

# THE UNIVERSITY OF VIRGINIA MEDICAL CENTER

Report on audit for the year ended June 30, 2021

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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, 2021, with comparative information for the year ended June 30, 2020. 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 for Health Affairs of the University of Virginia and Chief Executive Officer for UVA Health 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 cutting edge technologically advanced care. The hub of the Medical Center is a State and Magnet designated licensed 696-bed hospital located on the Charlottesville campus. The Charlottesville campus includes the following: a Level 1 trauma center, and nationally recognized cancer, stroke, and heart centers; as well as several primary and specialty clinics. The Medical Center also has a 40 licensed-bed Transitional Care Hospital located west of the Charlottesville campus as well as several joint ventures.

### Financial Highlights (presented in millions)

	2021	2020 (As restated)
Operating revenues	<u>\$ 1,872.7</u>	<u>\$ 1,721.1</u>
Operating income	\$ 61.5	\$ 18.6
Net non-operating revenue	<u>528.2</u>	<u>35.4</u>
Net income	<u>\$ 589.7</u>	<u>\$ 54.0</u>

At the end of fiscal year 2021, the Medical Center's operating income was \$61.5 million, compared to fiscal year 2020's operating income of \$18.6 million. The operating increase for the current fiscal year stems from the following factors:

- Increased surgeries, primarily transplant surgeries, and outpatient visits throughout the Medical Center, which were markedly reduced in FY20 due to the COVID-19 pandemic
- Increased hospital admissions, yet slightly lower average length of stay, resulting in increased turnover of beds
- Higher case mix index (CMI) due to treating higher acuity patients, as well as ongoing treatment of COVID patients resulting in increased reimbursement
- Decreased expenses due to COVID financial mitigation plans as well as increases in employee turnover.

Net non-operating revenue increased by \$492.8 million from fiscal year 2020 to fiscal year 2021. This was primarily related to capital market investment returns both realized and unrealized.

### Financial Statements

The Medical Center's financial report includes the Medical Center and its component unit as outlined in the footnotes.

These financial statements are prepared in accordance with standards published by the Governmental Accounting Standards Board (GASB).

The Statement of Net Position presents the financial position of the Medical Center at the end of the fiscal year, including all assets, liabilities, deferred inflows and deferred outflows. Net position is the difference between total assets and deferred outflows and total liabilities and deferred inflows and is one of the indicators used to evaluate the current financial condition of the Medical Center. In contrast, the change in net position indicates whether the overall financial condition improved or worsened during the year. Shown below is a summary of the Medical Center's Statement of Net Position, representing a \$589.7 million increase.

### Statement of Net Position As of June 30, 2021 and 2020

	Primary Medical Center *			
	2021	2020 (As restated)	Increase(Decrease) Amount	Percent
Assets and deferred outflows:				
Current assets	\$ 832.4	\$ 607.8	\$ 224.6	37.0%
Capital assets	1,378.0	1,363.3	14.7	1.1%
Other non-current assets	1,633.2	1,255.9	377.3	30.0%
Deferred outflows of resources	29.4	34.5	(5.1)	(14.8%)
Total assets and deferred outflows	<u>\$ 3,873.0</u>	<u>\$ 3,261.5</u>	<u>\$ 611.5</u>	<u>18.7%</u>
Liabilities and deferred inflows:				
Current liabilities	560.8	524.5	36.3	6.9%
Non-current liabilities	917.3	934.6	(17.3)	(1.9%)
Deferred inflows	30.7	27.9	2.8	10.0%
Total liabilities and deferred inflows	<u>1,508.8</u>	<u>1,487.0</u>	<u>21.8</u>	<u>1.5%</u>
Net position				
Net investment in capital assets	634.1	623.0	11.1	1.8%
Restricted for:				
Nonexpendable	53.1	53.1	0.0	0.0%
Expendable	121.8	73.7	48.1	65.3%
Unrestricted	<u>1,555.2</u>	<u>1,024.8</u>	<u>530.4</u>	<u>51.8%</u>
Net position	<u>2,364.2</u>	<u>1,774.5</u>	<u>589.7</u>	<u>33.2%</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,873.0</u>	<u>\$ 3,261.5</u>	<u>\$ 611.5</u>	<u>18.7%</u>

\* - The schedule is presented in millions

During fiscal year 2021, the Medical Center's net position increased, due to the following:

- Tremendous capital market returns and Federal/State financial relief
- Increased volumes throughout the Medical Center, treating higher acuity patients with shorter lengths of stay resulting in higher reimbursement

-Continued focus on expense management throughout the Medical Center

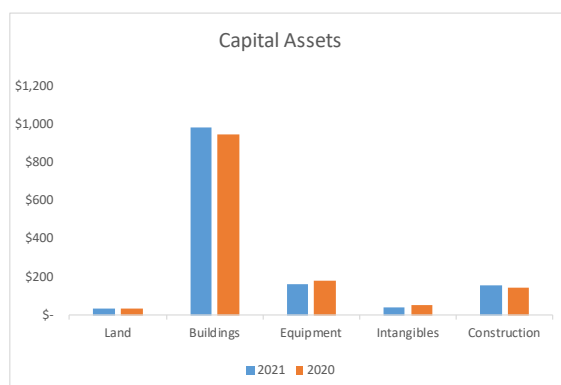
The primary drivers for the increase in Medical Center capital assets were the University Hospital expansion project, which includes a new emergency room, additional operating rooms, and an inpatient bed tower, and the Ivy Mountain Musculoskeletal Center.

The development and maintenance of the Medical Center's capital assets is a necessary and critical factor for sustaining and increasing the patient's quality of care received. Capital projects consist of replacement, renovation, and new construction projects of the Medical Center and its related outpatient clinics, as well as significant investments in equipment and information systems.

Some of the new or ongoing projects during the year are as follows:

Projects	Source of Funds	Completion Date	Projected Cost	Capitalized Cost
Hospital HVAC Phase III / Phase IV	Operating Funds	Dec-21	28,000,000	951,757
Ivy Musculoskeletal Center + Utility Plant	Operating Funds	Sep-21	180,000,000	62,784,603
University Hospital Expansion-MRI/ED/OR/Bed Tower	Debt	Jul-21	391,600,000	28,523,304
HS-COMPREHENSIVE BRST CTR	Operating Funds	Aug-20	8,700,000	1,917,303

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



\*in millions

The Medical Center participates in the pooled debt program managed by the University of Virginia. The Medical Center currently has \$750.1 million of pooled debt outstanding with the University of Virginia.

Total liabilities and deferred inflows increased by \$21.8 million primarily due to the deferment of employer payroll taxes highlighted in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

#### Statement of Revenues, Expenses and Changes in Net Position

The change in total net position as shown in the condensed Statement of Net Position is based on activity shown above in

the condensed Statement 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, 2021 and 2020 is as follows:

#### Statement of Revenues, Expenses, and Changes in Net Position\*

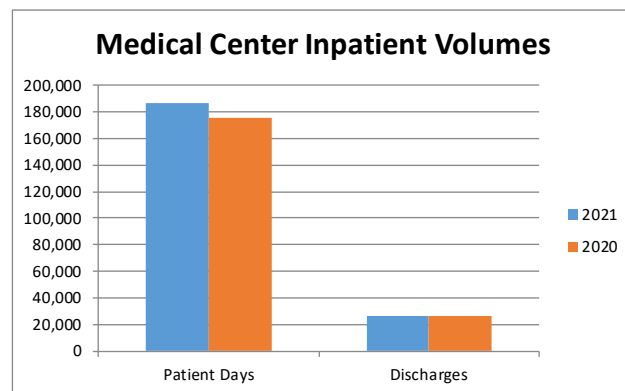
For the years ended June 30, 2021 and 2020

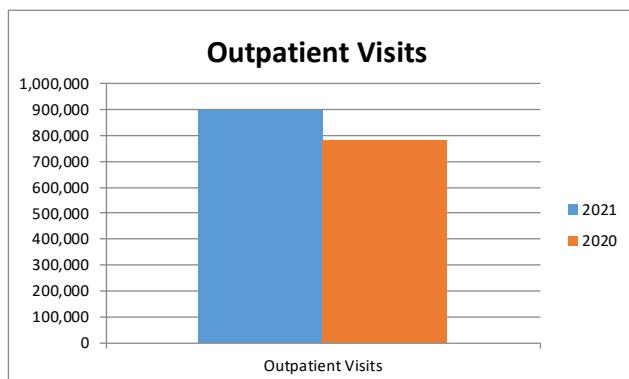
	2021	2020 as restated	Increase (Decrease) Amount	Percent
Operating revenue:				
Net patient service revenue	\$ 1,806.7	\$ 1,654.5	\$ 152.2	9.2%
Other (Note 13)	66.0	66.6	(0.6)	-0.9%
Total operating revenue	1,872.7	1,721.1	151.6	8.8%
Operating Expenses:				
Salaries, wages, and fringe	761.3	747.6	13.7	1.8%
Operating expenses	1,049.9	954.9	95.0	9.9%
Total operating expenses	1,811.2	1,702.5	108.7	6.4%
Income from operations	61.5	18.6	42.9	230.6%
Net nonoperating revenues	543.8	90.8	453.0	498.9%
Income before other revenues, expenses, gains and losses	605.3	109.4	495.9	453.3%
Transfers	(15.6)	(55.3)	39.7	(71.8%)
Increase (decrease) net position	589.7	54.1	535.6	990.0%
Net position - beginning of year	1,774.5	1,720.4	54.1	3.1%
Net position-end of year	2,364.2	1,774.5	589.7	33.2%

\*The schedule is presented in millions

#### Operating Revenue

Total operating revenue for fiscal year 2021 increased \$151.6 million as compared to prior year when patient volumes significantly decreased in April and May of 2020. Throughout fiscal year 2021, the Medical Center experienced increased volumes, primarily due to an increase in surgery cases. In addition, the Medical Center's case mix index significantly increased due to treating higher acuity patients, which results in higher reimbursement.



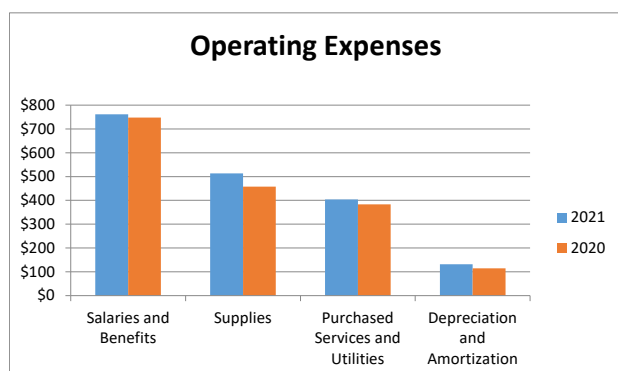


### Operating Expenses

Total operating expenses for fiscal year 2021 were 6.38 percent above the prior year.

Total labor expenses (including salaries and wages, and fringe benefits) grew 1.8 percent as compared to fiscal year 2020. The Medical Center, similar to the rest of the United States, is experiencing a nursing shortage, and as a result, to incentivize its remaining nursing staff accrued a \$7.1 million nursing bonus in fiscal year 2021.

Other operating expenses rose 9.9 percent from the prior year, primarily due to continuing inflationary pressures from suppliers of pharmaceuticals and medical supplies. Continued treatment of COVID-19 patients, as well as increased volumes resulted in increased medical supply and pharmaceutical expense throughout the Medical Center.



\*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, 2021 and 2020 is as follows:

Statement of Cash Flows \*  
For the years ended June 30, 2021 and 2020

	2021	2020	Increase/(Decrease)	
			Amount	Percent
Cash flows from operating activities	\$ 196.2	\$ 323.6	\$ (127.4)	-39.4%
Cash flows from non-capital financing activities	26.2	10.1	16.1	158.6%
Cash used by capital and related financing activities	(165.2)	(252.0)	(86.8)	34.5%
Cash flows from investing activities	139.5	92.4	47.2	51.0%
Net increase/(decrease) in cash and cash equivalents	196.8	174.1	22.6	13.0%
Cash and cash equivalents-beginning of the year	276.3	102.2	174.0	170.2%
Cash and cash equivalents-end of the year	473.1	276.3	196.8	71.2%

\*The statement is presented in millions

The cash generated from operating activities decreased by 39.4 percent from fiscal year 2020 to fiscal year 2021, primarily due to increased utilization of medical supplies and pharmaceuticals. In addition, during fiscal year 2021, the Medical Center intermediary retracted \$24.9 million of the Medicare COVID-19 Accelerated and Advance payments received during fiscal year 2020.

Cash flows from non-capital financing activities increased \$16.1 million from fiscal year 2020. The primary reason for the increase is the Medical Center received less Federal and State funding during fiscal year 2021, as compared to fiscal year 2020, as well as a decrease in transfers from the previous fiscal year.

Cash used for capital and related financing activities decreased 34.5 percent in fiscal year 2021, primarily due to the near completion of the Hospital Bed Tower and Emergency Room Expansion.

Cash flows from investing activities increased by 51.0 percent, primarily as a result of favorable investment in capital markets, as well as more investments were sold than purchased due to the upcoming Community Health acquisition.

### Economic Factors Affecting the Future

COVID continues to dominate new legislation generated to assist health care systems. As a result of the new legislation, there are many new payment rules that have been implemented to assist hospitals with treating COVID patients. As of June 30, 2021, the Medical Center received \$25.4M in CARES Act provider relief funding and Coronavirus Relief funding. Future relief is currently unknown. In fiscal year 2020, the Medical Center received Covid-19 Accelerated and Advance Payments from the Centers for Medicaid and Medicare Services (CMS) to assist with cash flow concerns due to COVID-19, which would be retracted from future reimbursement claims. In April 2021, CMS began retracting funds and will continue until the advance payment is completely repaid, which is projected to conclude in June 2022.

## FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER  
STATEMENT OF NET POSITION  
As of June 30, 2021  
With Comparative Amounts as of June 30, 2020, as restated

	Primary Medical Center	
	2021	2020
Current assets:		
Cash and cash equivalents (Note 2)	\$ 458,248,080	262,436,248
Accounts receivable, net of estimated uncollectibles (Note 3) of \$732,115,143 as of June 30, 2021 and \$624,478,364 as of June 30, 2022, respectively	317,841,944	292,337,067
Due from University of Virginia	1,620,407	151,908
Inventories and prepaid expenses	54,718,811	52,902,494
Notes receivable	1,500	1,500
Total current assets	832,430,742	607,829,217
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	14,866,058	13,922,014
Investments in pooled endowment funds (Note 2)	958,719,419	676,519,217
Investments (Note 2)	496,918,035	389,845,413
Investments in affiliated companies (Note 5)	111,847,742	102,488,281
Land (Note 7)	33,898,328	33,898,328
Construction in Progress (Note 7)	153,759,651	146,213,377
Depreciable land improvements, buildings, and equipment, less accumulated depreciation/amortization of \$1,314,075,770 at June 30, 2021 and \$1,212,884,385 at June 30, 2020, respectively (Note 7)	1,190,310,401	1,183,183,710
Other Assets	8,560,242	7,862,842
Assets held by Trustee (Note 8)	11,583,766	32,618,299
Due from the University of Virginia - non current	30,747,319	32,616,779
Total noncurrent assets	3,011,210,962	2,619,168,260
Deferred outflows of resources (Note 4, 17, 19, and 1.Q)	29,449,797	34,521,653
Total assets and deferred outflows of resources	3,873,091,500	3,261,519,131
Current liabilities:		
Accounts payable and accrued expenses (Note 9)	199,726,572	168,295,466
Due to third-party payors	319,319,862	319,191,754
Current installments of long-term debt (Note 10)	24,460,111	23,102,456
Due to University of Virginia	10,764,226	6,196,898
Grants payable - current portion	2,662,566	3,258,516
Unearned Revenue	3,901,975	4,429,437
Total current liabilities	560,835,311	524,474,527
Long-term liabilities:		
Long-term debt (Note 10)	725,683,532	742,065,876
Other Long-term liabilities	42,287,817	41,345,538
Other Post Employment Benefits (Note 19)	82,490,571	87,245,429
Net Pension Liability (Note 17)	66,669,354	63,766,733
Noncontrolling Interest in Subsidiary	200,000	200,000
Total long-term liabilities	917,331,275	934,623,576
Deferred inflows of resources (Note 17, 19, and 1.Q)	30,698,812	27,923,459
Total liabilities and deferred inflows of resources	1,508,865,398	1,487,021,563
NET POSITION		
Net investment in capital assets	634,083,962	622,956,238
Restricted:		
Nonexpendable	53,099,192	53,099,192
Expendable	121,807,719	73,669,685
Unrestricted	1,555,235,229	1,024,772,453
Net position	2,364,226,102	1,774,497,568
Total liabilities, deferred inflows and net position	3,873,091,500	3,261,519,131

UNIVERSITY OF VIRGINIA MEDICAL CENTER  
STATEMENT OF NET POSITION-DISCRETELY PRESENTED COMPONENT UNIT  
As of June 30, 2021  
With Comparative Amounts as of June 30, 2020

	Discretely Presented	
	2021	2020
Current assets:		
Cash and cash equivalents (Note 2)	\$ 4,905,238	\$ 10,902,709
Accounts receivable, net of estimated uncollectibles of \$36,573,679 as of June 30, 2021 and \$24,731,155 as of June 30, 2020, respectively (Note 3)	8,682,128	7,456,414
Inventories and prepaid expenses	1,977,979	2,457,280
Total current assets	15,565,345	20,816,403
Noncurrent assets:		
Depreciable land improvements, buildings, and equipment, less accumulated depreciation/amortization of \$232,317 at June 30, 2021 and \$232,317 at June 30, 2020, respectively	11,026,257	8,255,645
Total noncurrent assets	11,026,257	8,255,645
Total assets and deferred outflows of resources	26,591,602	29,072,048
Current liabilities:		
Accounts payable and accrued expenses (Note 9)	3,372,433	6,051,357
Current installments of long-term debt	1,260,580	930,822
Total current liabilities	4,633,013	6,982,179
Long-term liabilities:		
Long-term debt	5,220,389	4,143,531
Total long-term liabilities	5,220,389	4,143,531
Total liabilities and deferred inflows of resources	9,853,402	11,125,709
NET POSITION		
Net investment in capital assets	4,545,288	3,181,291
Restricted:		
Nonexpendable	2,437,132	2,953,009
Expendable		
Unrestricted	9,755,780	11,812,039
Net position	16,738,200	17,946,339
Total liabilities, deferred inflows and net position	26,591,602	29,072,048

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



UNIVERSITY OF VIRGINIA MEDICAL CENTER  
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
As of June 30, 2021  
With Comparative Amounts as of June 30, 2020, as restated

	Primary Medical Center	
	2021	2020
Operating revenue:		
Net patient service revenue (Note 12)	\$1,806,678,441	\$1,654,516,718
Other (Note 13)	66,013,094	66,602,999
Total operating revenue	1,872,691,535	1,721,119,716
Operating Expenses:		
Salaries and wages	611,856,220	592,578,826
Fringe benefits	149,432,359	155,027,392
Supplies	513,623,885	457,364,497
Purchased services and other expenses	375,085,037	355,746,467
Utilities	28,960,564	27,340,664
Provision for depreciation and amortization	132,198,430	114,448,951
Total operating expenses	1,811,156,495	1,702,506,797
Income from operations	61,535,040	18,612,919
Nonoperating revenue (expenses):		
Gifts	1,752,032	2,285,513
Investment income	530,810	464,755
Net increase (decrease) in the fair value of investments	508,942,294	46,642,805
Net gain (loss) from investments in affiliated companies (Note 5)	28,646,041	9,196,499
Interest expense	(17,151,650)	(18,109,789)
Gain (Loss) on disposal of fixed assets	66,745	107,030
Cares Act Funding (Note 20)	25,481,814	58,491,641
Other	(4,497,534)	(8,299,039)
Net nonoperating revenues	543,770,552	90,779,415
Income before other revenues, expenses, gains or losses	605,305,592	109,392,334
Transfers	(15,577,058)	(55,344,478)
Increase (decrease) in net position	589,728,534	54,047,856
<b>NET POSITION</b>		
Net position - beginning of year	1,774,497,568	1,720,449,712
Net position - end of year	2,364,226,102	1,774,497,568

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER  
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
As of June 30, 2021  
With Comparative Amounts as of June 30, 2020

	Discretely Presented	
	2021	2020
Operating revenue:		
Net patient service revenue (Note 12)	\$ 41,266,138	\$34,248,846
Total operating revenue	41,266,138	34,248,846
Operating Expenses:		
Salaries and wages	7,967,625	6,645,596
Fringe benefits	1,542,272	1,406,746
Supplies	1,197,731	1,254,741.24
Purchased services and other expenses	6,494,640	6,499,618
Provision for depreciation and amortization	1,612,305	1,437,877
Total operating expenses	18,814,573	17,244,579
Income from operations	22,451,565	17,004,267
Nonoperating revenue (expenses):		
Investment income	67	384
Interest expense	(220,868)	(197,445)
Net nonoperating revenues	(220,801)	(197,060)
Income before other revenues, expenses, gains or losses	22,230,764	16,807,206.38
Transfers and Distributions to Members	(23,438,902)	(15,661,838)
Increase (decrease) in net position	(1,208,138)	1,145,368
<b>NET POSITION</b>		
Net position - beginning of year	17,946,338	16,800,970
Net position - end of year	16,738,200	17,946,338

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER  
STATEMENT OF CASH FLOWS-Medical Center  
As of June 30 2021

With Comparative Amounts as of June 30 2020, as restated

	Primary Medical Center 2021	2020
Cash flows from operating activities:		
Receipts from patients and third-parties	\$ 1,787,374,089	\$ 1,840,193,152
Receipts from other revenue	66,013,094	61,287,844
Payments to employees	(719,193,610)	(736,171,242)
Acquisition of surgery center	(3,128,095)	
Payments to suppliers	(905,897,107)	(814,331,852)
Payment for utilities	(28,960,564)	(27,340,664)
Net cash provided by operating activities	<u>196,207,807</u>	<u>323,637,237</u>
Cash flows from non-capital financing and non investing activities:		
Payments on grants	(595,950)	(960,625)
Gifts	1,224,569	4,233,520
Transfers to UVA and related entities	(26,767,971)	(50,524,218)
Transfers from UVA and related entities	26,861,033	
Federal Grant Receipts	25,481,814	57,382,509
Net cash provided (used) by non-capital financing activities	<u>26,203,495</u>	<u>10,131,188</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(133,391,561)	(218,956,292)
Principal paid on capital debt	(23,150,849)	(22,762,449)
Principal paid on capital leases	(191,572)	(194,760)
Interest paid on capital debt	(17,151,650)	(18,104,597)
Proceeds from University loan	8,529,360	7,224,802
Proceeds from sale of capital assets	163,432	776,592
Net cash used by capital and related financing activities	<u>(165,192,839)</u>	<u>(252,016,704)</u>
Cash flows from investing activities:		
Interest on investments	(4,999,119)	(4,104,771)
Sale of investments	155,036,532	101,293,136
Purchase of investments	(9,500,000)	(944,742)
Transfer from affiliate		857,847
Payment to affiliate	(1,000,000)	(4,722,368)
Net cash provided by investing activities	<u>139,537,413</u>	<u>92,379,103</u>
Net increase(decrease) in cash and cash equivalents	196,755,876	174,130,823
Cash and cash equivalents - beginning of the year	276,358,262	102,227,439
Cash and cash equivalents - end of the year	<u>\$ 473,114,138</u>	<u>\$ 276,358,262</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 61,535,040	\$ 18,612,919
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	132,198,430	114,448,951
Changes in Assets, Liabilities, Deferred Outflows and Deferred Inflows		
Accounts receivables	(32,632,624)	(4,651,428)
Inventories and prepaid expenses	(1,816,317)	(5,748,826)
Deferred outflows of resources	(3,085,404)	(5,565,965)
Accounts payable and accrued expenses	39,085,566	199,911,106
Changes in pension and OPEB liabilities	(1,852,237)	4,123,075
Deferred inflows of resources	2,775,353	2,507,404
Net cash provided by operating activities	<u>\$ 196,207,807</u>	<u>\$ 323,637,236</u>
Noncash investing, capital and financing activities		
Change in fair market value	\$ (513,774,823)	\$ 51,212,332
Gain(loss)on investment in Novant JOC	12,133,287	(3,673,170)
Change in assets acquired by the Assumption of a Liability	(464,660)	(3,486,878)
Gain on investment in Healthsouth	1,013,111	1,501,342
Loss on investment in Fortify	(585,044)	(1,132,513)
Change in liability to Culpeper Regional Hospital	(6,693,379)	(3,651,670)
Loss on Dissolution of Affiliate-UHC	(3,229,578)	(804,925)

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Mission

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

A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Medical Center is part of the University's financial reporting entity and is fully consolidated within the University's reporting entity. The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth.

B. Financial Reporting Entity and Basis

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 Medical Center uses the economic resources management focus and accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. The component units follow the pronouncements of the Financial Accounting Standards Board (FASB).

The Medical Center's financial reporting entity includes both the Medical Center and all of its component units. The Medical Center's component units are either blended or discretely presented in the Medical Center's financial statements. The blended component units, although legally separate, are, in substance, part of the Medical Center's operations and, therefore, are reported as if they were part of the Medical Center.

The Medical Center's financial statements include the following blended component units:

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 these physicians 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 blended with the Medical Center.

Community Medicine commenced operations on July 1, 2001.

Monticello Community Surgery Center, LLC

On April 17, 2021, the Medical Center purchased Monticello Community Surgery Center for \$4,180,719. Monticello Community Surgery Center is an ambulatory surgery center where community physicians, as well as, UVA physicians, perform ambulatory surgical services. The Medical Center acquired 100% interest in Monticello Community Surgery Center, and its financial activity is blended with the Medical Center.

The Medical Center's financial statements include one discretely presented component unit:

#### 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.

In accordance with GASB Statement 90, *Majority Equity Interests*, since the Medical Center owns 80 percent of UVI and it does not meet the definition of an investment under GASB 72, *Fair Value Measurement and Application*, UVI is considered a component unit. The Medical Center presents UVI as a discrete component unit in its financial statements. Comparative amounts shown for the Medical Center for June 30, 2020 have been restated to reflect the change to discrete presentation for UVA Imaging.

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

Investments in affiliates in which the Medical Center has substantial interest (approximately 20 to 50 percent), or for which the Medical Center exercises significant influence, but not control, over policy decisions are accounted for by the equity method and are described in Note 5

#### Novant Health University of Virginia Health System

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

On October 1, 2014, the Medical Center acquired the remaining 51 percent of Culpeper Regional Hospital for \$45 million, providing the Culpeper and surrounding communities a new level of care that includes expanded services and greater access to specialty providers. Culpeper Regional Hospital is a 60-bed community hospital providing primary care, as well as specialty services in orthopedics, cardiology, and cancer. Effective October 1, 2014, the Medical Center accounted for Culpeper Hospital using the consolidation method of accounting. On December 31, 2015, the Medical Center contributed Culpeper Regional Hospital to Novant Health, for a 40% interest in the new joint operating company, called Novant Health University of Virginia Health System. The Medical Center uses the equity method of accounting to account for the joint operating company.

#### E. Net Patient Service Revenue

The Medical Center reports net patient service revenue 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. Due To(From) Estimates

State and federal regulations are used to determine the accruals for Due To(From) estimates. Estimates are derived using excel spreadsheet models of the Medicare and Medicaid cost reports that have been developed over a number of years and are tested for reasonableness and accuracy each year. Upon finalization of cost reports, estimates are compared to actuals. The Medical Center routinely and conservatively reserves \$5 million for each respective years' cost report adjustment until the cost report is settled. Management's conservative approach and professional judgement stems from the risk of an auditor's change in interpretation of various standards, changes in calculations, or case decisions by the Provider Reimbursement Review Board. The Medical Center uses the actual cost report as this minimizes the risk of ambiguity or oblique areas within the estimates. The Medical Center follows all applicable laws in the preparation of estimates, as well as, the actual cost reports each year. The Medical Center's reserve policy, procedures, estimates and cost reports are reviewed annually by outside consultants to provide further assurance of the accuracy and reasonableness of the financial statements. In addition, using an accepted practice throughout the healthcare industry; and as a result of the uncertainties inherent in cost-based reimbursement programs sponsored by government entities and other contractual and non-contractual uncertainties inherent in the revenue cycle, the Medical Center records general reserves. These uncertainties may arise as a revenue deduction in either a subsequent year or several years subsequent to which the deduction actually relates. The purpose of the general reserve is to maintain adequate reserves to offset precipitous changes in estimates due to the recognition of trends in trailing data. The Medical Center may accrue certain amounts each year to maintain an adequate reserve level to offset or partially offset the future unfavorable impact of unknown events and uncertainties which at some point in the future the Medical Center will be required to record in accordance with GAAP. Per policy, the Medical Center shall maintain unassigned reserves in amounts not less than 0.5% of net patient service revenue and not more than 1.5% of net patient service revenue. Measurement and calculations of minimum and maximum reserve levels under this policy will occur at fiscal year-end using current fiscal year data.

Occasionally, decisions are made to record estimated liabilities, as a result of specific circumstances. When specific circumstances arise, the Medical Center obtains external documentation to support the amount of liability. Management exercises significant professional judgement when making the determination regarding when to record contingent liabilities. As a result of the CARES Act, the Medical Center recorded the Accelerated Payments received from CMS, as a current liability due to the lack of clarity with respect to direction and guidance provided by the Federal Government.

G. Indigent Care

As a safety net hospital within the Commonwealth, 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. The Medical Center estimates the revenue based on historical cost estimates. Annually, revenue is settled through the Multisettlement cost report.

H. 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.

I. Fair Value Measurements

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

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

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

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

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

J. Cash, Cash Equivalents, and Investments

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

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.

K. Inventories and Prepaid Expenses

Inventories are generally valued at cost, which approximates market due to high turnover, and consist primarily of expendable supplies held for consumption.

Prepaid expenses primarily represent those expenses surrounding service, maintenance, insurance contracts, workers' compensation, and rental agreements.

L. 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. Estimated useful life referring to the period during which an asset is expected to be usable for the purpose it was acquired. The general range of estimated useful lives is 10 to 40 years for buildings and fixtures, 3 to 20 years for equipment, and 3 to 10 years for intangible assets.

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.

M. 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.

N. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan is a single employer pension plan that is treated like a cost sharing plan. 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.

O. Other Post-Employment Benefits

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

***Group Life Insurance***

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

***State Employee Health Insurance Credit Program***

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



### **University OPEB Plans**

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

### **P. Comparative Data**

The Medical Center and its discretely presented component unit presents their 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, 2020, from which the summarized information is derived.

### **Q. Deferred Inflows and Outflows of Resources**

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

Schedule of Deferred Outflows and Inflows for Fiscal Year Ended June 30, 2021

<b>Deferred Outflows</b>		<b>Deferred Inflows</b>	
Deferred Outflows-Acquisitions	3,009,395	OPEB-VRS administered	6,434,318
VRS Pension	13,910,079	OPEB-UVA administered	17,899,409
OPEB-UVA administered	2,532,864	VRS Pension Liability	6,365,085
OPEB-VRS administered	9,997,459		
Total	<u>29,449,797</u>		<u>30,698,812</u>

### **R. 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 have 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/or 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.

S. 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.

T. 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 2021, the Medical Center reported transfers of \$15.6M to the University. These transfers were for salary and research support, as well as furthering the University's strategic plan.

U. Other Long-Term Liabilities

Other Long-Term Liabilities, as of June 30, 2021 primarily consists of the following

	Beginning			Ending	Current
	Balance	Additions	Reductions	Balance	Portion
Deferred ER FICA	9,044,323	7,635,659		16,679,982	16,679,982
Due to Culpeper	32,301,215		6,693,379	25,607,836	

V. Litigation

The Medical Center is party to various legal actions and other claims in the normal course of business. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have material effect on the Medical Center's financial position.

2. Cash, Cash Equivalents, Investments, and Endowments:

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

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Medical Center has no investments subject to custodial risk for 2021.

Credit risk – 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 2021.

Concentration of credit risk - The risk of loss attributed to the magnitude of a government's 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 Investment Company, 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 2021.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2021.

### Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the Medical Center, with the exception of UVA Imaging, LLC and Monticello Surgery Community Center, LLC are maintained and deposited in collateralized commercial banking accounts. 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, except for deposits held by UVA Imaging, LLC and Monticello Surgery Community Center, LLC. The University of Virginia Medical Center's uncollateralized cash for FY21 totaled \$5,370,729. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for Medical Center's deposits. Cash and Cash Equivalents represent cash with the treasurer, cash on hand, certificates of deposit, and temporary investments with original maturities of 90 days or less. Cash and Cash Equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

### Investments

The investment policy of the Medical Center is established by the Board of Visitors and monitored by the Board's Finance and Audit Committee. Authorized investments are set forth in the "Investment of Public Funds Act", Sections 2.2-4500 through 2.2-4518, Code of Virginia. The University of Virginia Investment Management Company (UVIMCO) was established to provide investment management services to the University and University foundations. [It is a component unit of the University.] The University invests with UVIMCO and other asset managers. Investments are recorded at market value. Certain less marketable investments, such as private equity investments, are generally carried at estimated values as determined by management. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. Investments with UVIMCO are in the Short Term Pool (STP) and Long-Term Pool (LTP), which are unitized investment pools. The STP commingles LTP cash, certain UVIMCO funds and short-term funds of the University and the University-Associated Organizations (UAOs). The LTP commingles endowment, charitable trusts, certain fiduciary assets, and other investments of the University and the UAOs. Assets of the STP and LTP are pooled on a fair value basis in accordance with U.S. GAAP. These assets are unitized daily for the STP and monthly for the LTP. Deposits and withdrawals are processed weekly for the STP and monthly for the LTP.

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.

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, 2021:

		BALANCE AT JUNE 30, 2021	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 <sup>1</sup>	AMOUNTS NOT MEASURED AT FAIR VALUE
<b>CASH AND CASH EQUIVALENTS</b>							
	Cash on hand	\$ 3,180,566	-	-	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>		<b>\$ 3,180,566</b>	-	-	-	-	-
<b>DEPOSITS WITH THE UNIVERSITY</b>							
	Deposits with the University	469,933,572	-	-	-	-	-
<b>DEPOSITS WITH THE UNIVERSITY</b>		<b>\$ 469,933,572</b>	-	-	-	-	-
<b>LONG-TERM INVESTMENTS</b>							
	UVIMCO LTP	496,918,035	-	-	-	496,918,035	-
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>\$ 496,918,035</b>	-	-	-	<b>496,918,035</b>	-
<b>ENDOWMENT</b>							
	UVIMCO LTP	958,719,419	-	-	-	958,719,419	-
<b>TOTAL ENDOWMENT</b>		<b>\$ 958,719,419</b>	-	-	-	<b>958,719,419</b>	-

<sup>1</sup> 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.

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

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)		UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY (IF CURRENTLY ELIGIBLE)	REDEMPTION NOTICE PERIOD
FAIR VALUE	UVMCO LTP			
\$ 1,455,637,454		-	Monthly	(a)
\$ 1,455,637,454		-		

TOTAL INVESTMENTS MEASURED AT NAV

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

## ENDOWMENTS

The market value of the Medical Center's endowment on June 30, 2021 was \$958.7 million. Biannual distributions are made from the University's endowment to the Medical Center's endowment accounts. Restricted expendable assets includes \$53.8 million appreciation on donor- restricted endowments. Endowments are invested in accordance with Virginia Uniform Management Institutional Funds Act (UPMIFA), Chapter 11 of Title 64.2 of the Code of Virginia, as amended; and paragraph 23.1-2210 of the Code of Virginia. The University's endowment spending policy ties annual increase to inflation as defined by the Higher Education Price Index. The current inflation factor in use by the University is 2.7 percent. If the increase causes the endowment distribution to fall outside a range defined as 4.0 percent to 6.0 percent of the market value of the endowment, then the Finance Committee of the Board may recommend increasing or decreasing the spending rate. For fiscal year 2021, the Medical Center received \$36.2 million in endowment distribution, consisting of \$32.8 million for spending distribution and \$3.4 million for administrative fees. For the year ended June 20, 2021, the Medical Center had the following endowment-related activities:

SUMMARY OF ENDOWMENT ACTIVITY (in thousands)	TYPE OF ENDOWMENT FUND		
	DONOR - RESTRICTED	QUASI	TOTAL
Investment earnings	\$ 53,200	265,169	318,369
Spending distributions	(6,090)	(30,079)	(36,169)
Transfers in (out)			
<b>TOTAL CHANGE IN ENDOWMENT FUNDS</b>	<b>\$ 47,110</b>	<b>235,090</b>	<b>282,200</b>

## 3. ACCOUNTS RECEIVABLE

As of June 30, 2021, the components of accounts receivable consist of the following for the Medical Center and its discretely presented component unit:

Accounts Receivable footnote

	Primary Medical Center	Discretely Presented Component Unit
Patient Accounts Receivable	260,243,503	4,842,733
Health Insurance Receivable	29,233,397	
Deposits Receivable	17,976,778	2,410
Funds flow from UPG to MC	8,134,058	
Pharmacy Receivable	3,208,652	
Other	(954,443)	3,836,985
<b>Total</b>	<b>317,841,945</b>	<b>8,682,128</b>

## 4. DEFERRED OUTFLOWS-ACQUISITIONS

Governmental Accounting Standards Board Statement No. 69 requires the reporting of a deferred outflow in situations where the consideration in an acquisition exceeds the net position acquired. Previously, the excess consideration was known as goodwill.

Goodwill is reflected in Deferred Outflows on the Statement of Net Position for the Medical Center.

In July 2004, the Medical Center purchased Virginia Ambulatory Surgery Center, (VASI), currently 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 June 2021, management reassessed and determined the UVA Outpatient Surgery Center deferred outflow to be worthless; as the construction of the UVA Children's Hospital and additional operating rooms essentially absorbed the services previously provided by UVA Outpatient Surgery Center.

In April 2017, the previously acquired HOPE enterprise was fully absorbed into normal clinical operations. The deferred outflow remaining from the acquisition of HOPE was to be amortized over a period of 15 years beginning April 1, 2017. In June 2021, management reassessed and determined the HOPE enterprise deferred outflow to be worthless, as the original physicians are no longer employed with the Medical Center.

In April 2021, the Medical Center purchased Monticello Surgery Associates, LLC. As a result of the purchase, the Medical Center recorded \$3.0 million of a deferred outflow, to be amortized over a period of 15 years, beginning May 2021.

## 5. INVESTMENTS IN AFFILIATED COMPANIES

### University of Virginia / Encompass Health

The Medical Center entered into a joint venture with ENCOMPASS Health, previously HEALTHSOUTH, LLC, 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: ENCOMPASS HEALTH 9001 Liberty Parkway, Birmingham, AL 35242

### 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 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. The Medical Center received the final dissolution payment from the University Health Consortium during FY2021.

### Valley Regional Health, Riverside, and University of Virginia Radiosurgery Center, LLC

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

### Novant Health University of Virginia Health System

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

### Fortify Children's Health, LLC

On July 1, 2018 the University of Virginia Medical Center entered into a 50/50 partnership with Children's Quality Care, LLC, a wholly owned subsidiary of Children's Health System. Fortify is a pediatric clinically integrated network (CIN) focused on "improving the health of children throughout the Commonwealth by providing access to the highest quality health care". Fortify is to serve as a model for quality, safety, access, coordination, effectiveness and efficiency of pediatric care, the promotion of pediatric health, and the advancement of state-of-the-art pediatric clinical services, education and research through innovative and collaborative initiatives. The Medical Center uses the equity method of accounting to record the financial activity of Fortify Children's Health, LLC.

#### Schedule of Affiliates As of June 30, 2021

Investment	Common Stock and Equity Contribution	Share of accumulated income (loss)	Net investment
Encompass Health (formerly Healthsouth)	\$ -	\$ 23,229,379	\$23,229,379
Riverside	0	942,595	942,595
Valley Health Regional	4,861	193,581	4,861
Valiance, LLC	249,147	0	249,147
University HealthSystem Consortium	3,229,578	(3,229,578)	0
JOC/Novant	94,041,170	(19,703,970)	74,337,200
Fortify	3,500,000	(2,857,602)	642,399
UVA Imaging	4,964,000	8,420,757	13,384,757

## 6. BLENDED COMPONENT UNITS-CONDENSED STATEMENTS

<b>Condensed Statement of Net Position as of June 30, 2021</b>				<b>Community Medicine</b>	<b>Monticello Surgery Center</b>	<b>Total Blended Component Units</b>
<b>Assets</b>						
	Current assets					
	Cash			\$ 2,602,241	\$ 465,491	\$ 3,067,732
	Receivables			1,158,400	1,147,366	\$2,305,766
	Inventories and prepaid expenses			4,144	708,914	\$713,058
	Total current assets			3,764,785	2,321,771	\$6,086,556
	Noncurrent assets					
	Investment			8,670	298,063	\$306,732
	Capital assets					
	Total noncurrent assets			8,670	298,063	\$306,732
	Total Assets			3,773,455	2,619,833	\$6,393,288
<b>Liabilities and net assets</b>						
	Current liabilities					
	Payables			8,461,669	820,376	\$9,282,045
	Long-term liabilities					
	Note payable				400,000	\$400,000
	Long-term liabilities			(9,256)		(\$9,256)
	Total liabilities			8,452,413	1,220,376	\$9,672,789
	Net Assets					
	Net investment in capital assets			8,670	298,063	\$306,732
	Unrestricted			(4,687,627)	1,101,394	(\$3,586,233)
	Net assets			(4,678,957)	1,399,457	(\$3,279,501)
	Total net assets and liabilities			3,773,455	2,619,833	\$6,393,288
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2021</b>				<b>Community Medicine</b>	<b>Monticello Surgery Center</b>	<b>Total Blended Component Units</b>
	Operating revenues					
	Inpatient revenues			3,822		\$3,822
	Outpatient revenues			6,308,216	2,322,789	\$8,631,005
	Total operating revenues			6,312,038	2,322,789	\$8,634,827
	Deductions from outpatient revenues			(2,644,461)	(483,241)	(\$3,127,702)
	Net patient service revenue			3,667,577	1,839,547	\$5,507,124
	Other operating revenue			9,271	1,222	\$10,494
	Total operating revenue			3,676,848	1,840,770	\$5,517,618
	Operating expenses					
	Salaries, fringe, and contract labor			3,130,452	528,089	\$3,658,541
	Supplies			297,705	666,592	\$964,297
	Purchased services			403,577	546,765	\$950,341
	Depreciation			28,025	35,400	\$63,425
	Total operating expenses			3,859,759	1,776,844	\$5,636,604
	Operating income (loss)			(182,911)	63,925	(\$118,986)
	Nonoperating revenues (expenses)					
	Interest expense				(636)	(\$636)
	Investment income				161	\$161
	Nonoperating other				200,791	\$200,791
	Net nonoperating revenues				200,316	\$200,316
	Increase (decrease) in net position			(182,911)	264,241	\$81,331
	Beginning net position			(4,496,047)	1,135,215	(\$3,360,831)
	Ending net position			\$ (4,678,957)	\$ 1,399,457	\$ (3,279,501)
<b>Condensed statement of Cash Flows for the year ended June 30 2021</b>				<b>Community Medicine</b>	<b>Monticello Surgery Center</b>	<b>Total Blended Component Units</b>
	Net Cash Provided (Used) by Operating Activities			317,408	(936,579)	\$ (619,171)
	Net Cash Provided by Noncapital Activities				200,791	\$ 200,791
	Net Capital Provided (Used) by Capital and Related Financing Activities			(181,874)	65,901	\$ (115,973)
	Net Cash Provided (Used) by Investing Activities				1,037,135	\$ 1,037,135
	Net Increase (Decrease) in Cash and Cash Equivalents			135,534	367,248	\$ 502,782
	Cash and Cash Equivalents, July 1, 2020			\$2,466,707	98,243	\$ 2,564,950
	Cash and Cash Equivalents, June 30, 2021			\$2,602,241	\$ 465,491	\$ 3,067,732

## 7. PROPERTY, PLANT, AND EQUIPMENT

A summary of Medical Center primary property, plant, and equipment accounts and the related accumulated depreciation as of June 30, 2021 is presented as follows:

	Restated Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 33,898,328			\$ 33,898,328
Construction in Progress	146,213,378	94,645,751	87,099,477	153,759,651
Depreciable Capital Assets				
Land improvements	11,568,136			11,568,136
Buildings	1,600,371,821	98,888,476	2,184,123	1,697,076,174
Equipment-Fixed	17,100,657	364,035	442,424	17,022,268
Equipment-Movable	572,918,049	30,132,405	19,354,421	583,696,033
Total depreciable capital assets	2,201,958,663	129,384,916	21,980,968	2,309,362,611
Less accumulated depreciation				
Land improvements	10,093,614	347,643		10,441,257
Buildings	654,433,802	59,656,219	1,312,271	712,777,750
Equipment-fixed	9,911,353	1,406,475	442,553	10,875,276
Equipment-movable	397,358,139	50,092,839	20,600,483	426,850,495
Total accumulated depreciation	1,071,796,908	111,503,176	22,355,307	1,160,944,777
Depreciable land improvements, buildings and equipment, net	1,130,161,755	17,881,740	(374,339)	1,148,417,833
Depreciable Intangible Assets	193,542,121	1,717,783	4,027	195,255,877
Less accumulated amortization: Intangible Assets	140,319,794	13,043,516		153,363,310
Depreciable intangible assets	53,222,327	(11,325,734)	4,027	41,892,567
Total depreciable capital and intangible assets (net)	\$ 1,183,384,082	\$ 6,556,006	\$ (370,312)	\$ 1,190,310,400

## 8. ASSETS HELD BY THE UNIVERSITY

Assets held by the University consist of assets whose use is limited under indenture agreements. The Series 2016 bond resolution requires deposits be made in a specific order to various accounts and funds held by the University of Virginia Internal Loan Program as follows:

- A. To the credit of the Interest Account on a monthly basis, the amount of interest due and payable on the first day of the succeeding month with respect to the bonds of each series then outstanding;
- B. To the credit of the Principal Account on a monthly basis, the amount sufficient to pay maturing principal of all bonds on the next principal payment date;



- C. To the credit of the Sinking Fund Account, the amount sufficient to retire all bonds to be called by mandatory redemption on the next ensuing mandatory redemption date;
- D. To the credit of any other fund or account created pursuant to an applicable Series Resolution.

Funds held by the University and restricted by bond agreements consist of the following as of June 30, 2021:

2016 Bond Resolution \$11,583,766

## 9. ACCOUNTS PAYABLE

As of June 30, 2021, the components of the accounts payable and accrued expenses for Medical Center Primary and the discretely presented component unit consist of the following:

	Primary Medical Center	Discretely Presented Component Unit
Accrued Leave	\$ 45,441,359	
Accrued Payroll Liabilities	57,178,011	
Accounts Payable	23,558,918	3,379,686
Accounts Payable Other	19,006,805	
Funds Flow-UPG	21,699,539	
Accrued Employee Benefit Liabilities	14,855,464	
Credit Balance A/R	10,105,255	
Retainage Payable	7,881,221	
Total	<u>\$ 199,726,572</u>	<u>\$ 3,379,686</u>

## 10. LONG-TERM OBLIGATIONS

Description	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:							
Series 2012 Pooled	4.75	2032	\$ 78,231		\$ 5,190	\$ 73,041	\$ 5,442
Series 2013 Pooled	4.75	2036	11,661		531	11,130	557
Series 2014 Pooled (1)	4.75	2031	11,083		794	10,289	832
Series 2014 Pooled (2)	4.75	2025	4,429		873	3,556	915
Series 2014 Pooled (4)	4.75	2034	23,272		1,304	21,968	1,367
Series 2014 Pooled (5)	4.75	2032	202,746		12,911	189,835	13,538
Series 2016 Pooled (1)	4.15	2042	390,417	7,489		397,906	
Series 2017 Pooled (1)	4.56	2037	21,537		871	20,666	912
Series 2017 Pooled (2)	4.56	2037	16,977		677	16,300	708
Total bonds payable			<u>760,353</u>	<u>7,489</u>	<u>23,151</u>	<u>744,691</u>	<u>24,271</u>
Notes payable:							
Monticello Surgery				400		400	
Total notes payable			<u>0</u>	<u>400</u>	<u>0</u>	<u>400</u>	<u>0</u>
Capitalized leases:							
Kirtley			<u>5,244</u>		<u>191</u>	<u>5,053</u>	<u>188</u>
Total capitalized leases:			<u>5,244</u>		<u>191</u>	<u>5,053</u>	<u>188</u>
Total long-term obligations			<u>\$ 765,597</u>	<u>\$ 7,889</u>	<u>\$ 23,342</u>	<u>\$ 750,144</u>	<u>\$ 24,459</u>

## TOTAL LONG-TERM OBLIGATIONS

Fiscal Year	Principal	Interest	Total
2022	\$ 24,460,076	\$ 16,043,624	\$ 40,503,700
2023	39,078,860	31,149,032	70,227,892
2024	40,459,655	29,379,128	69,838,783
2025	41,943,403	27,528,976	69,472,379
2026	43,168,104	25,629,214	68,797,318
2027-2031	247,471,195	96,592,621	344,063,815
2032-2036	152,670,695	48,897,287	201,567,981
2037-2041	130,399,787	22,049,800	152,449,587
2042-2046	29,315,509	3,377,695	32,693,204
2047-2050	1,176,360	6,281,713	7,458,073
	<u>\$750,143,643</u>	<u>\$306,929,089</u>	<u>\$1,057,072,731</u>

### 11. FINANCING OF MAJOR CONSTRUCTION AND RENOVATION PROJECTS

In May 2016, the Medical Center acquired financing for the Emergency Department and Tower Expansion through the University of Virginia's Internal Debt Program, Series 2016, (note 9). The University Hospital Expansion-Emergency Department, Operating Rooms and Inpatient Bed Expansion will provide for the expansion of the current Emergency Department into the adjacent site, where the helipad was previously located. In addition, there will be an expansion of the surgical services suites on the second level and the development of a 6-story inpatient tower, along with the expansion of ancillary services on the lower level. Current construction estimates are 425,000 square feet for new construction and 90,000 square feet for renovation. The Medical Center anticipates completion of the Emergency Department and Tower Expansion in fiscal year 2022.

Due to the COVID19 global pandemic, subsequent federal executive order cancelling elective surgeries and non-emergency clinic visits for hospitals, the expectation of an increased number of COVID patients, and the isolation necessary to be able to treat COVID19 patients, as well as protect the rest of the patient population, the Medical Center opened and continues to care for patients on 2 floors of the Hospital Expansion project. The Medical Center is recognizing depreciation as percentage of completion, based on percentage complete versus budgeted total cost.

### 12. NET PATIENT SERVICE REVENUE

The Medical Center's Primary and discretely presented component unit patient service revenue is presented as follows for the year ended June 30, 2021:

The Medical Center received \$102,306,908 in fiscal year 2021 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. The receipts consist of 3 quarterly payments of \$19,240,354, two MCO Physician Supplemental Payments totaling \$28,046,436 and an additional IME payment of \$16,539,410. The fourth quarterly payment is received in July of the following fiscal year and is therefore included in the Medicaid Due to (from) estimate.

UVAMC did not receive Medicaid DSH for FY 2021, however, the Medical Center was paid MCO Physician Supplemental Payments. On a quarterly basis, these payments are remitted to a dedicated bank account and then divided between the MC and UPG. Payments are made 3 months in arrears, therefore, the Medical Center received payment for the first three quarters during FY21, and will receive payment in FY22 related to the last quarter in FY21. Changing the Medicaid DSH process to MC Physician Supplemental Payments, results in the Medical Center no longer receiving DSH payments and sending money to UPG.

	Medical Center Primary	Discretely Presented Component Unit
Gross patient service revenue:		
Inpatient		
Routine	\$833,223,131	
Ancillary	2,086,162,232	
Outpatient services		
Ancillary	3,299,830,366	320,793,113
Pharmacy	182,516,744	
Continuum	(69,952)	
Total gross patient revenue	6,401,662,521	320,793,113
Allowances for indigent care and contractual adjustments	(4,594,984,081)	(279,526,974.11)
Net patient service revenue	<u>\$1,806,678,441</u>	<u>\$41,266,139</u>

### 13. UNIVERSITY ALLOCATIONS

The Medical Center assists the School of Medicine 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 and is recorded in other operating revenue. This allocation is offset in the operating expenses by an equal amount in purchased services. The amount of this allocation for fiscal year 2021 was \$5,874,536.

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.

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. The amount of this allocation for fiscal year 2021 was \$5,295,323.

### 14. COMMITMENTS

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

Year Ending June 30,	Operating Leases
2022	\$ 11,099,812
2023	9,136,627
2024	5,543,043
2025	5,082,420
2026	3,926,754
2027-2031	9,554,382
2032-2034	1,328,002
Total	<u>\$45,671,040</u>

The total rental expense for operating leases for the year ended June 30, 2021, was \$13,430,760.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2021 totaling \$575,400,756 of which \$550,692,085 incurred as of June 30, 2021.

### 15. UNIVERSITY OF VIRGINIA PHYSICIANS GROUP

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

On August 1, 2000, management of 63 outpatient clinics operated by UPG since July 1, 1994, transferred to the Medical Center. At that time, the Medical Center filed for provider-based status with the federal government and became responsible for all costs associated with the operations of these provider-based clinics except for physicians' costs. Currently the Medical Center has 79 outpatient clinics. On August 1, 2000, the Medical Center entered into leased employment agreements with UPG for limited personnel who remained UPG employees, but were performing Medical Center duties.

The Medical Center recorded \$19,682,237 as expense payable to the Physicians Group for the provision of supervisory and administrative services, and \$33,831,172 for other services which includes expenses related to the purchased services, employee and cost sharing agreements. Also, \$1,532,492 for rental of space for the year ended June 30, 2021. In addition, the Medical Center recorded non-operating expenses of \$8,752,306 payable to the Physicians Group.

The Medical Center recorded income from the Physicians Group of \$25,411,985 for clinic facility fees and other services, and \$742,524 for the rental of space for clinics for the year ended June 30, 2021.

## 16. RISK MANAGEMENT AND SELF-INSURANCE

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

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

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

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

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 ACFR.

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

## 17. RETIREMENT PLANS-VIRGINIA RETIREMENT SYSTEM

Medical Center employees are employees of the Commonwealth. Approximately 10% of all full-time classified salaried permanent employees of the Medical Center are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b></p> <p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p>	<p><b>About Plan 2</b></p> <p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p>	<p><b>About the Hybrid Retirement Plan</b></p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</li> <li>• 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.</li> <li>• 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.</li> </ul>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p><b>Hybrid Opt-In Election</b> VRS 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> 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.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• 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</li> </ul> <p><i>*Non-Eligible Members</i> Some employees are not eligible to participate in the Hybrid Retirement Plan</p> <p>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.</p>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Retirement Contributions</b> 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 pretax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund.</p> <p>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.</p>	<p><b>Retirement Contributions</b> Same as Plan 1.</p>	<p><b>Retirement Contributions</b> 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.</p>
<p><b>Service Credit</b> Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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.</p>	<p><b>Service Credit</b> Same as Plan 1.</p>	<p><b>Service Credit</b> <i>Defined Benefit Component:</i> Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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.</p> <p><i>Defined Contributions Component:</i> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> 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 five years (60 months) of service credit. 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <i>Defined Benefit Component:</i> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><i>Defined Contributions Component:</i> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distributions not required, except as governed by law.</p>



PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Calculating the Benefit</b> The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.</p>	<p><b>Calculating the Benefit</b> See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b> <i>Defined Benefit Component:</i> See definition under Plan 1</p> <p><i>Defined Contribution Component:</i> 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.</p>
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier VRS:</b> 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%.</p>	<p><b>Service Retirement Multiplier VRS:</b> 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 service credit earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b> <i>Defined Benefit Component:</i> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p><i>Defined Contribution Component:</i> Not applicable.</p>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Normal Retirement Age</b>  <b>VRS:</b> Age 65.</p>	<p><b>Normal Retirement Age VRS:</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b> <i>Defined Benefit Component:</i> <b>VRS:</b> Same as Plan 2.</p> <p><i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility VRS:</b> Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.</p>	<p><b>Earliest Unreduced Retirement Eligibility VRS:</b> Normal Social Security retirement age with at least five years (60 months) of service credit or when their age and service equal 90.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <i>Defined Benefit Component:</i> <b>VRS:</b> Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age and service equal 90.</p> <p><i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility VRS:</b> Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.</p>	<p><b><i>Earliest Reduced Retirement Eligibility VRS:</i></b> <i>Age 60 with at least five years (60 months) of service credit.</i></p>	<p><b>Earliest Reduced Retirement Eligibility</b> <i>Defined Benefit Component:</i> <b>VRS:</b> Age 60 with at least five years (60 months) of service credit.</p> <p><i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  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%.</p> <p><i>Eligibility:</i>  For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><i>Exceptions to COLA Effective Dates:</i> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability.</li> <li>• 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.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit.</li> </ul> <p>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.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  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%.</p> <p><i>Eligibility:</i>  Same as Plan 1</p> <p><i>Exceptions to COLA Effective Dates:</i>  Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <i>Defined Benefit Component:</i>  Same as Plan 2.</p> <p><i>Defined Contribution Component:</i>  Not applicable.</p> <p><i>Eligibility:</i>  Same as Plan 1 and Plan 2.</p> <p><i>Exceptions to COLA Effective Dates:</i>  Same as Plan 1 and Plan 2.</p>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b> 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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> 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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> 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.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b> 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 service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <i>Defined Benefit Component:</i> Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> <li>Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <p><i>Defined Contribution Component:</i> Not applicable.</p>

### **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. Each state agency's contractually required employer contribution rate for the fiscal year ended June 30, 2021, was 14.46% of covered employee compensation for employees in the VRS State Employee Retirement Plan. This rate was based on an

actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the state agency to the VRS State Employee Retirement Plan were \$5,197,811 and \$5,026,434 for the years ended June 30, 2021, and June 30, 2020, respectively.

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

At June 30, 2021, the state agency reported a liability of \$66,669,354 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. 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, 2020, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the state agency's proportion of the VRS State Employee Retirement Plan was 0.92% as compared to 1.00% at June 30, 2019.

For the year ended June 30, 2021, the state agency recognized pension expense of \$5,641,201 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2019, and June 30, 2020, a portion of the pension expense was related to deferred amounts from changes in proportion and differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2021, 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	\$ 756,236	\$ 678,426
Change in assumptions	2,769,534	-
Net difference between projected and actual earnings on pension plan investments	5,186,498	
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	5,686,659
Employer contributions subsequent to the measurement date	5,197,811	
Total	<u>\$ 13,910,079</u>	<u>\$ 6,365,085</u>

\$5,197,811 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 Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30	
2022	(1,144,555)
2023	931,040
2024	895,938
2025	1,664,760

### **Actuarial Assumptions**

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

*\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.*

## Mortality rates:

### Pre-Retirement:

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

### Post-Retirement:

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

### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

**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, 2020, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan
Total Pension Liability	\$ 26,014,925
Plan Fiduciary Net Position	18,770,068
Employers’ Net Pension Liability (Asset)	\$ 7,244,857
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.15%

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)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi -Asset Public Strategies	6.00%	3.04%	0.18%
PIP- Private Investment Partnership	3.00%	6.49%	0.19%
<b>Total</b>	<b>100.00%</b>		<b>4.64%</b>

Inflation	2.50%
Expected arithmetic nominal return *	<b>7.14%</b>

\* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.

#### **Discount Rate**

The discount rate used to measure the total pension liability was 6.75%. 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, 2020, 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 which was 100% of the actuarially determined contribution rate. From July 1, 2020, on, all agencies are assumed to continue 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

		<b>1.00% DECREASE (5.75%)</b>	<b>CURRENT DISCOUNT RATE (6.75%)</b>	<b>1.00% INCREASE (7.75%)</b>
the VRS State Employee Retirement Plan net pension liability	\$	94,485,584	66,669,354	43,280,677

#### ***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 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at [varetire.org/pdf/publications/2020-annual-report.pdf](http://varetire.org/pdf/publications/2020-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 Medical Center did not have any payables at the end of fiscal year 2021.

#### **18. RETIREMENT PLANS-FACULTY OPTIONAL RETIREMENT PLAN**

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

Total pension costs under the plans were \$17,442,114 for the year ended June 30, 2021. Contributions to the Optional Retirement Plans were calculated using base salaries of \$387,649,163 for the year ended June 30, 2021. The contribution percentage amounted to 4.5 percent for the year ended June 30, 2021.

#### **19. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

##### **Virginia Retirement System Other Post-Employment(OPEB) Plans**

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

##### **Group Life Insurance Program**

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

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

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

## GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

### Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City School Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

### Benefit Amounts

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

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

### Reduction in Benefit Amounts

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

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

For covered members with at least 30 years of service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,616 as of June 30, 2021.

## **Contributions**

The contribution requirements for the Group Life Insurance Program are governed by § 51.1-506 and § 51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% X 60%) and the employer component was 0.54% (1.34% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2021, was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$168,585 and \$167,529 for the years ended June 30, 2021, and June 30, 2020, respectively.

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

At June 30, 2021, the entities reported a liability of \$2,616,068 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was .1568% as compared to .1711% at June 30, 2019.

For the year ended June 30, 2021, the participating employer recognized GLI OPEB expense of \$30,986. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 167,797	\$ 23,498
Net difference between projected and actual earnings on GLI OPEB program investments	78,584	
Change in assumption	130,834	54,625
Changes in proportion		336,941
Employer contributions subsequent to the measurement date	168,585	
Total	<u>\$ 545,800</u>	<u>\$ 415,064</u>

\$168,585 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30

FY 2022	\$ (29,372)
FY 2023	\$ (7,179)
FY 2024	\$ 13,075
FY 2025	\$ 16,742
F Y2026	\$ (24,540)
Thereafter	\$ (6,575)

### **Actuarial Assumptions**

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
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Salary increases, including inflation –

General state employees	3.50% – 5.35%
Teachers	3.50% – 5.95%
SPORSEmployees	3.50% – 4.75%
ValORSEmployees	3.50% – 4.75%
JRS employees	4.50%
Locality – General employees	3.50% – 5.35%

Locality – Hazardous Duty employees

3.50% – 4.75%

Investment rate of return

6.75%, net of investment expenses, including inflation\*

*\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.*

#### Mortality rates – General State Employees

##### Pre-Retirement:

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

##### Post-Retirement:

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

##### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

#### Mortality rates – Teacher Pre-Retirement:

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

##### Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – SPORS Employees Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%



## Mortality rates – Largest 10 Locality Employers – General Employees

### Pre-Retirement:

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

### Post-Retirement:

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

### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

## Mortality rates – Non-Largest 10 Locality Employers – General Employees Pre-Retirement:

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

### Post-Retirement:

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

### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Mortality rates – Largest 10 Locality Employers – Hazardous Duty Employees Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Mortality rates – Non-Largest 10 Locality Employers – Hazardous Duty Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Net GLI OPEB Liability**

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2020, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	<b>Group Life Insurance OPEB Program</b>
Total GLI OPEB Liability	\$ 3,523,937
Plan Fiduciary Net Position	1,855,102
GLI Net OPEB Liability (Asset)	<u>\$ 1,668,835</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64 %

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

**Long-Term Expected Rate of Return**

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

AssetClass(Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00 %	4.65 %	1.58 %
Fixed Income	15.00 %	0.46 %	0.07 %
Credit Strategies	14.00 %	5.38 %	0.75 %
Real Assets	14.00 %	5.01 %	0.70 %
Private Equity	14.00 %	8.34 %	1.17 %
MAPS - Multi -Asset Public Strategies	6.00 %	3.04 %	0.18 %
PIP- Private Investment Partnership	3.00 %	6.49 %	0.19 %
<b>Total</b>	<b>100.00%</b>		<b>4.64%</b>
Inflation			2.50 %
Expected arithmetic nominal return *			<b>7.14 %</b>

\* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.

#### Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board- certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	5.75% 1% Decrease	6.75% Current	7.75% 1% Increase
Medical Center's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 3,439,022	\$ 2,616,068	\$ 1,947,752

## **Group Life Insurance Program Fiduciary Net Position**

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at [varetire.org/pdf/publications/2020-annual-report.pdf](http://varetire.org/pdf/publications/2020-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 VRS Group Life Insurance OPEB Plan**

The Medical Center did not have any payables at the end of fiscal year 2021.

## **State Employee Health Insurance Credit Program**

### **Plan Description**

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

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

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### **STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS**

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#### **Eligible Employees**

The State Employee Retiree Health Insurance Credit Program was established January 1, 1990, for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.

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#### **Benefit Amounts**

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

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

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

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

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#### **Health Insurance Credit Program Notes:**

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

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## Contributions

The contribution requirement for active employees is governed by § 51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2021, was 1.12% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the University of Virginia Medical Center to the VRS State Employee Health Insurance Credit Program were \$5,303,446 and \$4,910,138 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

At June 30, 2021, the University of Virginia Medical Center reported a liability of \$52,896,613 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2020 and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The University of Virginia Medical Center's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the University of Virginia Medical Center's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2020, the University of Virginia Medical Center's proportion of the VRS State Employee Health Insurance Credit Program was 5.761% as compared to 5.8934% at June 30, 2019.

For the year ended June 30, 2021, the University of Virginia Medical Center recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$4,663,859. Since there was a change in proportionate share between measurement dates, a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the University of Virginia Medical Center reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,022	\$ 793,813
Net difference between projected and actual earnings on HIC OPEB plan investments	260,276	
Change in assumption	881,220	250,755
Changes in proportionate share	2,984,694	4,974,686
Employer contributions subsequent to the measurement date	5,303,446	
Total	<u>\$ 9,451,658</u>	<u>\$ 6,019,254</u>

\$5,303,446 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the University of Virginia Medical Center's contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year ended June 30

FY 2022	\$ 63,707
FY 2023	95,859
FY 2024	(637,413)
FY 2025	(1,029,766)
FY 2026	(363,429)
Thereafter	0

### Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2019, 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, 2020.

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Inflation	2.50%
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Salary increases, including inflation –

General state employees	3.50% – 5.35%
SPORS employees	3.50% – 4.75%
VaLORS employees	3.50% – 4.75%
JRS employees	4.50%

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Investment rate of return	6.75%, net of plan investment expenses, including inflation*
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*\* 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 assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.*

## Mortality rates – General State Employees

### Pre-Retirement:

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

### Post-Retirement:

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

### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

## Mortality rates – SPORS Employees Pre-Retirement:

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

### Post-Retirement:

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

### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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



Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Mortality rates – VaLORS Employees Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Mortality rates – JRS Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

### ***Net State Employee HIC OPEB Liability***

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the VRS State Employee Health Insurance Credit Program are as follows (amounts expressed in thousands):

	<b>State Employee HIC OPEB Plan</b>	
Total State Employee HIC OPEB Liability	\$	1,043,382
Plan Fiduciary Net Position		<u>125,378</u>
State Employee Net HIC OPEB Liability (Asset)	\$	<u>918,004</u>
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability		12.02%

The total State Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net State Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

### ***Long-Term Expected Rate of Return***

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

AssetClass(Strategy)	Long-Term Target Asset Allocation	Arithmetic	Weighted Average
		Long-Term Expected Rate of Return	Long-Term Expected Rate of Return*
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi -Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
<b>Total</b>	<b>100.00%</b>		<b>4.64%</b>
Inflation			2.50%
Expected arithmetic nominal return *			7.14%
			%

\* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY 2020 actuarial valuations, provide a median return of 6.81%.

### Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2020, the rate contributed by the University of Virginia Medical Center for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020, on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

### Sensitivity of the University of Virginia Medical Center's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the University of Virginia Medical Center's proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of

6.75 %, as well as what the University of Virginia Medical Center's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease 5.75%	Current Discount 6.75%	1.00% Increase 7.75%
Medical Center's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 58,614,874	\$ 52,896,613	\$ 47,976,092

### **State Employee HIC OPEB Fiduciary Net Position**

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at [varetire.org/pdf/publications/2020-annual-report.pdf](http://varetire.org/pdf/publications/2020-annual-report.pdf), or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

### ***Payables to the State Employee Health Insurance Credit Program OPEB Plan***

The Medical Center did not have any payables at the end of fiscal year 2021.

### **University of Virginia Other Post Employment (OPEB) Plans**

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

#### **Optional Retirement Retiree Life Insurance Plans.**

University faculty and Medical Center employees who participate in the Optional Retirement Plans receive \$10,000 in retiree life insurance. The University pays the total cost of the insurance. Benefit provisions for these plans are established and maintained by the University under the authority of the Board. The University does not issue stand-alone financial statements for the plans.

#### **Retiree Health Plan.**

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

The University also provides dental benefits through the UVA Dental Plan for retirees enrolled in the UVA Health Plan that elected dental coverage. Enrollment in the UVA Dental Plan must be completed at initial enrollment in the health benefits program. Dental enrollment can also be added or dropped during the open enrollment period each year. If dropped by the employee, the employee and/or their covered family members will not be able to re-enroll in the dental plan. As of June 30, 2021, the premiums paid by retirees exceed dental claims, as such, there is no liability associated with this plan.

The contribution requirements of plan members and the University are based on projected pay-as-you-go financing requirements. For fiscal year 2021, the University and Medical Center contributed \$321,021 to the plan for retiree costs. Retirees receiving benefits contributed \$3.2 million, or approximately 91 percent of the total costs, through their required contributions, ranging from \$757 to \$3,895 per month.

The benefit terms of the Retiree Life Insurance and the Retiree Health Plan covered the following employees:

**Retiree Health Plan**

**EMPLOYEE CATEGORY**

Inactive employees currently receiving benefit payments	51
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	8436
<b>TOTAL COVERED EMPLOYEES</b>	<b>8487</b>

**Life Insurance**

**EMPLOYEE CATEGORY**

Inactive employees currently receiving benefit payments	641
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	7015
<b>TOTAL COVERED EMPLOYEES</b>	<b>7656</b>

At June 30, 2021, the University reported a total OPEB liability (TOL) for University administered programs of \$26,977,890. The actuarial valuation was performed as of July 1, 2019 and rolled forward to the measurement date of June 30, 2020. Update procedures were used to roll-forward the census data and actuarially determined liability to the measurement date using standard methodology.

At June 30, 2021, the Medical Center recognized a negative OPEB expense of \$1,570,757. The Medical Center also reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 11,181,775
Net difference between projected and actual earnings on OPEB plan investments	-	
Change in assumption	2,387,540	6,717,634
Changes in proportionate share	-	-
Amounts associated with transactions subsequent to the measurement date	145,127	-
Total	<u>\$ 2,532,667</u>	<u>\$ 17,899,409</u>

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

Year ended June 30

FY 2022	\$ (4,735,839)
FY 2023	\$ (4,735,839)
FY 2024	\$ (4,061,704)
FY 2025	\$ (1,041,080)
FY 2026	\$ (937,407)

**Actuarial Assumptions**

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

Inflation	2.5 percent
Salary increases	4.0 percent
Discount rate	2.21 percent, based on the Bond Buyer GO 20-Bond Municipal Bond Index.
Healthcare cost trend rates	7.0 percent for June 30, 2021, decreasing 0.25 percent per year to an ultimate rate of 5.0 percent for fiscal year 2029 and thereafter.
Retirees' share of benefit-related costs	Equal to applicable percentage of projected average claims based on all relevant assumptions described in this section, including health care trend rates, health care cost aging, and various demographic assumptions.
Mortality rates	For healthy annuitants: Pub TH-2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2020 for faculty and Pub GH-2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2020 for non-faculty.  For disabled annuitants: Pub TH-2010 disabled mortality table projected generationally using Scale MP-2020 for faculty and Pub GH-2010 disabled mortality table projected generationally using Scale MP-2020 for non-faculty.

#### Total OPEB Liability

	2021
<b>Total OPEB liability</b>	
Service Cost	2,180,980
Interest Cost	1,129,427
Changes in Benefit Term	
Differences Between Expected and Actual Experiences	(8,167,254)
Changes of Assumptions	1,903,677
Benefit Payments	(129,624)
<b>Net Change in Total OPEB Liability</b>	(3,082,794)
<b>Total OPEB Liability-(Beginning)</b>	30,060,683
<b>Total OPEB Liability-(Ending)</b>	<u>\$ 26,977,889</u>

\* Changes of assumptions reflect the following:

- A change in the discount rate from 3.51 percent in 2020 to 2.21 percent in 2021.
- A change in the mortality table projection scale from MP-2019 to MP-2020.

#### Sensitivity of the University's Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the University, as well as what the University's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21 percent) or one percentage point higher (3.21 percent) than the current discount rate:

<b>SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN DISCOUNT RATE</b>	<b>1% Decrease 1.21%</b>	<b>Current Rate 2.21%</b>	<b>1% Increase 3.21%</b>
<b>Total OPEB Liability</b>	\$ 31,275,087	\$ 26,977,890	\$ 23,543,291

#### Sensitivity of the University's Total OPEB Liability to Changes in the Health Care Trend Rate

The following presents the total OPEB liability of the University administered programs, as well as what the University's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.0 percent decreasing to 4.0 percent) or one percentage point higher (8.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

<b>SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE TREND RATE</b>	<b>1% DECREASE (6.00% DECREASING TO 4.00%)</b>	<b>HEALTHCARE TREND RATE (7.00% DECREASING TO 5.00%)</b>	<b>1% INCREASE (8.00% DECREASING TO 6.00%)</b>
<b>Total OPEB liability</b>	25,101,356	26,977,890	29,215,846

## 20. CARES ACT

As noted in note 1F, the Medical Center records estimated amounts due to or from Medicare and Medicaid cost reports as current liabilities due to the timing of the cost settlement process. The accelerated payments have been reflected as part of those current liabilities. During FY21, the intermediary retracted \$24.9 million, leaving a remaining balance of \$166.6 million as of June 30, 2021.

Due to the global COVID19 pandemic, and the subsequent CARES Act legislation implemented by Congress, the University of Virginia Medical Center received additional sources of funding throughout FY21, illustrated in the table below:

<b>Source</b>	<b>Relief</b>	<b>Amount</b>
CARES Act	\$ (16,094,162)	\$ (16,094,162)
CARES Act-State pass through	(9,387,652)	(9,387,652)
Total	<u>\$ (25,481,814)</u>	<u>\$ (25,481,814)</u>

Per GASB 33, the Medical Center recorded the relief funds as non-operating revenue, with the exception of the change in federal match for Medicaid reimbursement which is recorded in operating income. The Medical Center recorded the accelerated payments received from the intermediary as a current liability in fiscal year 2020 and retractions began in April 2021.

## 21. SUBSEQUENT EVENT

On July 1, 2021, the University of Virginia Medical Center acquired the remaining 60% ownership of the joint operating company, Novant Health University of Virginia Health System for \$260.1 million. The former joint operating company will be known as, the University of Virginia Community Health. The acquisition includes three community hospitals, Prince William Community Hospital, Haymarket Community Hospital, and Culpeper Regional Hospital, and several outpatient surgery and imaging centers. Effective July 1, 2021, UVA Community Health will be included as a blended component unit in the Medical Center's financial statements in accordance with GASB Statement No. 80, Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14.

## Required Supplementary Information

### For the year ended June 30, 2021

**Schedule of University of Virginia Medical Center 's Share of Net Pension Liability**  
**VRS State Employee Retirement Plan**  
**For Fiscal Years Ended June 30, 2021, 2020, 2019, 2018, 2017, 2016, and 2015\***

	2021	2020	2019	2018	2017	2016	2015
Medical Center's Proportion of the Net Pension Liability (Asset)	0.92023%	1.00901%	1.0647%	1.0941%	1.0981%	1.1178%	1.1239%
Medical Center's Proportionate Share of the Net Pension Liability	\$ 66,669,354	\$ 63,766,733	\$ 57,641,000	\$ 63,756,000	\$ 72,375,000	\$ 68,435,000	\$ 62,919,000
Medical Center's Covered Payroll	38,660,208	40,495,343	41,425,057	41,631,254	38,688,242	36,672,364	49,730,407
Medical Center's Proportionate Share of the Net Pension Liability as a Percentage of its Medical Center Covered Payroll	172.45%	157.47%	139.15%	153.14%	187.07%	186.61%	126.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.15%	75.13%	77.39%	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2021 is the seventh year for this presentation, only seven years of data are available. However, additional years will be included as they become available.

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

### VRS State Employee Retirement Plan

#### Schedule of Employer Contributions

**For Fiscal Years Ended June 30, 2015 through June 30, 2021**

FY	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2021	5,197,811	5,197,811		36,071,719	14.41%
2020	5,026,434	5,026,434		38,660,208	13.00%
2019	6,556,854	6,556,854	-	40,495,343	16.19%
2018	5,756,144	5,756,144	-	41,425,057	13.90%
2017	5,769,346	5,769,346	-	41,631,254	13.86%
2016	5,345,457	5,345,457	-	38,688,242	13.82%
2015	5,245,180	5,245,180	-	36,672,364	14.30%

Schedule is intended to show information for 10 years. Since 2021 is the seventh year for this presentation, seven years of data are available. However, additional years will be included as they become available.



**Notes to Required Supplementary Information-VRS State Employee Retirement Plan  
For the year ended June 30, 2021**

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

**Changes of assumptions:** The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Required Supplementary Information (RSI) Cost-Sharing Employer Plans – Group Life Insurance Program  
For the Fiscal Year Ended June 30, 2021**

**Schedule of Medical Center's Share of Net OPEB Liability  
Group Life Insurance Program  
For the Years Ended June 30, 2021, 2020, 2019 and 2018\***

	2021	2020	2019	2018
Medical Center Proportion of the Net GLI OPEB Liability (Asset)	0.1568%	0.1711%	0.1839%	0.1857%
Medical Center Proportionate Share of the Net GLI OPEB Liability (Asset)	2,616,068	2,784,741	2,793,000	2,794,000
Medical Center Covered Payroll	32,261,000	33,547,000	34,949,181	41,631,254
Medical Center's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.11%	8.30%	7.99%	6.71%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%	52.00%	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2021 is the fourth year for this presentation, only four years of data are available. However, additional years will be included as they become available.

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

**Schedule of Medical Center Contributions-Group Life  
For the Years Ended June 30, 2021, 2020, 2019 and 2018**

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer Covered Payroll	Contributions as a % of Covered Payroll
2021	168,585	168,585	-	31,099,419	0.54%
2020	167,528	167,528	-	32,261,390	0.52%
2019	175,000	175,000	-	33,547,466	0.52%
2018	178,559	178,559	-	34,949,181	0.51%

Schedule is intended to show information for 10 years. Since 2021 is the fourth year for this presentation, only four years of data is available. However, additional years will be included as they become available.

**Notes to Required Supplementary Information-Group Life Insurance  
For the Year Ended June30,2021**

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

**Changes of assumptions:** The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

**General State Employees**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Teachers**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

**SPORS Employees**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

**ValORS Employees**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

**JRS Employees**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

**Largest 10 Locality Employers – General Employees**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Non-Largest 10 Locality Employers – General Employees**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Largest 10 Locality Employers – Hazardous Duty Employees**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%
Discount Rate	Decrease rate from 7.00% to 6.75%

## Non-Largest 10 Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

### Schedule of Medical Center's Share of Net OPEB Liability Health Insurance Credit Program For the Years Ended June 30, 2021, 2020, 2019 and 2018\*

	2021	2020	2019	2018
Medical Center Proportion of the Net HIC OPEB Liability (Asset)	5.76212%	5.89337%	6.53250%	6.38664%
Medical Center Proportionate Share of the Net HIC OPEB Liability (Asset)	\$ 52,896,613	54,400,004	59,595,000	58,152,000
Medical Center's Covered Payroll	415,138,000	401,596,000	439,856,021	412,664,212
Medical Center's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	12.74%	13.55%	13.55%	14.09%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	12.02%	10.56%	9.51%	8.03%

Schedule is intended to show information for 10 years. Since 2021 is the fourth year for this presentation, only four years of data is available. However, additional years will be included as they become available.

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

### Schedule of Medical Center Contributions-Health Insurance Credit For the Year Ended June 30, 2021, 2020, 2019, and 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Medical Center Covered Payroll	Contributions as a % of Covered Payroll
2021	5,303,446	5,303,446	-	473,234,683	1.12%
2020	4,910,138	4,910,138	-	415,138,237	1.18%
2019	4,989,855	4,989,855	-	401,596,000	1.24%
2018	5,267,829	5,267,829	-	439,856,021	1.20%

Schedule is intended to show information for 10 years. Since 2021 is the fourth year for this presentation, only four years of data is available. However, additional years will be included as they become available.

**Notes to Required Supplementary Information-Health Insurance Credit Program**  
**For the year ended June 30, 2021**

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

**Changes of assumptions:** The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

**General State Employees:**

Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

**SPORS Employees:**

Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

**ValORS Employees:**

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

Discount Rate	Decrease rate from 7.00% to 6.75%
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#### JRS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Updated to a more current mortality table—RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

#### POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS-UVA ADMINISTERED OPEBS

##### Total OPEB Liability and Related Ratios\*

	2021	2020	2019	2018
OPEB Liability (Ending)				
Retiree Health Plan	16,495,555	21,581,918	19,640,252	32,879,228
Optional Retirement Retiree Life Insurance	10,482,335	8,478,766	7,219,835	8,103,404
Covered-Employee Payroll				
Retiree Health Plan	253,080,000	241,426,000	232,140,000	231,930,000
Optional Retirement Retiree Life Insurance	210,450,000	209,726,000	201,660,000	231,930,000
OPEB Liability as a Percentage of Covered Payroll				
Retiree Health Plan	6.52%	8.94%	8.46%	14.18%
Optional Retirement Retiree Life Insurance	4.98%	4.04%	3.58%	3.49%

\*Schedule is intended to show information for 10 years. Since 2021 is the fourth year for this presentation only four years of data is available. However, additional years will be included as they become available.

\* GASB 75 was effective first for employer fiscal years beginning after June 15, 2017

##### Changes in the Total OPEB Liability and Related Ratios-UVA

	2021	2020	2019	2018
<b>Total OPEB liability</b>				
Service Cost	2,180,980	1,933,883	3,499,754	\$ 3,508,399
Interest Cost	1,129,427	1,114,214	1,585,000	1,110,940
Changes in Benefit Term			-	4,735,948
Differences Between Expected and Actual Experiences	(8,167,254)	(1,063,461)	(7,493,282)	-
Changes of Assumptions	1,903,677	1,221,780	(11,293,026)	(3,196,088)
Benefit Payments	(129,624)	(5,820)	(420,991)	(1,288,000)
<b>Net Change in Total OPEB Liability</b>	(3,082,794)	3,200,596	(14,122,545)	4,871,199
<b>Total OPEB Liability-(Beginning)</b>	30,060,683	26,860,087	40,982,632	36,111,433
<b>Total OPEB Liability-(Ending)</b>	<u>\$ 26,977,889</u>	<u>\$ 30,060,683</u>	<u>\$ 26,860,087</u>	<u>\$ 40,982,632</u>

#### Notes to Required Supplementary Information-UVA Administered OPEBS

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

Changes of assumptions-Details regarding changes in assumptions can be found in Note 19 to the financial statements.



# Commonwealth of Virginia

*Auditor of Public Accounts*

Staci A. Henshaw, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

December 3, 2021

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Kenneth R. Plum  
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** (the Medical Center), a division of the University of Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements. We were not engaged to audit the financial statements of the discretely presented component unit. These financial statements 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. However, because of the matter described in the “Basis for Disclaimer of Opinion on the Discretely Presented Component Unit” paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the discretely presented component unit.

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 presentation of the financial statements.

Except for the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Basis for Disclaimer of Opinion on the Discretely Presented Component Unit*

The financial statements of University of Virginia Imaging, LLC (UVA Imaging) have not been audited, and we were not engaged to audit UVA Imaging’s financial statements as part of our audit of the Medical Center’s basic financial statements.

#### *Disclaimer of Opinion*

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion on the Discretely Presented Component Unit” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit of the Medical Center. Accordingly, we do not express an opinion on these financial statements.

#### *Unmodified Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Medical Center as of June 30, 2021, and the changes in financial position and cash flows 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 where applicable, cash flows of only that portion of the business-type activities and the discretely presented component unit of the University of Virginia that is attributable to the transactions of the University of Virginia Medical Center. They do not purport to, and do not, present fairly the University of Virginia's overall financial position as of June 30, 2021, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### Change in Accounting Principle

As discussed in Note 1 of the accompanying financial statements, the Medical Center implemented Governmental Accounting Standards Board Statement No. 90 (GASB 90), Majority Equity Interests, related to accounting for a government entity's majority equity interest in a legally separate organization. Certain line items in the fiscal year 2020 financial statements, which are included in the fiscal year 2021 financial statements as comparative information, have been restated to address the change in its presentation of the financial reporting entity. Our opinion is not modified with respect to this matter.

## *Other Matters*

### Prior-Year Summarized Comparative Information

We have previously audited the Medical Center's 2020 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated December 11, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived, except where revised due to the implementation of GASB 90 as discussed in Note 1.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 2 through 4; the Schedule of University of Virginia Medical Center's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 63 through 64; the Schedule of Medical Center's Share of Net OPEB Liability, the Schedule of Medical Center Contributions, and the Notes to the Required Supplementary Information for Group Life Insurance and the Health Insurance Credit on pages 64 through 70; Schedule of Total OPEB Liability and Related Ratios, Schedule of Changes in Total OPEB

Liability and Related Ratios – UVA, and the Notes to the Required Supplementary Information – UVA administered OPEBs on page 70. 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 December 3, 2021, on our consideration of the University of Virginia's (including the 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 effectiveness of 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 Medical Center's internal control over financial reporting and compliance.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

EMS/vks

**UNIVERSITY OF VIRGINIA MEDICAL CENTER**  
**Charlottesville, Virginia**

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