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MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the University of Virginia's Medical Center (Medical Center) for the year ended June 30, 2014, with comparative information for the year ended June 30, 2013. 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 657 licensed bed hospital with a state designated Level 1 trauma center located on the Charlottesville campus. The Medical Center also has a 40 licensed bed Transitional Care Hospital located west of the Charlottesville campus. In addition, primary and specialty care are provided at clinic locations throughout central Virginia communities.

Financial Highlights

	2014	2013
Operating revenues	$ 1,314.6	$ 1,239.8
Operating income	$ 87.6	$ 90.3
Net non-operating revenue	57.2	18.0
Net income	$ 144.8	$ 108.3
* millions		

At the end of fiscal year 2014, the operating income was $87.6 million, compared to fiscal year 2013 operating income of $90.3 million. The current fiscal year performance resulted from a slight increase in demand for inpatient care services and significant increases in supply and pharmaceutical expense as compared to fiscal year 2013.

The operating income in fiscal year 2014 reflects day-to-day operations, while the operating income in fiscal year 2013 includes a $7.7 million reduction of expenses for the settlement of a multi-year dispute with a vendor. In addition, during fiscal year 2014, the Medical Center experienced an increase in outpatient demand and a slightly higher case mix index as compared to fiscal year 2013.

Net non-operating revenue increased by $39.2 million from fiscal year 2013 to fiscal year 2014. Due to favorable conditions in United States capital markets, investment income (both realized and changes in fair market value) increased by $30.3 million from fiscal year 2013 to fiscal year 2014. Additional increases in gifts and investment income, totaling $6.5 million from fiscal year 2013 to fiscal year 2014 also contributed to the overall increase in net non-operating revenue. Other factors, the gain sharing accrual made to the University of Virginia, School of Medicine is $5.4 million less than fiscal year 2013. The gain sharing accrual is based on the Medical Center exceeding operating margin thresholds. Also included in non-operating revenue are others items such as earnings from affiliates, loss on disposal of assets, interest payments, and other transfers to operating units of the University of Virginia. The sum of these other items is to reduce net non-operating revenue by $3.0 million from fiscal year 2013.

Financial Statements

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

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

Statement of Net Position
As of June 2014 and June 2013

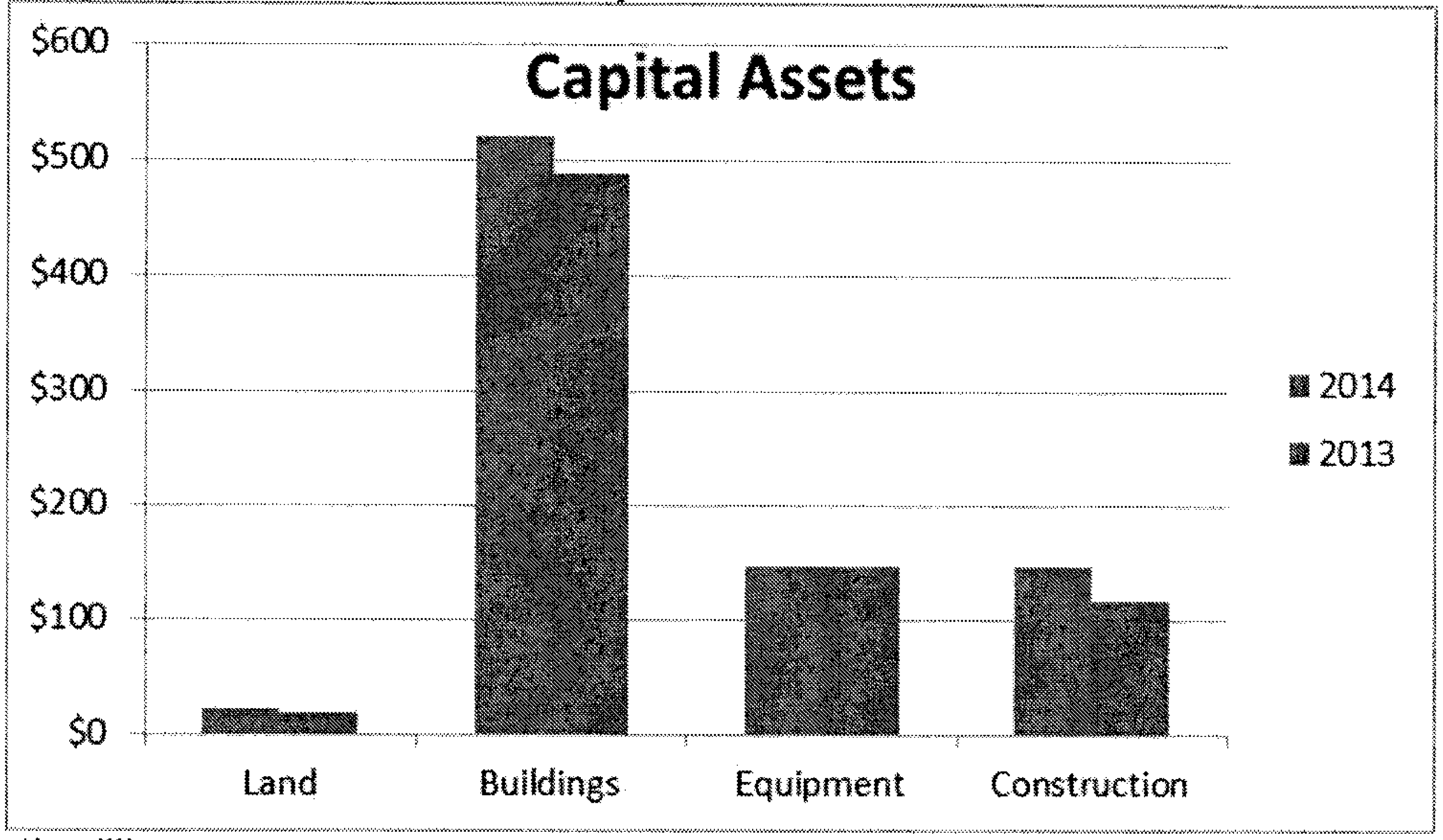
	2014	2013	Increase(Decrease) Amount	Increase(Decrease) Percent
Assets and deferred outflows:				
Current assets	$ 493.0	$ 408.1	$ 84.9	20.8%
Capital assets	836.7	768.9	67.9	8.8%
Other non-current assets	899.9	799.9	100.0	12.5%
Total assets and deferred outflows	$ 2,229.6	$ 1,976.9	$ 252.8	12.8%
Liabilities and deferred inflows:				
Current liabilities	294.6	257.2	37.4	14.5%
Non-current liabilities	502.0	423.0	79.0	18.7%
Total liabilities and deferred inflows	796.6	680.2	116.43	17.1%
Net position				
Net investment in capital assets	423.2	417.2	6.0	1.4%
Restricted for				
Nonexpendable	53.1	53.1	0.0	0.0%
Expendable	48.0	73.8	-25.8	-34.9%
Unrestricted	908.7	752.6	156.1	20.7%
Net Position	$ 1,433.0	$ 1,296.7	$ 136.4	10.5%

*-in millions

During fiscal year 2014, the Medical Center's financial position remained positive. Net position increased $136.4 million, or 10.5 percent, primarily due to a consistent operating income and the continued increase in the fair market value of the Medical Center's investments.

The value of capital assets net of depreciation increased $67.9 million from the prior fiscal year. Major projects in fiscal year 2014 include the construction of the Battle Building, the completion of the clinical office building at Zions Crossroads, 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 increased by $116.4 million due to acquiring additional debt for the South and East Chiller, the Education Resource Center, the Emergency Department expansion and the consolidation of the Medical Center's debt issued through the pooled debt program with the University of Virginia.

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, 2014 and 2013 is as follows:

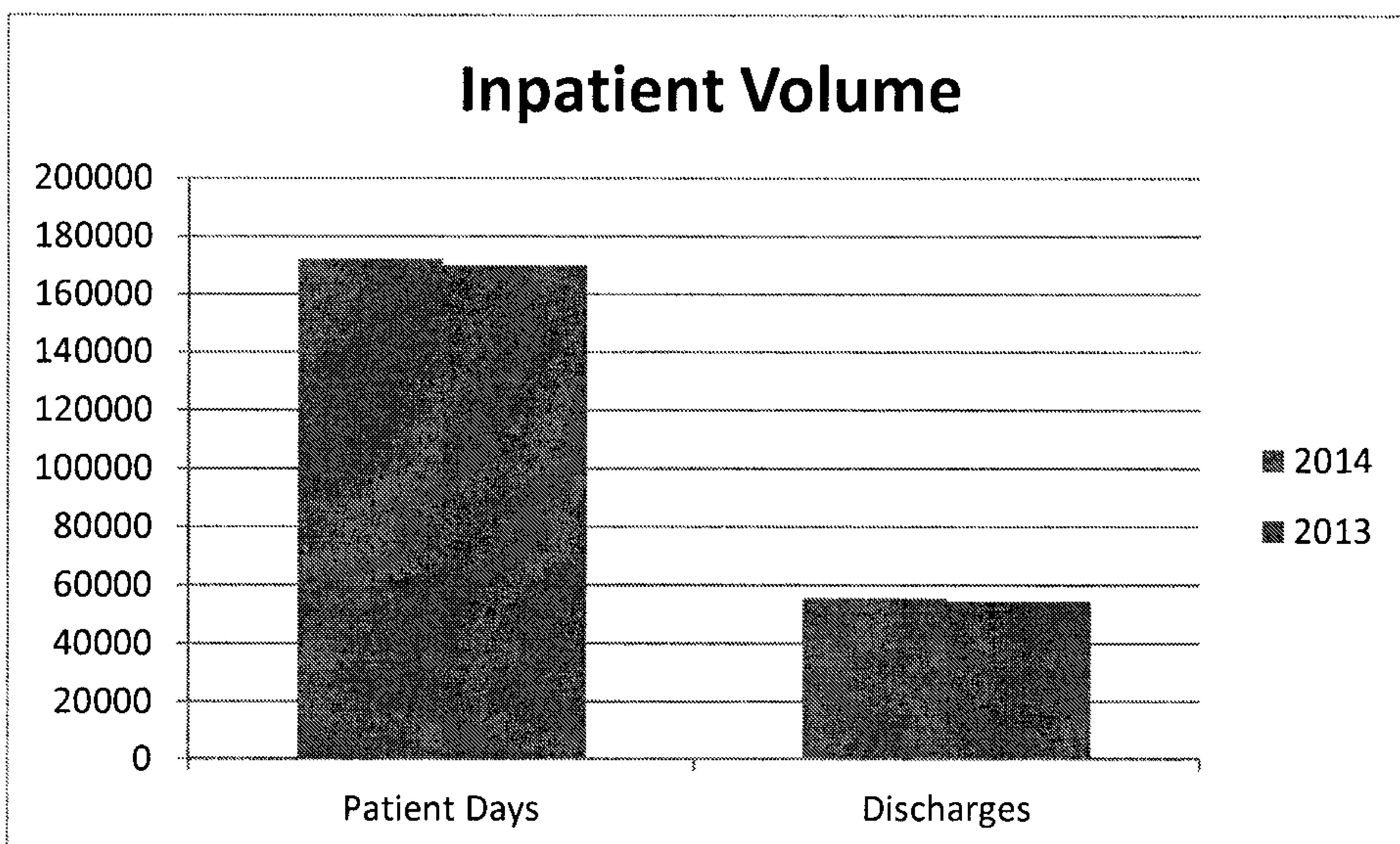
	Statement of Revenues, Expenses and Changes in Net Position For the years ended June 30, 2014 and 2013			
			Increase(Decrease)	
	2014	2013	Amount	Percent
Net patient service revenue	$1,237.2	$1,165.7	$71.5	6.1%
University allocations	28.3	25.4	2.9	11.4%
Other	49.2	48.7	0.5	1.0%
Total operating revenue	1,314.7	1,239.8	74.9	6.0%
Salaries and benefits	537.2	507.7	29.6	5.8%
Other operating expenses	689.9	641.8	48.0	7.5%
Total operating expenses	1,227.0	1,149.4	77.6	6.8%
Operating income	87.6	90.3	(2.7)	-3.0%
Non-operating income	57.2	18.0	39.1	217.1%
Income before other revenue and transfers	144.8	108.3	36.5	33.7%
Transfers to UVA/Commonwealth	(8.4)	(5.6)	(2.8)	49.8%
Increase in net position	136.4	102.6	33.8	32.9%
Net position-beginning of year	1,296.7	1,199.6	97.0	8.1%
Prior period fund balance adjustment	0.0	(5.6)	5.6	0.0%
Net position-beginning of year, adjusted	$ 1,296.6	$ 1,194.1	$ 102.6	8.6%
Net position-end of year	$ 1,433.0	$ 1,296.7	$ 136.4	10.5%
*-in millions				

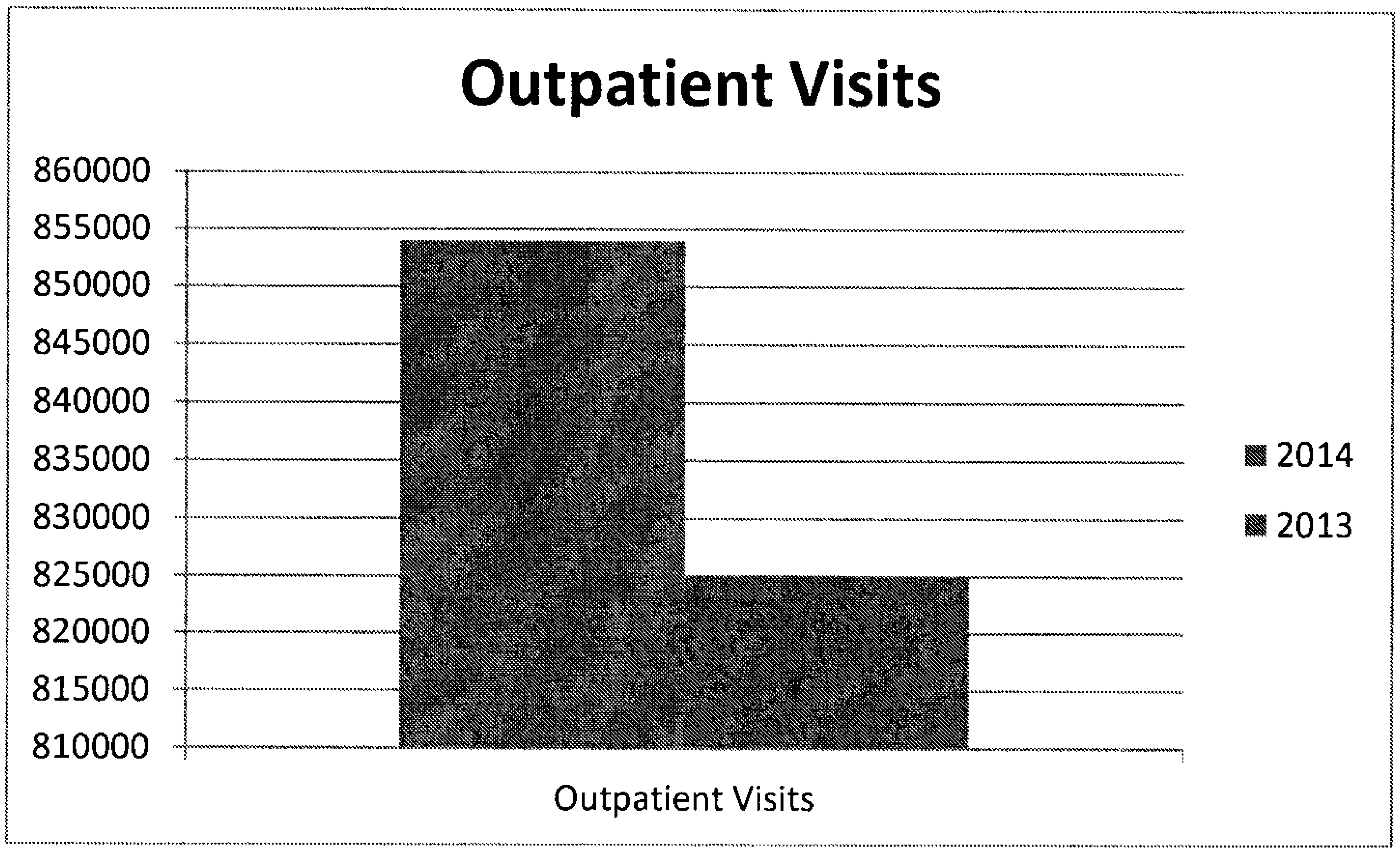
Operating Revenue

Net patient service revenue for fiscal year 2014 was 6.1 percent above prior year. Contributing to the increase in net patient service revenue were adjusted discharges increased by 1.9 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.

In fiscal year 2014, the Medical Center received $4.1 million in meaningful use incentive payments from The Center for Medicare and Medicaid Services (CMS). Meaningful use sets specific objectives that hospitals must achieve to qualify for incentive payments. Meaningful use is using certified electronic health record technology to: improve quality, safety, engage patients in the care process, improve care coordination, and maintain privacy and security of patient health information.

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 2014, indigent care has totaled $259.0 million which is 6.5 percent of gross revenue. Unlike most other hospitals, the Medical Center receives cost-based payments from a combination of State and Federal dollars to pay the Medical Center and its Faculty. However, the trend in indigent care and issues with the State budget and healthcare reform are reasons for concern as we look to future years.



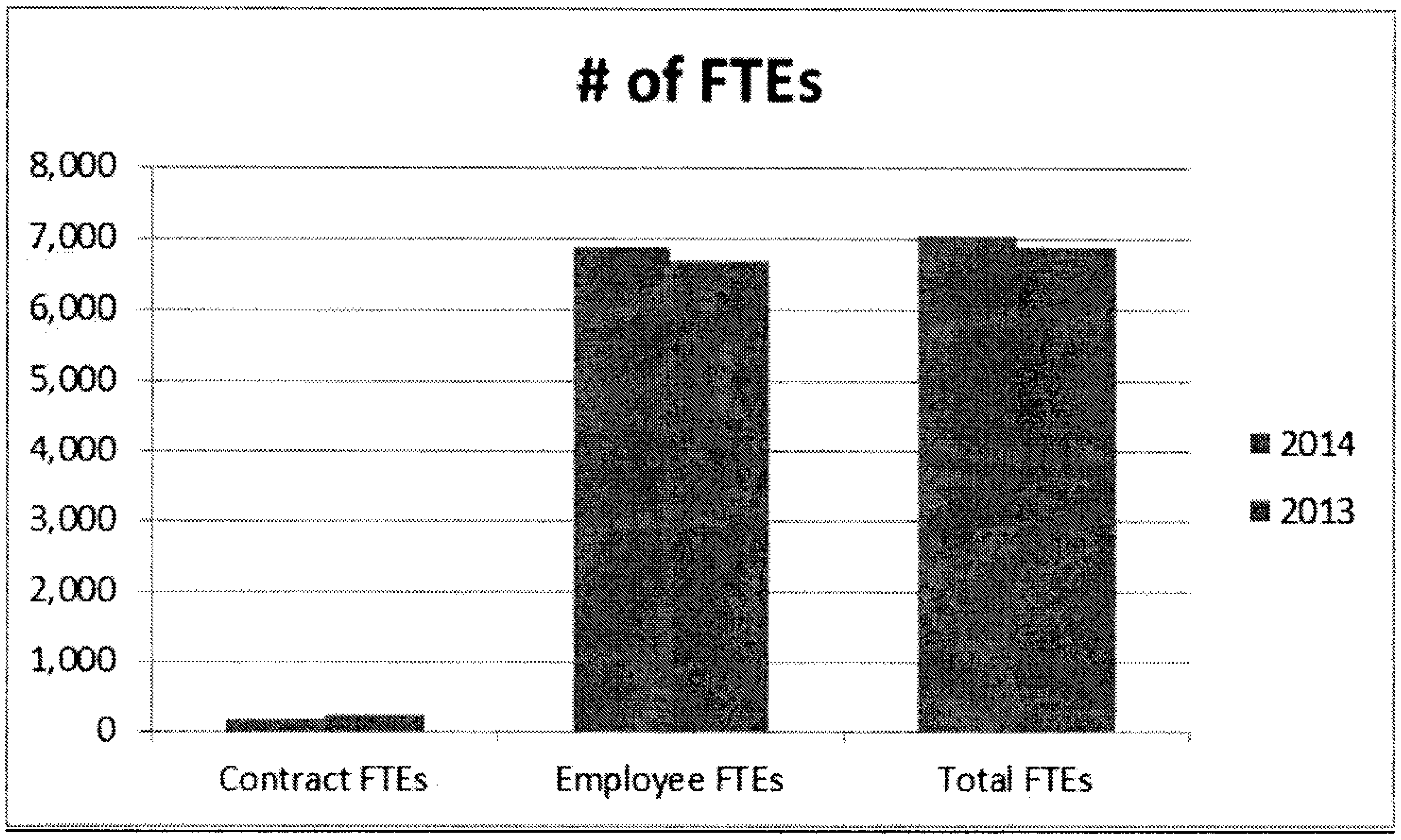


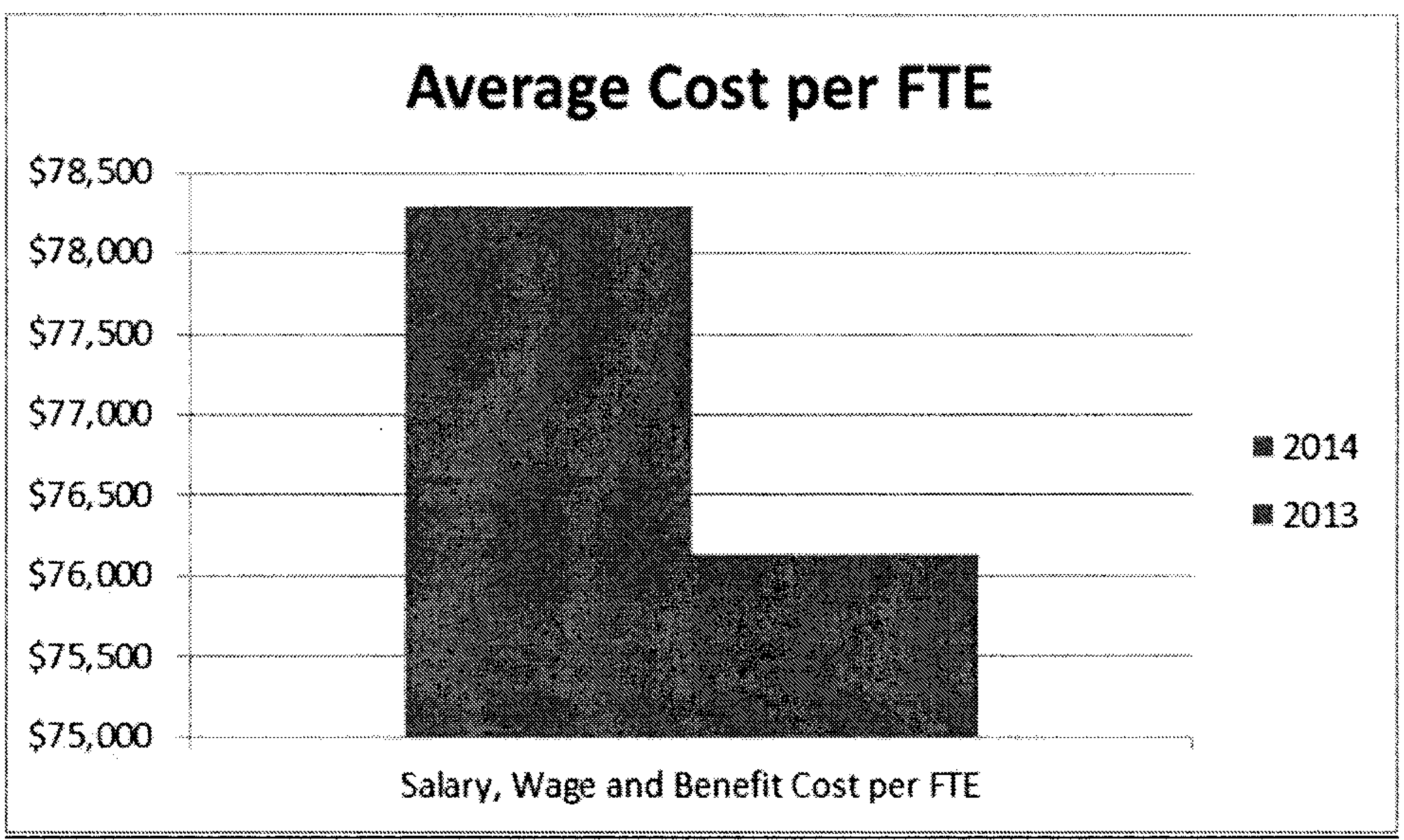
Operating Expenses

Total operating expenses for fiscal year 2014 were 6.8 percent above the prior year.

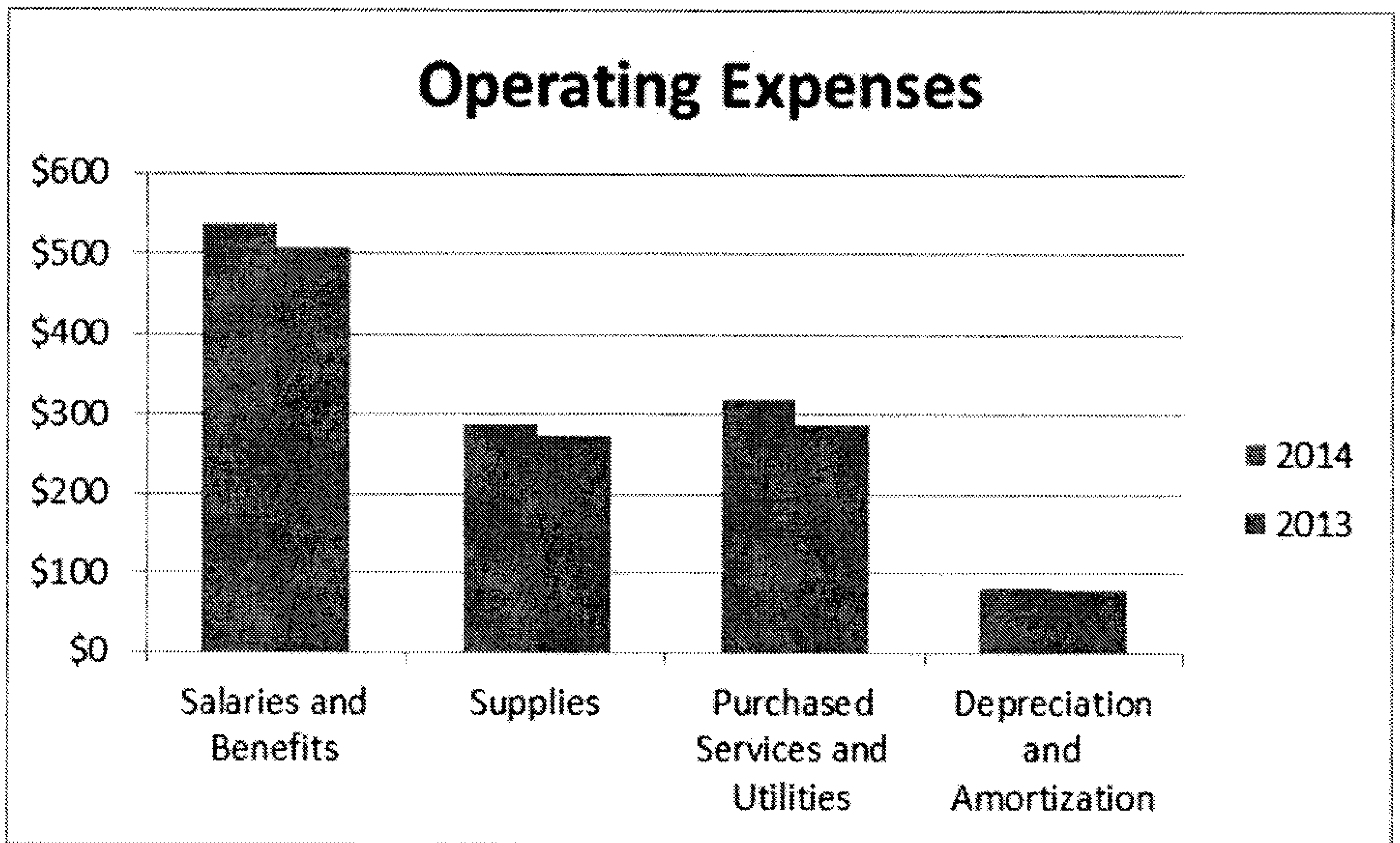
Total labor expenses (including salaries and wages, fringe benefits and contract labor) grew 5.8 percent as compared to fiscal year 2013. The Medical Center continues an ongoing, collaborative effort to increase staffing levels to meet patient demand and to adjust employee compensation to remain market competitive.

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





Other operating expenses rose 7.5 percent from the prior year, primarily due to contractual increases in purchased services, continuing inflationary pressures from suppliers of pharmaceuticals and medical supplies, depreciation and utilities. In fiscal year 2013, purchased services were reduced by a one-time settlement with a vendor. Other operating expenses rose 5.8 percent excluding the vendor settlement.



* 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, 2014 and 2013 is as follows:

Statement of Cash Flows				
For the years ended June 30, 2014 and 2013				
			Increase(Decrease)	
	2014	2013	Amount	Percent
Cash flows from operating activities	$ 205.7	$ 201.8	$ 3.8	1.8%
Cash flows from non-capital financing activities	11.2	(3.8)	15.0	-393.7%
Cash flows from capital and related financing activities	(124.5)	(130.9)	6.5	-5.0%
Cash flows from investing activities	(32.5)	10.1	(42.6)	-423.8%
Net increase(decrease) in cash and cash equivalents	60.0	77.1	(17.1)	-22.2%
Cash and cash equivalents-beginning of the year	225.5	148.4	77.1	52.0%
Cash and cash equivalents-end of the year	$285.6	$225.5	$60.0	26.6%
* in millions				

The cash generated from operating activities increased by 1.8% percent from fiscal year 2013 to fiscal year 2014 as a result of cash collections from patients accounts receivable slightly outpacing the operating expenses the Medical Center.

Cash flows from non-capital financing activities increased $15 million from fiscal year 2013. During fiscal year 2014, the Medical Center received $12 million more gift funds and paid Buchanan grants of $3.0 million less than previous year.

Cash flows from capital and related financing activities decreased $6.5 million in fiscal 2014. The primary reason for the decrease is the Medical Center acquired $73.3 million more in debt at the end of fiscal year 2014, while increasing the amount spent for capital by $58.8 million. In addition, interest expense and principal payments increased by $8.3 million from the previous year.

Cash flows from investing activities decreased $42.6 million from fiscal year 2013 due to the net change between ongoing construction drawdown of the existing investment for the Battle Building and the new investments acquired for the Education Resource Center and Emergency Department Expansion.

Economic Factors Affecting the Future

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

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

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

FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
STATEMENT OF NET POSITION
As of June 30, 2014
With Comparative Amounts as of June 30, 2013

	2014	2013
ASSETS AND DEFERRED OUTFLOWS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 262,474,665	$ 199,544,313
Accounts receivable, net of estimated uncollectibles of $402,898,456 at June 30, 2014 and $342,120,193 at June 30, 2013	197,278,526	174,827,025
Due from University of Virginia	291,265	4,772,633
Inventories and prepaid expenses	32,956,508	28,958,072
Notes receivable	8,010	8,678
Total current assets	493,008,973	408,110,720
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	22,983,460	25,983,611
Investments in pooled endowment funds (Note2)	539,927,873	463,898,379
Goodwill (Note 3)	10,682,775	11,187,499
Investments (Note 2)	139,976,971	138,909,071
Investments in affiliated companies (Note 4)	72,777,257	70,953,456
Land (Note 5)	23,018,495	17,637,647
Contruction in Progress (Note 5)	146,494,613	116,780,299
Depreciable land improvements, buildings, and equipment, less accumulated depreciation and amortization of $778,178,705 as of June 30, 2014 and $724,094,375 as of June 30, 2013 (Note 5)	667,231,962	634,462,051
Assets whose use is limited:		
Cash and cash equivalents (Note 2)	-	-
Investments (Note 2)	69,899,024	66,666,028
Due from the University of Virginia - non current	43,646,988	22,287,103
Total noncurrent assets	1,736,639,418	1,568,765,143
Total assets	$ 2,229,648,391	$ 1,976,875,863

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, 2014
With Comparative Amounts as of June 30, 2013

	2014	2013
LIABILITIES DEFERRED INFLOWS AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	$ 155,647,789	$ 145,514,254
Due to third-party payors	73,239,256	28,939,787
Current installments of long-term debt (Note 8)	17,342,946	28,555,928
Grants payable - current portion	2,548,814	4,523,951
Due to Culpeper Regional Hospital-current (Note 8)	23,397,069	33,454,562
Unearned revenue	22,427,487	16,214,721
Total current liabilities	294,603,361	257,203,202
Long-term liabilities:		
Long-term debt (Note 8)	492,457,859	416,805,346
Grants payable - noncurrent portion	7,572,718	4,415,674
Noncontrolling Interest in Subsidiary	1,992,323	1,772,696
Total long-term liabilities	502,022,900	422,993,716
Total liabilities	796,626,261	680,196,918
NET POSITION		
Net investment in capital assets	423,188,092	417,200,363
Restricted for		
Nonexpendable	53,099,192	53,099,192
Expendable	48,037,742	73,804,111
Unrestricted	908,697,103	752,575,278
Net position	1,433,022,130	1,296,678,945
Total liabilities and net position	$ 2,229,648,391	$ 1,976,875,863

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER - All Business Units
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
As of June 30, 2014
With Comparative Amounts as of June 30, 2013

	2014	2013
Operating revenue:		
Net patient service revenue (Note 10)	$1,237,157,489	$1,165,689,625
University allocations (Note 11)	28,259,526	25,389,255
Other	49,173,091	48,674,261
Total operating revenue	1,314,590,107	1,239,753,142
Operating Expenses:		
Salaries and wages	424,692,805	401,306,472
Fringe benefits	112,483,933	106,365,815
Supplies	287,465,340	272,280,225
Purchased services and other expenses	293,677,321	265,538,076
Utilities	25,443,566	23,825,230
Provision for depreciation and amortization	83,259,684	80,186,980
Total operating expenses	1,227,022,648	1,149,502,797
Income from operations	87,567,459	90,250,345
Nonoperating revenue (expenses):		
Gifts	6,232,773	969,950
Investment income	9,771,401	8,571,071
Net increase (decrease) in the fair value of investments	76,029,494	45,704,858
Net gain (loss) from investments in affiliated companies (Note 4)	1,873,230	163,798
Noncontrolling Interest in Subsidiary Income	(1,811,205)	(1,752,887)
Interest expense	(14,651,892)	(10,955,687)
Loss on disposal of fixed assets	(3,343,483)	(372,087)
Gain Sharing School of Medicine (Note 12)	(10,490,992)	(15,890,271)
Other	(6,402,021)	(8,431,993)
Net nonoperating revenues	57,207,305	18,006,752
Income before other revenues, expenses, gains or losses	144,774,764	108,257,096
Transfers	(8,431,579)	(5,628,782)
Increase (decrease) in net position	136,343,185	102,628,314
NET POSITION		
Net position - beginning of year	1,296,678,945	1,199,645,843
Prior period fund balance adjustment (Note 1K)		(5,595,211)
Net position-beginning of year, adjusted		1,194,050,632
Net position - end of year	$ 1,433,022,130	$ 1,296,678,945

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 2014
With Comparative Amounts as of June 30 2013

	2014	2013
Cash flows from operating activities:		
Receipts from patients and third-parties	1,249,670,679	$1,186,229,185
Receipts from other revenue	62,390,075	46,075,193
Payments to employees	(527,303,756)	(508,428,660)
Payments to suppliers	(553,594,677)	(498,207,648)
Payment for utilities	(25,443,566)	(23,825,230)
Net cash provided by operating activities	205,718,756	201,842,840
Cash flows from non-capital financing activities:		
Payments on grants	(1,240,896)	(4,782,465)
Gifts	12,445,539	969,950
Net cash provided (used) by non-capital financing activities	11,204,643	(3,812,515)
Cash flows from capital and related financing activities:		
State appropriation for construction		
Purchase of capital assets	(174,585,415)	(115,734,586)
Principal paid on capital debt	(27,891,161)	(23,356,566)
Principal paid on capital leases	(670,810)	(657,828)
Interest paid on capital debt	(14,655,599)	(10,935,705)
Proceeds from incurring loan from the University	93,001,501	19,675,745
Proceeds (increase) to capital leases		
Proceeds from sale of capital assets	348,889	68,468
Net cash used by capital and related financing activities	(124,452,595)	(130,940,472)
Cash flows from investing activities:		
Interest on investments	8,703,501	8,260,332
Purchase of investments	(3,232,997)	39,816,741
Transfer to endowment		
Other	(26,369,076)	(30,274,252)
Transfer to affiliate	455,582	1,231,164
Payment affiliate	(12,097,613)	(8,981,956)
Net cash provided by investing activities	(32,540,603)	10,052,029
Net increase in cash and cash equivalents	59,930,201	77,141,882
Cash and cash equivalents - beginning of the year	225,527,924	148,386,041
Cash and cash equivalents - end of the year	$285,458,125	$225,527,924
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	87,567,459	90,250,345
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	83,259,684	80,186,980
Change in assets and liabilities		
Accounts receivables	(17,969,465)	45,431,618
Inventories and prepaid expenses	(3,998,436)	(727,902)
Accounts payable and accrued expenses	56,859,514	(13,298,200)
Net cash provided by operating activities	$205,718,756	$201,842,840

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

NOTES TO FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2014

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 and at the Transitional Care Hospital. UVI provides services to outpatients from the Medical Center's primary and secondary service areas.

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

Community Medicine, LLC

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

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

Hematology Oncology Patient Enterprises, Inc.

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

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

E. Net Patient Service Revenue

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

F. Indigent Care

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

G. Receivables From Third Parties and Contractual Adjustments

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

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

H. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash and all highly liquid investments with maturity of three months or less when purchased. Donated investments are reported at the fair market value at the date of receipt. The major portion of the investments of the Medical Center's endowment funds is pooled under the University of Virginia Growth and Income Fund, the general endowment pool for the University. Annually, endowment earnings on the consolidated endowment pool are distributed to the participating funds based on the participating share of each fund in the pool.

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

I. <u>Inventories</u>

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

J. <u>Property, Plant, and Equipment</u>

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

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

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

K. <u>Accrued Leave</u>

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

L. <u>Comparative Data</u>

The Medical Center presents its financial information 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, 2013, from which the summarized information is derived.

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 2014.

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

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

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

Foreign currency risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Medical Center has no foreign investments or deposits for 2014.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2014.

Cash and Cash Equivalents

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

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

Investments

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

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

Credit and Concentration of Credit Risks

Type of Investment	Fair Value	Credit Rating	Concentration Risk
INVESTMENTS:			
University of Virginia Long Term Pool	539,927,873		100%
Total Investments	539,927,873		
Total Cash Equivalents and Investments	$ 539,927,873		

Interest Rate Risk – Maturities

Type of Investment	<1 year	1-5 years	6-10 years	Total
University of Virginia Long Term Pool	$ 539,927,873			$ 539,927,873
Total investments	$ 539,927,873	$ -		$ 539,927,873

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

Culpeper Regional 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 uses the equity method of consolidation in order to reflect the Medical Center's investment in Culpeper Regional Hospital.

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.

As of June 30, 2014

	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	$ -	$ 12,840,721	$ 12,840,721
Valiance, LLC	$ -	$ 249,147	$ 249,147
University HealthSystem Consortium	$ -	$ 551,839	$ 551,839
Culpeper Regional Hospital	$ 41,248,100	$ 6,237,101	$ 47,485,201
PACE Equity	$ 245,000	$ -	$ 245,000

HealthCare Partners, Inc.

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

5. PROPERTY, PLANT, AND EQUIPMENT

A summary of the property, plant, and equipment accounts and the related accumulated depreciation as of June 30, 2014, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 17,637,647	$ 39,580,849	$ 34,200,000	$ 23,018,496
Construction in Progress	116,780,299	110,648,730	80,934,416	146,494,613
Depreciable Capital Assets				
Land improvements	10,148,999	1,411,429	215,533	11,344,895
Buildings	865,401,006	92,303,530	24,936,297	932,768,238
Equipment-Fixed	22,355,839	1,562,363	1,944,986	21,973,216
Equipment-Movable	361,637,487	41,647,971	29,568,342	373,717,115
Total depreciable capital assets	1,259,543,331	136,925,292	56,665,159	1,339,803,465
Less accumulated depreciation				
Land improvements	8,089,580	251,518		8,341,098
Buildings	379,524,725	35,965,357	1,127,675	414,362,406
Equipment-fixed	18,478,229	937,635	1,909,022	17,506,842
Equipment-movable	256,422,520	34,091,741	26,138,657	264,375,604
Total accumulated depreciation	662,515,056	71,246,251	29,175,354	704,585,953
Depreciable land improvements, buildings and equipment, net	597,028,275	65,255,565	27,066,328	635,217,512
Depreciable Intangible Assets	99,013,096	6,904,267	310,160	105,607,202
Less accumulated amortization:				
Intangible Assets	61,579,319	12,013,433		73,592,752
Depreciable intangible assets	37,433,777	(5,109,166)	310,160	32,014,450
Total depreciable capital and intangible assets (net)	$ 634,462,052	$ 60,146,399	$ 27,376,489	$ 667,231,962

6. ASSETS HELD BY TRUSTEES

Assets held by trustees consist of assets whose use is limited under indenture agreements. The Series 1998B, 1999A, 2003A, 2003B, 2006, 2008, 2009, 2010, 2011,2012, 2013, and 2014 bond resolutions require deposits be made in a specific order to various accounts and funds held by the University of Virginia Internal Loan Program as follows:

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

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

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

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

Funds held by the Treasurer and restricted by bond agreements consist of the following as of June 30, 2014:

Bond Sinking Fund-2008		38,802
Bond Sinking Fund-2009A		0
Bond Sinking Fund-2009C		0
Bond Sinking Fund-2010A		1,749,057
Bond Sinking Fund-2010B		0
Bond Sinking Fund-2010E		0
Bond Sinking Fund-2011A		0
Bond Sinking Fund-2012A		12,044,919
Bond Sinking Fund-2013A		2,782,794
Bond Sinking Fund-2014A		3,345,950
Bond Sinking Fund-2014B		23,313,302
Bond Sinking Fund-2014C		26,624,200

*The Medical Center also participates in the Commonwealth's Public Higher Education Financing Program, Series 1999A ("Pooled Bond Program"). The indenture of the series specifies the Bank of New York as trustee and the Medical Center is required to make debt service payments to the trustee in the amount billed by the trustee semi-annually.

7. ACCOUNTS PAYABLE

As of June 30, 2014, the components of accounts payable and accrued expenses consist of the following:

Accrued allotments	33,248,514
Accrued leave	29,575,768
Vendor accounts payable	26,615,089
Due to the University	14,537,260
Other accounts payable	12,328,161
Accrued payroll	10,685,743
Other accrued expenses	28,657,254
	$155,647,789

8. LONG-TERM DEBT

*In thousands

Description	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:							
Series 1998B Refinance	4.5-6.00	2018	$ 2,283		$ 2,283	$ -	$ -
Series 1999A Pooled Refinance	4.5-5.25	2019	2,160		265	1,895	280
Series 2003A Pooled	4.5-6.00	2015	16,850		16,850	0	-
Series 2003B Pooled	4.7-6.00	2023	22,300		22,300	0	-
UVA Pooled Debt	4.7-6.00	2024	10,591		10,591	0	-
Series 2006 Pooled	4.5-6.00	2027	29,088		29,088	0	-
Series 2007 Pooled	4.5-6.00	2014	1,788		1,788	0	-
Series 2008 Pooled	4.5-6.00	2028	72,380		72,380	0	-
Series 2009 Pooled (1)	4.75	2029	3,188		3,188	0	-
Series 2009 Pooled (2)	4.75	2029	1,060		1,060	0	-
Series 2009 Pooled (3)	4.75	2029	3,598		3,598	0	-
Series 2009 Pooled (4)	4.75	2029	20,170		20,170	0	-
Series 2009 Pooled (5)	4.75	2029	13,654		13,654	0	-
Series 2009 Pooled (6)	4.75	2029	13,712		13,712	0	-
Series 2010 Pooled (1)	4.75	2030	6,263		6,263	0	-
Series 2010 Pooled (2)	4.75	2030	24,194		24,194	0	-
Series 2010 Pooled (3)	4.75	2030	2,782		2,782	0	-
Series 2010 Pooled (4)	4.75	2030	7,731		7,731	0	-
Series 2010 Pooled (5)	4.75	2030	4,629		4,629	0	-
Series 2010 Pooled (6)	4.75	2030	18,987		18,987	0	-
Series 2010 Pooled (7)	4.75	2030	5,119		5,119	0	-
Series 2011 Pooled	4.75	2031	6,750		6,750	0	-
Series 2012 Pooled	4.75	2032	106,244		1,546	104,698	3,905
Series 2013 Pooled	4.75	2033	17,896		894	17,002	272
Series 2014 Pooled (1)	4.75	2034	0	15,418	288	15,130	597
Series 2014 Pooled (2)	4.75	2034	0	12,670	352	12,318	490
Series 2014 Pooled (3)	4.75	2034	0	27,937		27,937	-
Series 2014 Pooled (4)	4.75	2034	0	27,557		27,557	-
Series 2014 Pooled (5)	4.75	2034	0	287,089	16,393	270,696	9,612
						0	
Total bonds payable			413,417	370,671	306,855	477,233	15,156
Notes payable:							
UVA Imaging			4,929	2,302	1,009	6,222	1506
Total notes payable			4,929	2,302	1,009	6,222	1506
Capitalized leases:							
Kirtley			6,679		215	6,464	212
Transitional Care Hospital			20,336		455	19,881	468
Total capitalized leases:			27,015	0	670	26,345	680
Total long-term debt			$445,361	$ 372,973	$ 308,534	$509,800	$ 17,342

Future Debt Requirements

Fiscal Year	Principal	Interest	Total
2015	17,342,874	20,517,538	37,860,412
2016	22,238,979	21,082,162	43,321,141
2017	19,079,889	21,120,943	40,200,832
2018	20,358,394	20,645,948	41,004,342
2019	21,322,273	19,688,264	41,010,536
2020-2024	121,475,365	82,692,027	204,167,393
2025-2029	152,763,423	51,004,105	203,767,528
2030-2034	118,161,620	14,542,698	132,704,318
2035-2039	9,907,904	4,351,658	14,259,562
2040-2044	5,848,039	3,115,980	8,964,019
2045-2049	1,302,044	7,440,173	8,742,217
	$509,800,804	$266,201,495	$776,002,301

9. FINANCING OF MAJOR CONSTRUCTION AND RENOVATION PROJECTS

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

At the end of fiscal year 2011, the Medical Center broke ground for the Battle Building. Once completed, the Battle Building will contain the University of Virginia Children's Hospital and replace the current University of Virginia Outpatient Surgery Center. During fiscal year 2012, $99 million debt was issued through the Pooled Debt Loan Program. The project is expected to cost $141 million. The project was substantially complete in June 2014.

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

10. NET PATIENT SERVICE REVENUE

The Medical Center's patient service revenue is as follows for the year ended June 30, 2014:

Gross patient service revenue:	
Inpatient	
Routine	$426,658,662
Ancillary	1,607,363,902
Outpatient services	
Ancillary	1,912,045,556
Clinics	32,500,599
Total gross patient revenue	3,978,568,719
Allowances for indigent care and contractual adjustments	(2,741,411,230)
Net patient service revenue	$1,237,157,489

The Medical Center received $110,397,301 in fiscal year 2014 from the Commonwealth's Department of Medical Assistance Services. These payments are included in net patient service revenue as an adjustment to allowances for indigent care and contractual adjustments.

Of the payment received for disproportionate share, relating to the care provided to indigent patients, $21,200,000 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 Assets 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 2014 was $25,473,675.

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 Assets 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 2014 was $ 2,785,851.

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 2014, the gain sharing amount is $9,684,521 plus the School of Medicine's income percentage for its ownership in HOPE of $806,471, resulting in a total gainshare amount of $10,490,992.

13. COMMITMENTS

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

Year Ending June 30,	Operating Leases
2015	$ 11,022,893
2016	5,137,399
2017	4,383,375
2018	4,241,773
2019	2,194,526
2020-2024	6,080,157
2025-2029	3,214,257
2030-2034	823,200
2035-2039	823,200
2040-2044	823,200
2044-2049	823,200
2049-2050	164,640
Total	$39,731,820

The total rental expense for operating leases for the year ended June 30, 2014, was $10,750,724.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2014 totaling $55,486,133 of which $51,113,442was incurred as of June 30, 2014.

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 HSF 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 FY14, there were 71 outpatient clinics. On August 1, 2000, the Medical Center entered into leased employment agreements with HSF for limited personnel who remained HSF employees, but were performing Medical Center duties.

The Medical Center recorded $24,193,318 as expense payable to the Physicians Group for the provision of supervisory and administrative services, $29,605,227 for other services which includes expenses related to the Strategic Investment Pool, and $4,487,032 for rental of space for the year ended June 30, 2014. In addition, the Medical Center recorded non-operating expenses of $7,217,021 payable to the Physicians Group. Prior to FY08 this expense had been recorded as supervisory and administrative services.

The Medical Center recorded income from the Physicians Group of $20,501,502 for clinic facility fees and other services, and $118,264 for the rental of space for clinics for the year ended June 30, 2014.

15. RISK MANAGEMENT AND SELF-INSURANCE

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

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

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

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

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

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

16. RETIREMENT PLANS

Employees of the Medical Center are employees of the Commonwealth. Approximately 10 percent of all full-time classified salaried employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS) for the Medical Center. Information relating to this plan is available at the statewide level only in the CAFR. The Commonwealth, not the Medical Center, has overall responsibility for contributions to this 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 $14,214,766 for the year ended June 30, 2014. Contributions to the Optional Retirement Plans were calculated using base salaries of $279,182,515 for the year ended June 30, 2014. The contribution percentage amounted to five percent for the year ended June 30, 2014.

17. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

The Commonwealth provides healthcare credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the

Commonwealth's health plan. Additionally, some employees receive healthcare credits for participation in the University of Virginia Health Plan. Information related to these plans is available at the statewide level in the CAFR.

18. CONTINGENCIES

In October 2010, 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 $34,089,804 in Disproportionate Share Hospital adjustment payments to DMAS for fiscal years 2006 through 2009. Based on the receipt of final settlements in the years in question, the Medical Center's portion of the loss would be $17,921,094 for the federal portion and DMAS could elect to recoup the state portion of another $17,921,094. CMS contends that DMAS inappropriately applied payments against subsequent year allotments. DMAS has appealed this disallowance and any repayment is deferred, pending the appeals resolution. The appeal has not progressed sufficiently to determine whether DMAS will be required to return any payments to the federal program and, if so, whether DMAS will require any providers, including the Medical Center, to return any payments to DMAS. The financial impact of the final resolution of this case on the Medical Center is not known at this time; therefore, no liability has been recorded in the financial statements.

19. SUBSEQUENT EVENT

The Medical Center acquired 100% ownership of Culpeper Regional Hospital during fiscal year 2015. The close date was October 1, 2014.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 5, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Visitors
University of Virginia

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the University of Virginia Medical Center, a division of the University of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University of Virginia 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, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia Medical Center as of June 30, 2014, 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

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, 2014, 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.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University of Virginia Medical Center's fiscal year ended June 30, 2013, financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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 1 through 10 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 5, 2014, on our consideration of the University of Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University of Virginia Medical Center's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER
Charlottesville, Virginia

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