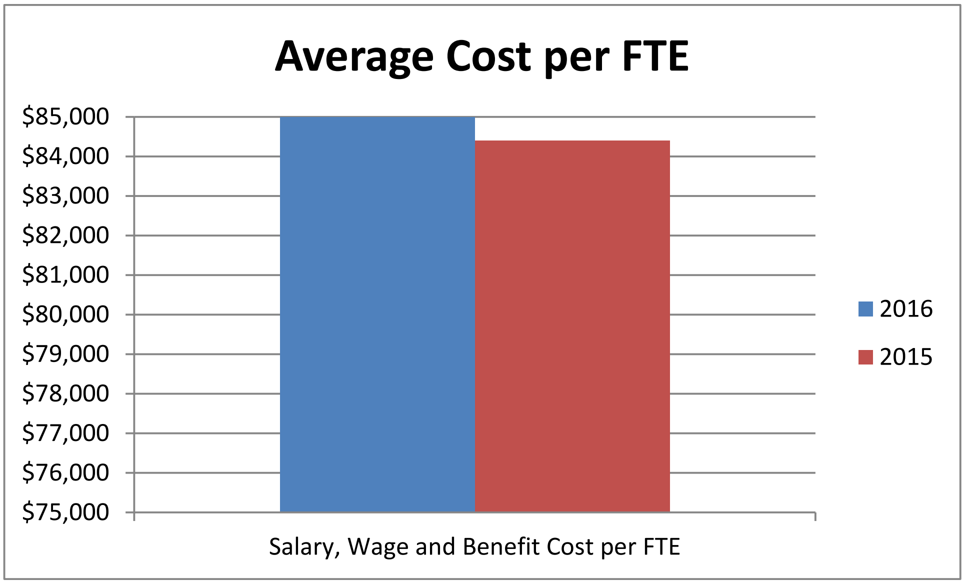
<u>Operating Expenses</u>

Total operating expenses for fiscal year 2016 were 5.2 percent above the prior year.

Total labor expenses (including salaries and wages, fringe benefits and contract labor) grew 6.9 percent as compared to fiscal year 2015. 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.

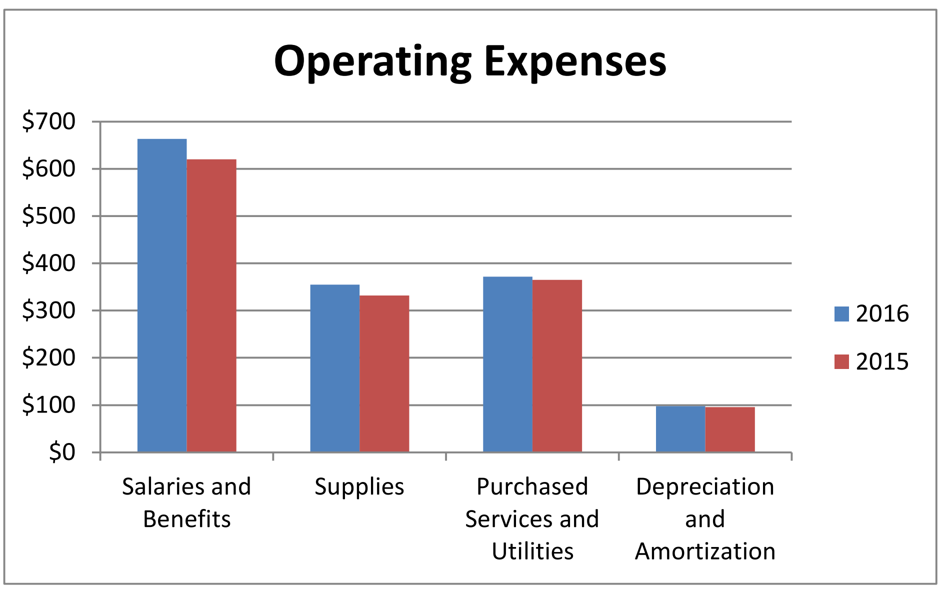
Total paid employees, including contracted employees, are summarized below:





Other operating expenses rose 3.9 percent from the prior year, primarily due to contractual increases in purchased services, and continuing inflationary pressures from suppliers of pharmaceuticals and medical supplies. Increases in volume, with respect to discharges, patient visits and procedures contributed to increased supply and pharmaceutical expense for fiscal year 2016.

* 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, 2016 and 2015 is as follows:

	Statement of Cash Flows For the years ended June 30, 2016 and 2015			
			Increase(Decrease)	
	2016	2015	Amount	Percent
Cash flows from operating activities	$ 185.3	$ 178.8	$ 6.4	3.0%
Cash flows from non-capital financing activities	4.4	6.5	(2.1)	-18.2%
Cash flows from capital and related financing activities	93.8	(202.8)	296.6	-238.3%
Cash flows from investing activities	(459.6)	53.6	(513.2)	1577.0%
Net increase(decrease) in cash and cash equivalents	(176.1)	36.0	(212.1)	-353.9%
Cash and cash equivalents-beginning of the year	$321.5	285.5	36.0	16.0%
Cash and cash equivalents-end of the year	$145.4	$321.5	($176.1)	-61.7%

The cash generated from operating activities increased by 3.0 percent from fiscal year 2015 to fiscal year 2016, primarily due to an increase of 5 percent in cash collections. Effective flex budgeting and expense management by Medical Center Operations contributed to the increase in operating cash as well.

Cash flows from non-capital financing activities decreased $2.1 million from fiscal year 2015. During fiscal year 2016, the Medical Center received $3 million less in gifts.

Cash used for capital and related capital activities increased $296.6 million in fiscal 2016. The primary reason for the increase is the Medical Center acquired internally issued debt for the Emergency Department and Tower, $349.1 million, during fiscal year 2016. In addition, the Medical Center acquired the Transitional Care Hospital and terminated the capital lease for $19.4 million. And finally, a decrease in overall capital expenditures of $6.4 million.

Economic Factors Affecting the Future

In November 2015, Congress adopted the Balanced Budget Resolution. The Balanced Budget resolution included a provision whereby new offsite Provider Based Clinics (PBC) would be paid at physician office basis. UVA is constantly moving, or creating new PBC's, and this new provision, if finalized, will cause the clinic to be paid on a large portion of their charges at 60% of the Medicare rate for existing clinics. This only impacts Medicare payments, but currently UVAMC only receives 80% of cost from Medicare. This PBC issue will impact our ability to create offsite clinics and will force the Medical Center to concentrate Medicare services on the Main Medical Center's campus. This may force the Medicare patients to come to the Main Campus rather than receiving services at lower cost, easier accessed areas such as Northridge or Fontaine.

This rule was set forth by Congress, but CMS has not issued final regulations other than the fact that any clinic started after November 2, 2015 will not receive the higher Outpatient Perspective Payment System (OPPS) reimbursement. CMS issued proposed regulations that 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. The final regulations will not be issued until November 2016 for implementation on January 1, 2017. This issue will be material into the future and will negatively impact our bottom line going forward.

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.

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

FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET POSITION
As of June 30, 2016
With Comparative Amounts as of June 30, 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	133,783,151	311,391,305
Accounts receivable, net of estimated uncollectibles	224,066,287	233,115,231
of $489,470,159 at June 30, 2016 and $424,609,060 at June 30, 2015		
Due from University of Virginia	2,722,260	248,329
Inventories and prepaid expenses	42,412,802	42,152,699
Notes receivable	3,073	4,030
Total current assets	402,987,573	586,911,594
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	11,582,919	10,080,379
Investments in pooled endowment funds (Note2)	548,441,031	569,387,993
Goodwill (Note 3)	9,673,327	12,678,051
Investments (Note 2)	254,669,295	146,589,119
Investments in affiliated companies (Note 4)	117,533,737	24,696,793
Land (Note 5)	25,107,370	24,220,370
Construction in Progress (Note 5)	117,769,084	35,744,240
Depreciable land improvements, buildings, and equipment, less accumulated depreciation/amortization of $935,829,562 at June 30, 2016 and $915,786,928 at June 30, 2015 (Note 5)	773,342,547	838,099,881
Assets whose use is limited:		
Assets held by Trustee (Note 6)	351,701,655	53,786,474
Due from the University of Virginia - non current	39,927,133	42,427,746
Total noncurrent assets	2,249,748,097	1,757,711,046
Deferred outflows of resources (Note 1 P)	6,175,775	5,245,180
Total assets and deferred outflows of resources	2,658,911,446	2,349,867,821

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET POSITION
As of June 30, 2016
With Comparative Amounts as of June 30, 2015

	2016	2015
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	170,030,270	180,125,362
Due to University of Virginia	34,354,367	
Due to third-party payors	39,475,154	85,212,656
Current installments of long-term debt (Note 8)	19,326,369	18,688,676
Grants payable - current portion	1,900,779	1,068,434
Due to Culpeper Regional Hospital-current		16,944,194
Bond premium - current amortization		
Unearned Revenue	3,088,810	3,291,269
Total current liabilities	268,175,749	305,330,591
Long-term liabilities:		
Long-term debt (Note 8)	783,505,305	472,411,833
Grants payable - noncurrent portion	52,649,915	40,659,917
Other Postemployment Benefit	20,696,121	
Net Pension Liability (Note 16)	68,435,000	62,919,000
Noncontrolling Interest in Subsidiary	426,647	1,626,718
Total long-term liabilities	925,712,989	577,617,467
Deferred inflows of resources (Note 16)	8,450,000	15,660,000
Total liabilities and deferred inflows of resources	1,202,338,738	898,608,058
NET POSITION		
Net investment in capital assets	465,088,982	486,411,635
Restricted:		
Nonexpendable	53,099,192	53,099,192
Expendable	36,637,201	35,134,661
Unrestricted	901,747,334	876,614,273
Net position	1,456,572,709	1,451,259,762
Total liabilities, deferred inflows and net position	2,658,911,446	2,349,867,821

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
As of June 30, 2016
With Comparative Amounts as of June 30, 2015

	2016	2015
Operating revenue:		
Net patient service revenue (Note 10)	$1,501,745,738	$1,428,735,590
University allocations (Note 11)	32,188,422	33,782,117
Other	53,654,777	46,459,277
Total operating revenue	1,587,588,937	1,508,976,984
Operating Expenses:		
Salaries and wages	523,546,953	488,091,250
Fringe benefits	139,617,488	132,277,428
Supplies	354,603,564	331,891,094
Purchased services and other expenses	345,976,040	338,476,881
Utilities	25,501,609	26,841,680
Provision for depreciation and amortization	97,886,354	95,815,845
Total operating expenses	1,487,132,008	1,413,394,179
Income from operations	100,456,930	95,582,805
Nonoperating revenue (expenses):		
Gifts	2,357,100	24,573,822
Investment income	13,214,269	11,206,685
Net increase (decrease) in the fair value of investments	(21,072,760)	30,325,360
Net gain (loss) from investments in affiliated companies (Note 4)	(526,324)	8,604,308
Noncontrolling Interest in Subsidiary Income	(1,735,527)	(2,139,653)
Interest expense	(20,556,753)	(20,448,945)
Gain (Loss) on disposal of fixed assets	13,031,585	(10,548,838)
Gain Sharing School of Medicine (Note 12)	(24,216,794)	(11,206,744)
Other	(10,294,545)	(8,829,875)
Net nonoperating revenues(expense)	(49,799,750)	21,536,119
Income before other revenues, expenses, gains or losses	50,657,180	117,118,924
Transfers	(28,227,623)	(22,973,290)
Increase (decrease) in net assets	22,429,556	94,145,634
NET POSITION		
Net position - beginning of year	1,451,259,761	1,433,022,130
Prior period net position adjustment (Note 1.O)	(17,116,610)	(75,908,000)
Net position-beginning of the year, adjusted	1,434,143,151	1,357,114,130
Net assets - end of year	1,456,572,709	1,451,259,761

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 2016
With Comparative Amounts as of June 30 2015

	2016	2015
Cash flows from operating activities:		
Receipts from patients and third-parties	$ 1,447,443,822	$ 1,421,277,134
Receipts from other revenue	64,236,901	31,067,018
Payments to employees	(655,585,788)	(620,959,772)
Payments to suppliers	(645,317,581)	(625,765,465)
Payment for utilities	(25,501,609)	(26,841,680)
Net cash provided by operating activities	185,275,745	178,777,235
Cash flows from non-capital financing activities:		
Payments on grants	2,248,085	1,019,620
Gifts	2,154,642	5,437,604
Net cash provided (used) by non-capital financing activities	4,402,726	6,457,224
Cash flows from capital and related financing activities:		
State appropriation for construction		
Purchase of capital assets	(198,015,011)	(163,845,375)
Principal paid on capital debt	(17,994,591)	(18,277,766)
Principal paid on capital leases	(208,409)	(683,378)
Interest paid on capital debt	(20,556,753)	(20,466,067)
Proceeds from incurring loan from the University	349,309,487	261,095
Termination (decrease) to capital leases	(19,409,988)	
Proceeds from sale of capital assets	691,456	193,305
Net cash used by capital and related financing activities	93,816,191	(202,818,186)
Cash flows from investing activities:		
Interest on investments	10,147,694	5,459,777
Sale of investments		16,112,550
Purchase of investments	(406,533,514)	
Other	(38,522,169)	(20,935,332)
Transfer to affiliate	(475,494)	49,093,911
Payment affiliate	(24,216,794)	3,866,381
Net cash provided by investing activities	(459,600,276)	53,597,287
Net decrease in cash and cash equivalents	(176,105,615)	36,013,559
Cash and cash equivalents - beginning of the year	321,471,684	285,458,125
Cash and cash equivalents - end of the year	$ 145,366,069	$ 321,471,684
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 100,456,930	$ 95,582,805
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	97,886,354	95,815,845
Changes in Assets, Liabilities, Deferred Outflows and Deferred Inflows		
Accounts receivables	(38,021,630)	(23,816,390)
Inventories and prepaid expenses	(260,102)	(9,196,191)
Deferred outflows of resources	(930,595)	(5,245,180)
Accounts payable and accrued expenses	33,354,789	25,636,346
Deferred inflows of resources	(7,210,000)	
Net cash provided by operating activities	$ 185,275,745	$ 178,777,235

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 2016
With Comparative Amounts as of June 30 2015

	2016	2015
Change in fair market value	(20,946,962)	29,460,119
Gain(loss) on disposal of capital assets	12,873,273	(10,548,838)
Loss on investment in Novant JOC	(5,622,400)	
Gain on UHC investment	3,303,062	

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Mission

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

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

B. Basis of Accounting

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

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

C. Use of Estimates

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

D. Subsidiary and Affiliated Companies

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

University of Virginia Imaging, LLC

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

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

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

Community Medicine, LLC

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

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

Hematology Oncology Patient Enterprises, Inc.

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

Culpeper Hospital

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

On October 1, 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 accounts for Culpeper Hospital using the consolidation method of accounting.

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. As part of the agreement, the Medical Center contributed Culpeper Regional Hospital for a 40% investment in the new joint operating company, recognizing a $12.9 million gain a result of the transfer of Culpeper Regional Hospital. 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.

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

E. Net Patient Service Revenue

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

F. Indigent Care

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

G. 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.

H. 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 investement 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.

I. 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 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 exteral 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.

J. Inventories

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

K. 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.

L. 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.

M. 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.

N. 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, 2015, from which the summarized information is derived.

O. Restatement of Net Position

Net Position

The following prior period adjustments were made to the beginning net position reported in the Medical Centers financial statements at June 30, 2015:

Net position as originally stated at June 30, 2015	$ 1,451,259,761
Correction to report Other Postemployment Benefits:	
Other Pension Expense Liability(Note 18)	(17,116,610)
Net position restated at June 30, 2015	$ 1,434,143,151

The change in Net Position is as a result of the Other Post Employment Benefit, as it relates to the Medical Center being reported on the Medical Center's statements. In previous years, the University had reported this liability. The Medical Center liability is recorded in other long term liabilities under the heading, 'Other Postemployment Benefit'.

P. 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.

Q. 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.

R. 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.

S. 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 2016, the Medical Center reported transfers of $28.2M to the University. The purpose of these transfers were for salary and research support, as well as furthering the University's strategic plan.

2. CREDIT RISK UNDERLYING CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, Cash Equivalents and Investments:

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

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Medical Center has no category 3 deposits or investments for 2016.

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 2016.

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 2016.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2016.

Cash and Cash Equivalents

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

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:		
University of Virginia Long Term Pool	$ 548,441,031	100%
Total Investments	548,441,031	
Total Cash Equivalents and Investments	$ 548,441,031	

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, 2016:

INVESTMENTS MEASURED AT FAIR VALUE

		BALANCE AT JUNE 30, 2016	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	$ 12,283,378		-	-	-	-
TOTAL CASH AND CASH EQUIVALENTS		**$ 12,283,378**	**-**	**-**	**-**	**-**	**-**
SHORT-TERM INVESTMENTS							
	Short term pool	133,082,692	-	-	-	133,082,692	-
TOTAL SHORT-TERM INVESTMENTS		**$ 133,082,692**	**-**	**-**	**-**	**133,082,692**	**-**
LONG-TERM INVESTMENTS							
	Investments in affiliates	117,769,084	-	-	-	-	117,769,084
	Long term pool	146,300,962				146,300,962	
	UVIMCO LTP	108,368,333	-	-	-	108,368,333	-
			-	-	-	-	-
TOTAL LONG-TERM INVESTMENTS		**$ 372,438,379**	**-**	**-**	**-**	**254,669,295**	**117,769,084**
ENDOWMENT							
	UVIMCO LTP	548,441,031	-	-	-	548,441,031	-
TOTAL ENDOWMENT		**$ 548,441,031**	**-**	**-**	**-**	**548,441,031**	**-**

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.

The valuation method for investments measured at NAV per share or its equivalent is presented on the following table.

	FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY (IF CURRENTLY ELIGIBLE)	REDEMPTION NOTICE PERIOD
UVIMCO STP	$ 133,082,692	-	Weekly	2 days
UVIMCO LTP	803,110,326	-	Monthly	(a)
TOTAL INVESTMENTS MEASURED AT NAV	**$ 936,193,018**	-		

(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.

3. GOODWILL

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

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

4. AFFILIATED COMPANIES

Central Virginia Health Network, Inc.

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

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

University of Virginia / HEALTHSOUTH, LLC

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

Valiance Health, LLC

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

University Health System Consortium (UHC)

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

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

PACE

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

Valley Regional Health and University of Virginia Radiosurgery Center, LLC

The Medical Center entered into a 10 % 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.

Mary Washington Hospital and University of Virginia Radiosurgery Center, LLC

The Medical Center entered into a 10 % minority interest, partnership, with Mary Washington Hospital in fiscal year 2014. Mary Washington Hospital 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 Fredericksburg and surrounding areas, who would have otherwise had to travel to receive care.

Schedule of Affiliates
As of June 30, 2016

	Common Stock and Equity Contribution	Share of accumulated income (loss)	Net investment
Central Virginia Health Network, Inc.	$ 232,500	$ (41,026)	$ 191,474
Healthsouth, LLC	0	15,988,137	15,988,137
Valiance, LLC	0	249,147	249,147
University HealthSystem Consortium	0	4,087,425	4,087,425
PACE Equity	245,000	(367,745)	(122,745)
Valley Health Regional	0	4,861	4,861
JOC/Novant	$ 94,041,170	$ (5,622,400)	$ 88,418,770

HealthCare Partners, Inc.

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

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.

5. PROPERTY, PLANT, AND EQUIPMENT

A summary of the property, plant, and equipment accounts and the related accumulated depreciation as of June 30, 2016, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 24,220,370	$ 887,000		$ 25,107,370
Construction in Progress	$ 35,744,241	$ 110,406,938	$ 28,382,094	$ 117,769,085
Depreciable Capital Assets				
Land improvements	$ 11,498,448	$ 1,235		$ 11,499,683
Buildings	1,071,327,197	27,360,098	2,969,680	1,095,717,614
Equipment-Fixed	23,740,518	478,721	114,988	24,104,251
Equipment-Movable	532,105,127	38,935,064	114,937,564	456,102,627
Total depreciable capital assets	$ 1,638,671,291	$ 66,775,118	$ 118,022,233	$ 1,587,424,176
Less accumulated depreciation				
Land improvements	$ 8,683,742	$ 341,499		$ 9,025,241
Buildings	454,041,249	40,045,362	2,148,050	491,938,561
Equipment-fixed	18,847,125	669,797	91,029	19,425,893
Equipment-movable	348,128,884	37,909,246	70,328,331	315,709,799
Total accumulated depreciation	$ 829,701,002	$ 78,965,904	$ 72,567,410	$ 836,099,496
Depreciable land improvements, buildings and equipment, net	$ 808,970,289	$ (12,190,786)	$ 45,454,822	$ 751,324,680
Depreciable Intangible Assets	$ 115,215,519	$ 6,781,636	$ 249,221	$ 121,747,934
Less accumulated amortization: Intangible Assets	$ 86,085,927	$ 13,881,504	$ 237,364	$ 99,730,067
Depreciable intangible assets	$ 29,129,592	$ (7,099,867)	$ 11,857	$ 22,017,868
Total depreciable capital and intangible assets (net)	$ 838,099,881	$ (19,290,654)	$ 45,466,679	$ 773,342,548

6. ASSETS HELD BY TRUSTEES

Assets held by trustees consist of assets whose use is limited under indenture agreements. The Series 2008, 2010, 2012, 2013, 2014, and 2016 bond resolutions require deposits be made in a specific order to various accounts and funds held by the University of Virginia Internal Loan Program as follows:

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

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

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

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

Funds held by the Treasurer and restricted by bond agreements consist of the following as of June 30, 2016:

Bond Sinking Fund-2010A	$	1,717,616
Bond Sinking Fund-2013A		2,782,794
Bond Sinking Fund-2014A		3,239,809
Bond Sinking Fund-2014B		4,275,583
Bond Sinking Fund-2016A		339,685,853

7. ACCOUNTS PAYABLE

As of June 30, 2016, the components of accounts payable and accrued expenses consist of the following:

Accrued allotments	$ 43,567,703
Accrued leave	35,403,245
Vendor accounts payable	29,375,876
Accrued payroll and other	24,968,200
Other accrued expenses	19,342,069
Other accounts payable	17,373,177
	$ 170,030,270

8. LONG-TERM DEBT

*In thousands

Description	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:							
Series 1999A Pooled Refinance	4.5-5.25	2019	$ -		$ -	$ -	$ -
Series 2012 Pooled	4.75	2032	100,793		4,095	96,698	4,294
Series 2013 Pooled	4.75	2033	16,730		285	16,445	299
Series 2014 Pooled (1)	4.75	2034	14,533		626	13,907	656
Series 2014 Pooled (2)	4.75	2034	11,828		514	11,314	538
Series 2014 Pooled (3)	4.75	2034	27,937		27,937	0	-
Series 2014 Pooled (4)	4.75	2034	27,557			27,557	725
Series 2014 Pooled (5)	4.75	2034	261,084		10,079	251,005	10,568
Series 2016 Pooled (1)	4.15	2036	0	376,078		376,078	-
Total bonds payable			460,462	376,078	43,536	793,004	17,080
Notes payable:							
UVA Imaging			4,977	269	1,461	3,785	2245
Total notes payable			4,977	269	1,461	3,785	2245
Capitalized leases:							
Kirtley			6,252		208	6,044	204
Transitional Care Hospital			19,410		19,410	0	0
Total capitalized leases:			25,662	0	19,618	6,044	204
Total long-term debt			$491,101	$ 376,347	$ 64,615	$802,833	$ 19,529

Future Debt Requirements

Fiscal Year	Principal	Interest	Total
2017	$19,531,296	$20,305,209	$ 39,836,505
2018	20,021,998	20,377,760	40,399,757
2019	19,366,815	19,936,370	39,303,185
2020	20,294,103	19,011,975	39,306,078
2021	37,083,355	18,042,307	55,125,661
2022-2029	220,354,159	73,921,843	294,276,003
2027-2031	275,044,949	41,489,575	316,534,525
2032-2036	181,898,857	8,339,434	190,238,291
2037-2041	4,962,192	3,519,592	8,481,784
2042-2046	3,097,628	3,017,672	6,115,300
2047-2049	1,176,322	6,281,713	7,458,035
	$802,831,674	$234,243,448	$1,037,075,124

9. FINANCING OF MAJOR CONSTRUCTION AND RENOVATION PROJECTS

At the end of fiscal year 2014, the Medical Center acquired financing for the following: the East and South Chiller Plants, the Education Resource Center. The Medical Center completed both Chiller plants in fiscal year 2015. Additionally, the Medical Center expects to complete the Education Resource Center in fiscal year 2017.

In May 2016, the Medical Center acquired financing for the Emergency Department and Tower Expansion. 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, which is where the previous helipad was 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.

10. NET PATIENT SERVICE REVENUE

The Medical Center's patient service revenue is as follows for the year ended June 30, 2016:

Gross patient service revenue:	
Inpatient	
Routine	$486,224,588
Ancillary	1,849,755,263
Outpatient services	
Ancillary	2,540,364,902
Pharmacy	86,117,684
Clinics	9,470,848
Total gross patient revenue	4,971,933,285
Allowances for indigent care and contractual adjustments	(3,470,187,547)
Net patient service revenue	$1,501,745,738

The Medical Center received $98,239,627 in fiscal year 2016 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 $32,746,542.25 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, $17,800,000 was transferred to Health Services Foundation (currently known as the University Physicians Group) for related physician services and is included in the purchased services expense.

11. UNIVERSITY ALLOCATIONS

The School of Medicine faculty assists the Medical Center in its mission of providing healthcare and medical education. A survey is conducted annually to determine the value of this effort. An allocation is made on the Statement of Revenues, Expenses, and Changes in Net Position to reflect the value of this effort as income. This allocation is offset in the operating expenses by an equal amount in purchased services. The amount of this allocation for fiscal year 2016 was $28,524,486.

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 2016 was $ 3,663,936.

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

12. GAIN SHARING WITH THE SCHOOL OF MEDICINE

Beginning with fiscal year 2003, the Medical Center and the School of Medicine entered into a Memorandum of Understanding for gain sharing. The amount of gain sharing with the School of Medicine is a tiered arrangement based on the Medical Center's income in excess of minimum requirements established by the Board of Visitors. As a result of the Medical Center exceeding the minimum requirements established by the Board of Visitors, for fiscal year 2016, the gain sharing amount is $19,003,053 (School of Medicine) and 3,646,733(Cancer Center), respectively, plus the School of Medicine's income percentage for its ownership in HOPE of $1,567,008, resulting in a total gainshare amount of $24,216,794.

13. COMMITMENTS

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

Year Ending June 30,	Operating Leases
2017	$ 8,681,094
2018	6,678,698
2019	4,113,854
2020	3,324,945
2021	2,133,846
2022-2026	8,235,778
2027-2031	4,082,635
2032-2036	2,300,650
2037-2041	823,200
2042-2046	823,200
2047-2050	521,360
Total	$41,719,259

The total rental expense for operating leases for the year ended June 30, 2016, was $11,440,394.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2016 totaling $104,396,339 of which $63,064,590 was incurred as of June 30, 2016.

14. UNIVERSITY OF VIRGINIA PHYSICIANS GROUP

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

On August 1, 2000, management of 63 outpatient clinics operated by UPG since July 1, 1994, transferred to the Medical Center. At that time, the Medical Center filed for provider-based status with the federal government and became responsible for all costs associated with the operations of these provider-based clinics except for physicians' costs. As of the end of FY16, there were 78 outpatient clinics. On August 1, 2000, the Medical Center entered into leased employment agreements with UPG for limited personnel who remained UPG employees, but were performing Medical Center duties.

The Medical Center recorded $24,687,153 as expense payable to the Physicians Group for the provision of supervisory and administrative services, $37,019,214 for other services which includes expenses related to the Strategic Investment Pool, and $3,827,200 for rental of space for the year ended June 30, 2016. In addition, the Medical Center recorded non-operating expenses of $11,802,969 payable to the Physicians Group.

The Medical Center recorded income from the Physicians Group of $26,590,655 for clinic facility fees and other services, and $814,857 for the rental of space for clinics for the year ended June 30, 2016.

15. RISK MANAGEMENT AND SELF-INSURANCE

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

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

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

16. RETIREMENT PLANS-VIRGINIA RETIREMENT SYSTEM

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

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

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

Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 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
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.	***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

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

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

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

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

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

<table>
<tr><td></td><td></td><td>service.

<u>Defined Contribution Component:</u>
Members are eligible to receive distributions upon leaving employment, subject to restrictions.</td></tr>
<tr><td>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</td><td>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</td><td>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.</td></tr>
</table>

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** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2016 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28%, for August 2015 and 14.22% for September 2015 through June 2016.

These rates was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate for the year ended June 30, 2016. Contributions from the state agency to the VRS State Employee Retirement Plan were $5,373,000 and $5,245,180 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the state agency reported a liability of $68,435,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 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, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the state agency's proportion of the VRS State Employee Retirement Plan was 1.11% as compared to 1.12% at June 30, 2014.

For the year ended June 30, 2016, the state agency recognized pension expense of $2,726,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, 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, 2016, 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	$ 493,000	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	4,923,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	3,527,000
Employer contributions subsequent to the measurement date	5,682,775	
Total	$ 6,175,775	$ 8,450,000

$5,373,000 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, 2017. 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

2017	$ (3,518,000)
2018	$ (3,332,000)
2019	$ (1,972,000)
2020	$ 865,000

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2015, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Plan
Total Pension Liability	$ 22,531,130
Plan Fiduciary Net Position	16,398,575
Employers' Net Pension Liability (Asset)	$ 6,122,555
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%

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

Long-Term Expected Rate of Return

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

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

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

Discount Rate

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

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

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

	1% Decrease (6.00%)	**Current Discount Rate (7.00%)**	**1.00% Increase (8.00%)**
State agency's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$ 98,293,000	$68,435,000	$43,396,000

Pension Plan Fiduciary Net Position

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

is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 Comprehensive Annual Financial Report (CAFR) may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2014- annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

The University of Virginia Medical Center had no payable as of June 30, 2016. This payable is a legally required contribution to the plan.

17. RETIREMENT PLANS-FACULTY OPTIONAL RETIREMENT PLAN

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

Total pension costs under the plans were $17,208,748 for the year ended June 30, 2016. Contributions to the Optional Retirement Plans were calculated using base salaries of $355,520,619 for the year ended June 30, 2016. The contribution percentage amounted to five percent for the year ended June 30, 2016.

18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Medical Center participates in the Commonwealth-sponsored VRS-administered statewide group life insurance program, which provides postemployment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least fifteen years of state service. Information related to these plans is available at the statewide level in the Commonwealth's CAFR.

The Medical Center participates in a postemployment benefit plan administered by the University. The Medical Center's annual postemployment benefits expense is actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which calls for the measurement and recognition of the cost of other postemployment benefits (OPEB) during the periods when employees render their services. The statement also establishes comprehensive disclosures for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separately from a pension plan. The University implemented GASB Statement No. 45 prospectively as of June 30, 2008, with a zero net OPEB obligation at transition.

PLAN DESCRIPTION AND FUNDING POLICY

Optional Retirement Retiree Life Insurance Plans. Medical Center employees who participate in the Optional Retirement Plan have a variety of retiree life insurance options depending on termination date and years of service. Benefit provisions for these plans are established and maintained by the University under the authority of the Board. The University pays the total cost of the insurance. The Optional Retirement Retiree Life Insurance Plans are single-employer plans administered by the University. The University does not issue stand-alone financial statements for the plans.

Retiree Health Plan. Medical Center employees who retire before becoming eligible for Medicare participate in the Retiree Health Plan, which mirrors the University's Health Plan for active employees, until they are eligible for Medicare. At that time, Medical Center retirees can participate in the Commonwealth's Medicare Supplement Plan. Benefit provisions for the Retiree Health Plan are established and maintained by the University under the authority of the Board. It is a single-employer plan administered by the University. The University does not issue stand-alone financial statements for this plan.

ANNUAL OPEB COST AND FUNDED STATUS

The Medical Center's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is discounted to determine the actuarial present value of total projected benefits. The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the plan.

Once the UAAL is determined, the ARC is determined as the normal cost and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the net OPEB obligation. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows information on the actuarial accrued liability as of June 30, 2016, the most recent valuation of the plan. It also shows, for the current year and two preceding years, the components of the University's annual OPEB costs, the amount actually contributed to the plans, and changes in the net OPEB obligation for the Optional Retirement Plans Retiree Life and the Retiree Health Plan.

SUMMARY OF VALUATION RESULTS	2016
Actuarial Accrued Liability by Category	
Current retirees, beneficiaries, dependents and terminated vested members	$ 6,287,151
Current active members	28,266,851
Adjust to June 30	
Total Actuarial accrued liability as of June 30	$ 34,554,002
Covered payroll	204,000,000
Actuarial accrued liability as percentage of covered payroll	16.9%
Annual Required Contribution (ARC)	
Estimated ARC	5,158,323
Estimated interest on net OPEB obligation	770,274
ARC adjustment to June 30	(1,188,264)
Annual OPEB cost	4,740,333
Actual contributions	(1,160,795)
Net increase in OPEB obligation	3,579,538
Net OPEB obligation, beginning of year	17,116,610
Net OPEB obligation, end of year	$ 20,696,148
Percentage of annual OPEB cost contributed	24.5%

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the required annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the Notes to the Financial Statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the University and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the Medical Center elected to use the entry age normal level dollar method. The actuarial assumptions include a 4.5 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and the University's investments calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend rate and a drug cost trend rate of 7.25 percent for the fiscal year ended June 30, 2016, grading to 5.0

percent for the fiscal year ending June 30, 2026, and thereafter. All rates include a 4.0 percent inflation assumption. Past service liability is amortized over a closed thirty-year period as a level dollar amount.

19. CONTINGENCIES

In August 2015, the Medical Center was informed that the federal government's Center for Medicare Services (CMS) issued notices to Virginia's Department of Medical Assistance Services (DMAS) disallowing $40,830,020 in Disproportionate Share Hospital adjustment payments to DMAS for fiscal years 2006 through 2011. Based on the receipt of final settlements in the years in question, the Medical Center's portion of the loss would be $26,259,150. CMS contends that DMAS inappropriately applied payments against subsequent year allotments. DMAS has appealed this disallowance and any repayment is deferred, pending the appeals resolution.

In FY 16, Medical Center management changed its estimate to probable that UVA will be liable for $15,456,671, the amount management believes UVA has not already return to CMS. We have a liability booked, within Due To Third Parties, on the financial statements for the $15,456,671 as of 6/30/2016.

Subsequent Event - On August 8, 2016, CMS issued an adverse decision against VCU and UVA for the entire $40,830,020. Of that amount, $15,456,671 is the amounts that we have not paid back in other settlements. UVA Believes another $10,802,481 has been paid back as part of the FY 2011 & FY 2012 Medicaid DSH audit. The Appeal Board did not express an opinion on if they agreed that we had paid those amounts back and referred the issue back to CMS to determine. We are planning on appealing both amounts. This diminishes our chances of a positive outcome.

20. SUBSEQUENT EVENT

The Medical Center entered into a real estate purchase agreement with University Physicians Group to purchase "certain parcel of land containing approximately 4.74 acres of land, and all improvements located thereon, situated in the County of Albemarle, Virginia and described as 2955 Ivy Road", otherwise identified as the Northridge Medical Office building. The purchase price is $18,400,000. The Medical Center made an earnest money deposit of $9,000,000 on July 29, 2016. An estimated closing date of April 2017 is expected.

The Medical Center purchased from Grove Street Properties, LLC 7 parcels of land, situated in the City of Charlottesville, known as the following:

- Parcel 1-910 Grove Street
- Parcel 2-918 Grove Street
- Parcel 3-920 Grove Street
- Parcel 4-922 Grove Street
- Parcel 5-915-917 King Street
- Parcel 6-913 King Street
- Parcel 7-1.84 acres north side of Grove Street.

The purchase price for these parcels of land was $8,730,000, and closed on August 26, 2016.

The Medical Center entered into a membership interest purchase agreement with Mary Washington Hospital, Inc., where Mary Washington Hospital agreed to purchase the Medical Center's 20 units of ownership for $268, 254. This Medical Center received payment on August 11, 2016.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Schedule of University of Virginia Medical Center 's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Year Ended June 30, 2016*

	2016	2015
Medical Center's Proportion of the Net Pension Liability (Asset)	1.1177%	1.1239%
Medical Center's Proportionate Share of the Net Pension Liability	$ 68,435,000	$62,919,000
Medical Center's Covered Payroll	49,535,540	49,526,307
Medical Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	138.15%	127.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%	74.28%

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

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

Schedule of Employer Contributions
For the Year Ended June 30, 2016

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
2016	UVA Medical Center	$ 5,345,457	$ 5,345,457	$ -	$ 49,187,971	10.87%
2015	UVA Medical Center	5,245,180	5,245,180	-	49,535,540	10.59%

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

<u>Notes to Required Supplementary Information</u>

Changes of benefit terms – There have been no significant 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, 2015 are not material.

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

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

FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLANS *(in thousands)*

VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL (b-a)/(c)
6/30/2016	$ -	$ 34,554,002	$ 34,554,002	0%	$ 204,000,000	16.9%

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 10, 2016

The Honorable Terence R. McAuliffe Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit and Review Commission

Board of Visitors
The University of Virginia

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the **University of Virginia Medical Center**, a division of the University of Virginia, as of and for the year ended June 30, 2016, 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 opinions.

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the University of Virginia Medical Center as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Relationship to the University of Virginia

As discussed in Note 1, the basic financial statements of the University of Virginia Medical Center are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the University of Virginia that is attributable to the transactions for the University of Virginia Medical Center. They do not purport to, and do not, present fairly the University of Virginia's overall financial position as of June 30, 2016, 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.

Correction of 2015 Financial Statements

As discussed in Note 1 of the accompanying financial statements, the fiscal year 2015 financial statements have been restated to correct a misstatement related to other postemployment benefits. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University of Virginia Medical Center's 2015 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 10, the Schedule of the University of Virginia Medical Center's Share of Net Pension Liability on page 58, the Schedule of Employer Contributions on page 58, the Notes to Required Supplementary Information on page 59 and the Funding Progress for Other Postemployment Benefit Plans on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2016, 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

EMS/alh

UNIVERSITY OF VIRGINIA MEDICAL CENTER
Charlottesville, Virginia

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