



# UNIVERSITY OF VIRGINIA MEDICAL CENTER

Audited Financial Statements for the fiscal year ended June 30, 2020

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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, 2020, with comparative information for the year ended June 30, 2019. This discussion has been prepared by management and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

The Medical Center is one of the three operating divisions of the University of Virginia. The Executive Vice President, Health Affairs of the University of Virginia provides overall leadership and management of the Medical Center. The Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the Medical Center is a State and Magnet designated licensed 612-bed hospital. In addition, located on the Charlottesville campus, are the following: a Level 1 trauma center, 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.

Financial Highlights

	2020	2019
Operating revenues	<u>\$ 1,755.4</u>	<u>\$ 1,782.8</u>
Operating income	\$ 35.6	\$ 113.8
Net non-operating revenue	<u>18.5</u>	<u>1.0</u>
Net income	<u>\$ 54.1</u>	<u>\$ 114.8</u>

\* millions

At the end of fiscal year 2020, the operating income was \$35.6 million, compared to fiscal year 2019 operating income of \$113.7 million. The decrease in operating income for the current fiscal year is the result of the discontinuance of elective surgeries, as well as cancellation of preventative, non-sick clinic visits for 45 days due to the Executive Order issued by the Governor in response to the COVID19 global pandemic.

The operating income in fiscal year 2020 reflects the measures taken by the Medical Center, as a result of the COVID19 global pandemic. The primary drivers in a significantly lower operating income for fiscal year 2020, as compared to fiscal year 2019, were the following: decreased inpatient and outpatient elective surgeries, decreased outpatient visits, and increased operating expenses.

Net non-operating revenue increased by \$17.5 million from fiscal year 2019 to fiscal year 2020. The Medical Center recognized a decrease in investment in affiliates of \$10.0 million in fiscal year 2020 as compared to fiscal year 2019. The Medical Center experienced a decrease in the United States capital markets and investment income (both realized and unrealized) decreased by \$9.4 million. In addition, transfers to the School of Medicine and University Physicians Group increased by \$19.7 million. Finally, the Medical Center experienced a \$57.3 million increase in other non-operating revenue due to the recognition of Federal and State funding received in response to the COVID19 global pandemic.

Financial Statements

The Medical Center's financial report includes three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These financial statements are prepared in accordance with standards published by the Governmental Accounting Standards Board (GASB) and with the Financial Accounting Standards Board (FASB) requirements for Health Care Organizations.

The Statement of Net Position presents the financial position of the Medical Center at the end of the fiscal year, including all assets, liabilities, deferred inflows and deferred outflows. Net position is the difference between total asset 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 \$54.1 M increase.

Statement of Net Position				
As of June 30, 2020 and 2019				
	2020	2019	Increase(Decrease) Amount	Percent
Assets and deferred outflows:				
Current assets	\$ 623.2	\$ 436.4	\$ 186.8	42.8%
Capital assets	1,372.2	1,263.6	108.6	8.6%
Other non-current assets	1,241.5	1,295.3	(53.8)	-4.2%
Deferred outflows	<u>34.5</u>	<u>33.4</u>	<u>1.1</u>	<u>3.3%</u>
Total assets and deferred outflows	<u>3,271.4</u>	<u>3,028.7</u>	<u>242.7</u>	<u>8.0%</u>
Liabilities and deferred inflows:				
Current liabilities	527.8	336.9	190.9	56.7%
Non-current liabilities	941.1	946.0	(4.9)	-0.5%
Deferred inflows	<u>27.9</u>	<u>25.4</u>	<u>2.5</u>	<u>9.8%</u>
Total liabilities and deferred inflows	<u>1,496.8</u>	<u>1308.3</u>	<u>188.5</u>	<u>14.4%</u>
Net position				
Net investment in capital assets	626.8	549.8	77.0	14.0%
Restricted for				
Nonexpendable	53.1	53.1	0.0	0.0%
Expendable	73.7	73.5	0.2	0.3%
Unrestricted	<u>1,021.0</u>	<u>1,044.1</u>	<u>(23.1)</u>	<u>-2.2%</u>
Net Position	<u>1,774.6</u>	<u>1,720.5</u>	<u>54.1</u>	<u>3.1%</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,271.4</u>	<u>\$ 3,028.8</u>	<u>\$ 242.6</u>	<u>8.0%</u>

The schedule is presented in millions

During fiscal year 2020, the Medical Center's financial position remained positive. The Medical Center's net position increased, primarily due to Federal and State financial relief, expense reduction measures, and capital market rebounds.

The value of capital assets net of depreciation increased \$108.6 million from the prior fiscal year. The primary projects during fiscal year 2020 include the Medical Center's hospital emergency room department and bed tower, renovation of multiple patient care units in the Hospital, and reconfiguring new space to serve COVID patients.

The development and maintenance of the Medical Center's capital assets is a necessary and critical factor to sustaining and increasing the patient's quality of care received. The Medical Center continues to implement its long-

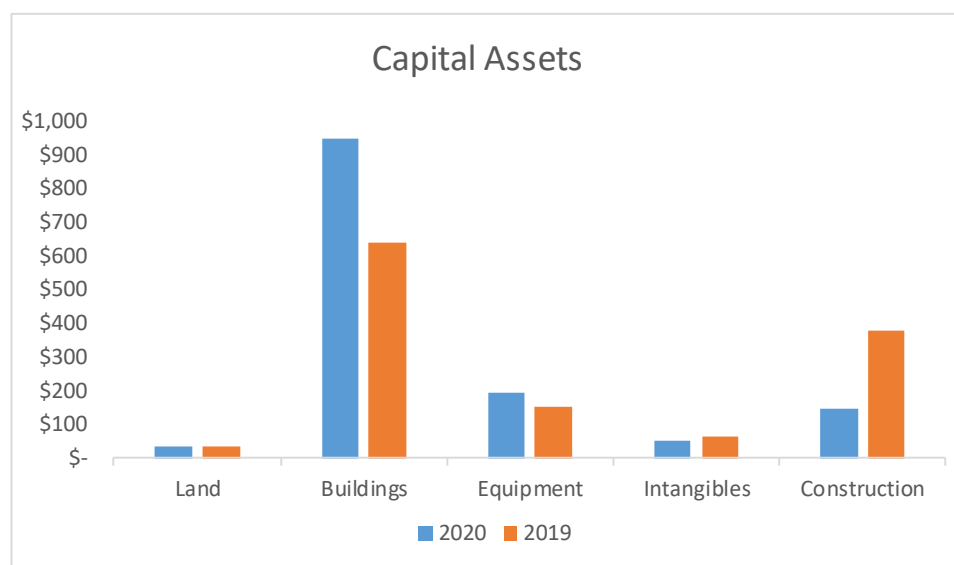
range plan by constructing an 80 private room bed tower, including new emergency and trauma room facilities. Capital projects consist of replacement, renovation, and new construction projects of the Medical Center and its related outpatient clinics, as well as significant investments in equipment and information systems.

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

Projects	Source of Funds	Completion Date	Total Capitalized Cost
Emily Couric Clinical Cancer Center-4th Fl Fitout	Operating Funds	Oct-19	13,502,217
Hospital HVAC Phase III / Phase IV	Operating Funds	Sep-19	16,897,021
Ivy Musculoskeletal Center + Utility Plant	Operating Funds	Jun-21	69,426,132
University Hospital Expansion-MRI/ED/OR/Bed Tower	Debt	Dec-20	343,584,995
Comprehensive Breast Center	Operating Funds		4,082,727

The Hospital Bed Tower and Emergency Room expansion, as well as the Ivy Musculoskeletal Center project, continued to increase the Medical Center's capital asset balances throughout fiscal year 2020. The Medical Center did not have any other major capital projects during fiscal year 2020.

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 \$770.2 million of pooled debt with the University of Virginia.

Total liabilities and deferred inflows increased by \$188.5 million, primarily due to the Medical Center receiving an advance (loan) payment of \$192.7 million from the Medical Center intermediary, in anticipation of the cash shortfall due to nonexistent volumes, due to reduced patient volume, during the 45 day Executive Order shutdown due to COVID19. Currently, the Medical Center is awaiting guidance from the federal government on the repayment timeline for the advance payments received.

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

Changes in total net position as presented in the Statements of Net Position is based on activity shown in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of these statements is to present the Medical Center's operating and non-operating revenues and expenses and any other revenues, expenses, gains, and losses. A summarized comparison of revenues, expenses and other changes in net position for the years ended June 30, 2020 and 2019 is as follows:

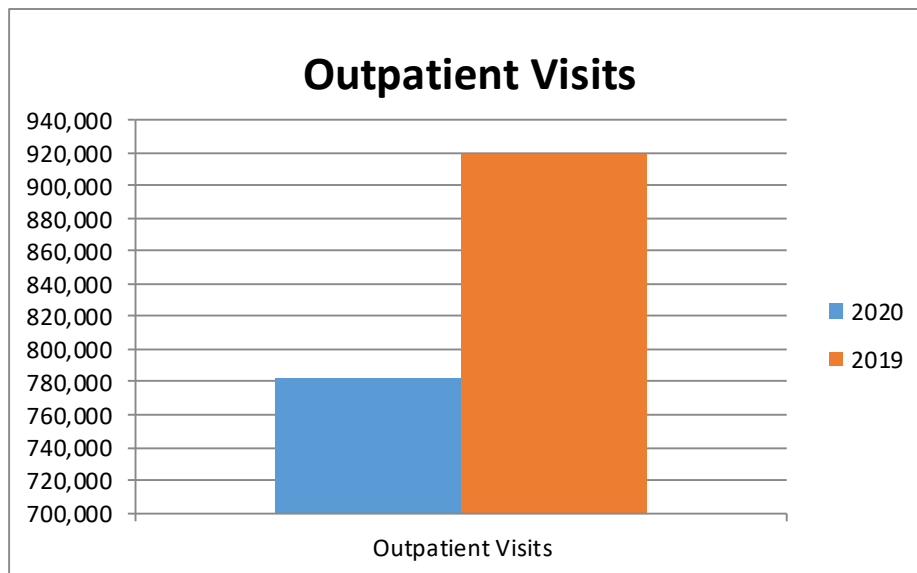
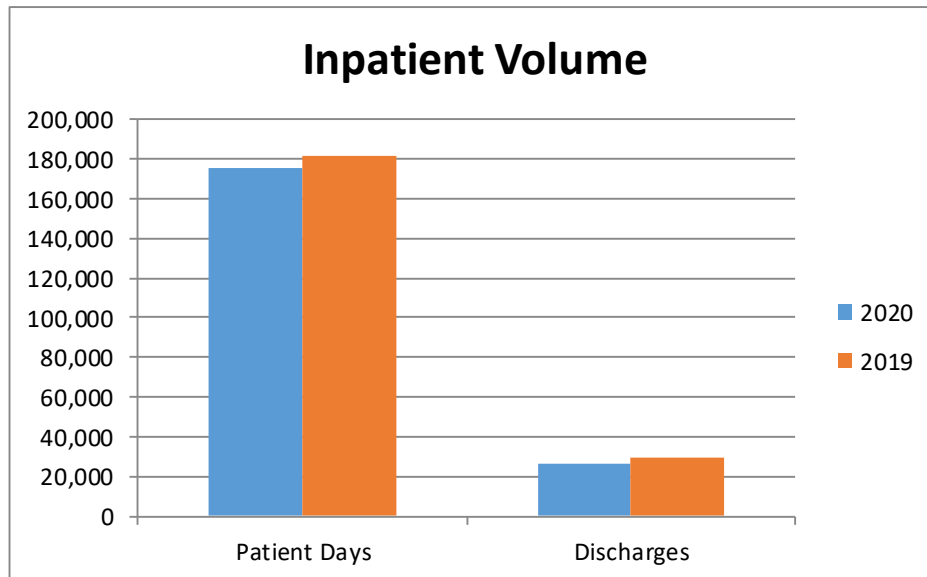
Statement of Revenues, Expenses and Changes in Net Position For the years ended June 30, 2020 and 2019				
	<u>2020</u>	<u>2019</u>	Increase (Decrease) <u>Amount</u>	<u>Percent</u>
Net patient service revenue	\$ 1,688.8	1719.1	(30.3)	-1.8%
University allocations	5.3	6.8	(1.5)	-22.1%
Other	<u>61.3</u>	<u>56.9</u>	<u>4.4</u>	<u>7.7%</u>
 Total operating revenue	 <u>1755.4</u>	 <u>1782.8</u>	 <u>(27.4)</u>	 <u>-1.5%</u>
 Salaries and benefits	 755.7	 732.8	 22.9	 3.1%
Other operating expenses	<u>964.1</u>	<u>936.3</u>	<u>27.8</u>	<u>3.0%</u>
 Total operating expenses	 <u>1719.8</u>	 <u>1669.1</u>	 <u>50.7</u>	 <u>3.0%</u>
 Operating income	 35.6	 113.7	 (78.1)	 -68.7%
 Non-operating income	 <u>73.8</u>	 <u>36.5</u>	 <u>37.3</u>	 <u>102.2%</u>
 Income before other revenue and transfers	 109.4	 150.2	 (40.8)	 -27.2%
 Transfers to UVA	 <u>(55.3)</u>	 <u>(35.5)</u>	 <u>(19.8)</u>	 <u>55.8%</u>
 Increase in net position	 <u>54.1</u>	 <u>114.7</u>	 <u>(60.6)</u>	 <u>-52.8%</u>
 Net position - beginning of year	 1720.4	 1593.9	 126.5	 7.9%
Prior Period - net position adjustment	<u>11.7</u>	<u>11.7</u>	<u>0.0</u>	<u>0.0%</u>
Net position - beginning of year, adjusted	<u>1720.4</u>	<u>1605.6</u>	<u>114.8</u>	<u>7.1%</u>
  Net position-end of year	  <u>\$ 1,774.5</u>	  <u>\$ 1,720.3</u>	  <u>\$ 54.2</u>	  <u>3.2%</u>

The schedule is presented in millions

## Operating Revenue

Total operating revenue for fiscal year 2020 was 1.5 percent below prior year. The global COVID19 pandemic, and the Medical Center's implementation of the federally mandated measures to mitigate the virus, proved to be the sole contributing factor in the decrease in operating revenue.

For fiscal year 2020, indigent care totaled \$167.9 million, which is 2.8 percent of gross revenue as compared to fiscal year 2019, which was \$282.5 million and 4.7 percent of gross revenue. Unlike most other hospitals, the Medical Center receives cost-based payments from a combination of State and Federal dollars to pay the Medical Center and its Faculty. During fiscal year 2020, indigent care decreased, as compared to fiscal year 2019, due to changes to the indigent care calculation and payment methodologies. The trend in indigent care and issues with the State budget and healthcare reform, continue to be reasons for concern as the Medical Center looks to future years.



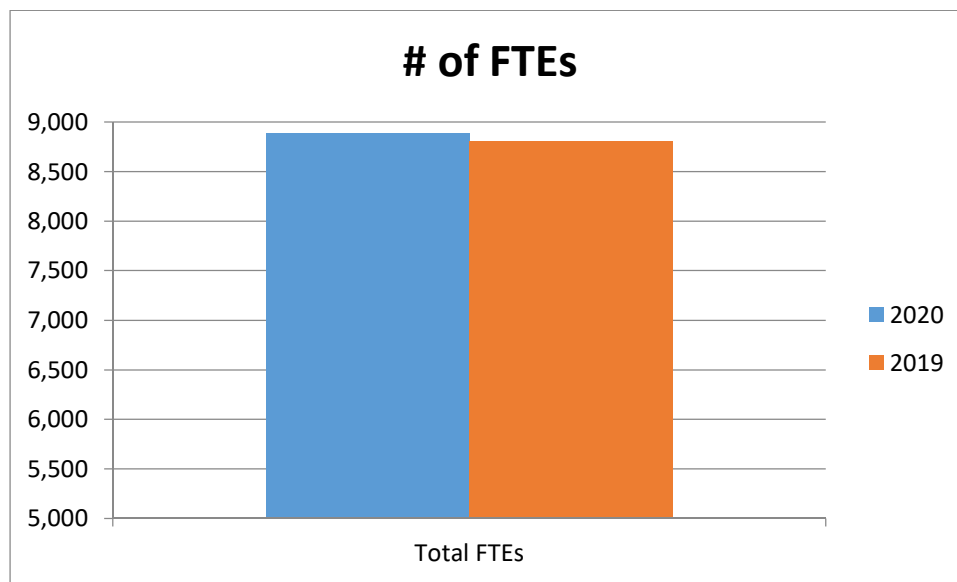
#### Operating Expenses

Total operating expenses for fiscal year 2020 were 3.0 percent above the prior year.

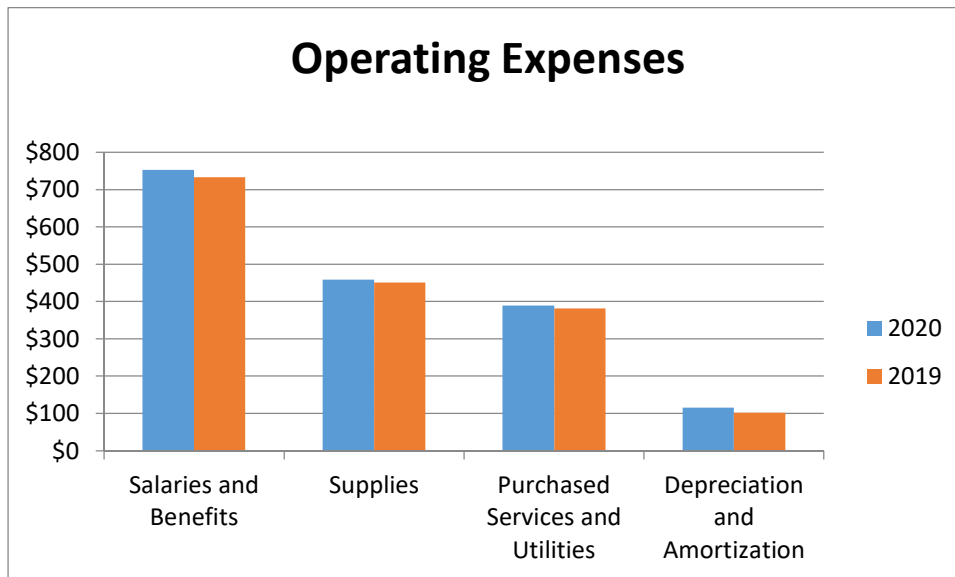
Total labor expenses (including salaries and wages, fringe benefits and contract labor) grew 3.1 percent as compared to fiscal year 2019. The primary driver, as it relates to salaries and fringe benefits, includes an increase of

\$14.9 million increase in salaries and an \$8.0 million increase in fringe benefits, however both were constrained by financial mitigations put in place at the Medical Center due to COVID19.

Total full time equivalents (FTE's), are summarized below:



Other operating expenses rose 3.0 percent from the prior year, primarily due to continuing inflationary pressures from suppliers of pharmaceuticals and medical supplies. The treatment of COVID19 patients, during the last quarter of fiscal year 2020, created higher acuity patients, resulting in an increase in medical supply usage. In addition, as a result of the COVID 19 pandemic, the Medical Center increased its spending on personal protective equipment in order to protect our employees and patients.



\*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, 2020 and 2019 is as follows:

Statement of Cash Flows For the years ended June 30, 2020 and 2019				
	<u>2020</u>	<u>2019</u>	Increase(Decrease)	
			<u>Amount</u>	<u>Percent</u>
Cash flows from operating activities	\$ 345.8	\$ 231.3	\$ 114.5	49.5%
Cash flows used by non-capital financing activities	(5.5)	(51.3)	(45.8)	-89.3%
Cash used by capital and related financing activities	(253.4)	(236.4)	17.0	7.2%
Cash flows from investing activities	92.4	109.4	(17.0)	-15.5%
Net increase(decrease) in cash and cash equivalents	179.3	53.0	126.3	238.3%
Cash and cash equivalents-beginning of the year	<u>108.1</u>	<u>55.1</u>	53.0	96.2%
Cash and cash equivalents-end of the year	<u>\$287.3</u>	<u>\$108.1</u>	<u>\$179.3</u>	165.9%

The schedule is presented in millions

The cash generated from operating activities increased by 49.5 percent from fiscal year 2019 to fiscal year 2020, primarily due the \$192.7 million advance payment (loan) received from the Medical Center intermediary.

Cash flows used from non-capital financing and non-investing activities decreased \$45.8 million from fiscal year 2019. During fiscal year 2020, Medical Center transfers to the School of Medicine and the University Physicians Group increased \$12.5 million. In addition, as a result of Federal and State relief funding, transfers to the Medical Center increased \$57.4 million. Finally, gifts increased by \$0.6 million.

Cash used for capital and related capital activities increased 7.2 percent in fiscal year 2020.

Cash flows from investing activities decreased by 15.5 percent, as a result of unfavorable performance of Medical Center affiliates and the capital markets.

#### Economic Factors Affecting the Future

COVID continues to dominate new legislation generated to assist hospitals. 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, 2020, the Medical Center received 40.4 M in CARES act relief funding. As a result of repeated changes in guidance, amounts to be applied to FY21 and FY22 cost reports have yet to be determined. Also, the Medical Center received a substantial loan, as accelerated payments, from CMS, Centers for Medicare and Medicaid Services, to continue operations due to COVID. As of November 2020, repayment of the accelerated payment will begin April 2021. As of June 30, 2020, the Medical Center has applied for additional Provider Relief funds which may be received in FY21. The Medical Center expects to receive COVID relief funds throughout FY 21.

CMS has taken several other positions to lower reimbursement to safety net hospitals. For example, changes to Outpatient Perspective Payment System (OPPS) reimbursement, further reimbursement reduction for 340B drugs, the Site Neutral Reduction for physician clinics, the proposed resolution to Commercial Primary Medicaid Secondary rule for the Medicaid DSH (disproportionate share) audit, and finally the implementation of lowered Medicare Uncompensated DSH payments for all hospitals. This past year was further marked by the Medicaid Fiscal Accountability Act (MFAR), although, CMS has since rescinded this rule and it will not be implemented.

In 2018, the legislature of the Commonwealth of Virginia voted to expand Medicaid. Medicaid expansion will impact the Medical Center and its patients in many ways. Medicaid expansion, effective January 1, 2019, converts a large portion of the Medical Center's indigent care patients into the Medicaid population. In FY20, the Medical Center, as a result of Medicaid Expansion, experienced an increase in the Medicaid Managed Care population and a decrease to the Indigent Care population. As a result of the shift in patient population from indigent to Medicaid managed care, the Medical Center does not have to use these patients to substantiate Medicaid DSH funding, which is subject to audit, therefore resulting in decreased audit exposure in FY20 for the Medical Center. Post expansion, type one hospitals are in a much better position to maintain our cost based reimbursement.

## FINANCIAL STATEMENTS

UNIVERSITY OF VIRGINIA MEDICAL CENTER  
STATEMENT OF NET POSITION  
As of June 30, 2020  
With Comparative Amounts as of June 30, 2019

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents (Note 2)	273,333,765	95,440,123
Accounts receivable, net of estimated uncollectibles of \$649,209,519 at June 30, 2020 and \$630,377,984 at June 30, 2019	295,838,117	290,127,631
Due from University of Virginia	151,908	2,518,571
Inventories and prepaid expenses	53,855,461	48,362,745
Notes receivable	1,500	-
	<u>623,180,751</u>	<u>436,449,070</u>
Total current assets		
Noncurrent assets:		
Cash and cash equivalents restricted (Note 2)	13,922,014	12,636,262
Investments in pooled endowment funds (Note 2)	676,519,217	683,392,565
Investments (Note 2)	389,845,413	381,099,652
Investments in affiliated companies (Note 5)	88,131,210	91,648,324
Land (Note 6)	33,898,328	33,898,328
Construction in Progress (Note 6)	146,213,377	375,671,520
Depreciable capital assets, less accumulated depreciation/amortization of \$1,212,116,702 at June 30, 2020 and \$1,108,530,666 at June 30, 2019 (Note 6)	1,192,065,036	854,014,545
Other Assets	7,862,842	6,918,100
Assets whose use is limited:		
Assets held by the University (Note 7)	32,618,299	84,571,516
Due from the University of Virginia - non current	<u>32,616,779</u>	<u>35,046,713</u>
Total noncurrent assets	<u>2,613,692,515</u>	<u>2,558,897,524</u>
Deferred outflows of resources (Note 16)	34,521,653	33,357,349
Total assets and deferred outflows of resources	<u><u>3,271,394,919</u></u>	<u><u>3,028,703,944</u></u>

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER  
STATEMENT OF NET POSITION  
As of June 30, 2020  
With Comparative Amounts as of June 30, 2019

	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable and accrued expenses (Note 8)	170,749,329	163,550,653
Due to third-party payors	319,191,754	131,517,185
Current installments of long-term debt (Note 9)	24,023,147	23,115,833
Due to University of Virginia	6,196,898	11,999,393
Grants payable - current portion	3,258,516	4,219,141
Unearned Revenue	<u>4,429,437</u>	<u>2,481,430</u>
Total current liabilities	<u>527,849,081</u>	<u>336,883,634</u>
Long-term liabilities:		
Long-term debt (Note 9)	746,219,539	760,794,220
Grants payable - noncurrent portion	32,301,215	35,952,885
Other Long-term liabilities (Note 9)	9,044,323	-
Other Post Employment Benefits (Note 18)	87,245,429	89,248,087
Net Pension Liability (Note 16)	63,766,733	57,641,000
Noncontrolling Interest in Subsidiary	2,547,424	2,318,351
Total long-term liabilities	<u>941,124,663</u>	<u>945,954,543</u>
Deferred inflows of resources (Note 16)	27,923,459	25,416,055
Total liabilities and deferred inflows of resources	<u>1,496,897,203</u>	<u>1,308,254,231</u>
NET POSITION		
Net investment in capital assets	626,763,209	549,781,301
Restricted:		
Nonexpendable	53,099,192	53,099,192
Expendable	73,669,685	73,461,915
Unrestricted	<u>1,020,965,628</u>	<u>1,044,107,304</u>
Net position	<u>1,774,497,716</u>	<u>1,720,449,712</u>
Total liabilities, deferred inflows and net position	<u><u>3,271,394,919</u></u>	<u><u>3,028,703,944</u></u>

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER - All Business Units  
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
As of June 30, 2020  
With Comparative Amounts as of June 30, 2019

	2020	2019
Operating revenue:		
Net patient service revenue (Note 11)	\$1,688,765,563	\$1,719,128,225
University allocations (Note 12)	5,315,155	6,839,379
Other	61,287,844	56,947,402
Total operating revenue	1,755,368,562	1,782,915,006
Operating Expenses:		
Salaries and wages	599,224,422	584,286,149
Fringe benefits	156,434,138	148,507,798
Supplies	458,619,239	451,451,662
Purchased services and other expenses	362,245,940	358,171,874
Utilities	27,340,664	24,263,262
Provision for depreciation and amortization	115,886,828	102,443,877
Total operating expenses	1,719,751,230.60	1,669,124,623
Income from operations	35,617,331	113,790,383
Nonoperating revenue (expenses):		
Gifts	2,285,513	3,826,022
Investment income	465,140	1,433,255
Net increase (decrease) in the fair value of investments	46,642,805	56,074,221
Net gain (loss) from investments in affiliated companies (Note 5)	(4,249,266)	5,833,013
Noncontrolling Interest in Subsidiary Income	(3,361,441)	(3,946,743)
Interest expense	(18,307,234)	(19,396,460)
Gain (Loss) on disposal of fixed assets	107,030	(252,154)
Other	50,192,602	(7,095,763)
Net nonoperating revenues	73,775,149	36,475,390
Income before other revenues, expenses, gains or losses	109,392,480	150,265,773
Transfers	(55,344,478)	(35,486,242)
Increase (decrease) in net position	54,048,002	114,779,531
<b>NET POSITION</b>		
Net position - beginning of year	1,720,449,714	1,593,932,344
Prior Period Adjustment-Note 1.V		11,737,838
Net position-adjusted beginning of year		1,605,670,182
Net position - end of year	1,774,497,716	1,720,449,714

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

UNIVERSITY OF VIRGINIA MEDICAL CENTER  
STATEMENT OF CASH FLOWS  
As of June 30 2020  
With Comparative Amounts as of June 30 2019

	2020	2019
Cash flows from operating activities:		
Receipts from patients and third-parties	\$ 1,876,175,866	\$ 1,794,950,419
Receipts from other revenue	61,287,844	56,947,402
Payments to employees	(742,276,628)	(726,560,010)
Payments to suppliers	(822,086,067)	(869,807,216)
Payment for utilities	(27,340,664)	(24,263,262)
Net cash provided by operating activities	<u>345,760,350</u>	<u>231,267,333</u>
Cash flows from non-capital financing and non investing activities:		
Payments on grants	(960,625)	(1,214,653)
Gifts	4,233,520	3,623,564
Transfers to UVA and related entities	(66,186,056)	(53,682,032)
Transfers from Federal and State agencies-COVID	57,382,509	
Net cash provided (used) by non-capital financing activities	<u>(5,530,651)</u>	<u>(51,273,121)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(222,231,785)	(199,989,174)
Principal paid on capital debt	(22,921,038)	(22,628,116)
Principal paid on capital leases	(194,760)	(198,166)
Interest paid on capital debt	(18,307,234)	(19,396,460)
Proceeds from University loan	6,543,967	5,024,105
Proceeds from UVA Imaging loan	2,904,464	443,082
Proceeds from sale of capital assets	776,592	324,855
Net cash used by capital and related financing activities	<u>(253,429,794)</u>	<u>(236,419,875)</u>
Cash flows from investing activities:		
Interest on investments	(4,104,387)	(860,983)
Sale of investments	101,293,136	115,768,708
Purchase of investments	(944,742)	(1,733,234)
Transfer from affiliate	857,847	886,697
Payment affiliate	(4,722,368)	(4,643,910)
Net cash provided by investing activities	<u>92,379,487</u>	<u>109,417,277</u>
Net increase(decrease) in cash and cash equivalents	179,179,393	52,991,614
Cash and cash equivalents - beginning of the year	108,076,385	55,084,771
Cash and cash equivalents - end of the year	<u>\$ 287,255,779</u>	<u>\$ 108,076,385</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	35,617,330	113,790,383
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	115,886,829	102,443,877
Changes in Assets, Liabilities, Deferred Outflows and Deferred Inflows		
Accounts receivables	(2,917,560)	(3,577,494)
Inventories and prepaid expenses	(5,492,716)	(7,800,438)
Deferred outflows of resources	(5,565,965)	224,711
Accounts payable and accrued expenses	201,601,953	28,976,557
Changes in pension and OPEB liabilities	4,123,075	(18,795,545)
Deferred inflows of resources	2,507,404	16,005,283
Net cash provided by operating activities	<u>\$ 345,760,350</u>	<u>\$ 231,267,333</u>

Noncash investing, capital and financing activities

Change in fair market value	\$	51,212,332	\$	58,368,460
Gain(loss)on investment in Novant JOC		(3,673,170)		3,577,200
Change in noncontrolling interest subsidiary		(229,074)		(557,833)
Change in assets acquired by the Assumption of a Liability		(3,486,878)		3,341,866
Gain on investment in Healthsouth		1,501,342		1,590,532
Loss on investment in Fortify		(1,132,513)		(1,140,045)
Change in liability to Culpeper Regional Hospital		(3,651,670)		(4,774,017)
Loss on Dissolution of Affiliate		(804,925)		599,925

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, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Mission

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

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

B. Basis of Accounting

The accompanying financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues, including all exchange and nonexchange transactions, are recorded when earned, and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place. In accordance with GASB requirements, revenues from nonexchange transactions, if measurable and probable of collection, are recognized in the fiscal year in which all eligibility requirements resource provider conditions have been satisfied. The accounting policies and practices of the Medical Center conform to U.S. generally accepted accounting principles applicable to a proprietary fund of a government unit, promulgated by the Government Accounting Standards Board. The financial statement presentation and significant accounting policies adopted by the Medical Center conform to general practice within the governmental healthcare industry, as published by the American Institute of Certified Public Accountants in its audit and accounting guide, *Health care Organizations*.

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

C. Use of Estimates

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

D. Subsidiary and Affiliated Companies

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

University of Virginia Imaging, LLC

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

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

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

Community Medicine, LLC

On November 14, 2000, the University established the Community Medicine University of Virginia, LLC (Community Medicine). Community Medicine was established as a limited liability corporation (LLC) under the laws of the Commonwealth to house physician practices. This model gives physicians an organizational structure that allows 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 accounted for under the consolidation method.

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

Novant Health University of Virginia Health System

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

On October 1, 2014, the Medical Center acquired the remaining 51 percent of Culpeper Regional Hospital for \$45,000,000, providing the Culpeper and surrounding communities a new level of care that includes expanded services and greater access to specialty providers. Culpeper Regional Hospital is a 60-bed community hospital providing primary care, as well as specialty services in orthopedics, cardiology, and cancer. Effective October 1, 2014, the Medical Center accounted for Culpeper Hospital using the consolidation method of accounting. On December 31, 2015, the Medical Center contributed Culpeper Regional Hospital to Novant Health, for a 40% investment in the new joint operating company, called Novant Health University of Virginia Health System. The Medical Center uses the equity method of accounting to account for the joint operating company.

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

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 at the Provider Reimbursement Review Board. The Medical Center uses the actual cost report as this minimizes the risk of ambiguity or oblique areas within the estimates. The Medical Center follows all applicable laws in the preparation of estimates, as well as, the actual cost reports each year. The Medical Center's reserve policy, procedures, estimates and cost reports are reviewed annually by outside auditors to provide further assurance of the accuracy and reasonableness of the financial statements.

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

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. Because the Medical Center does not pursue collection of amounts determined to qualify as indigent care, they are not reported as revenue.

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 refers 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 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 Other Post-Employment Benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position

have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

***University OPEB Plans***

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

P. Comparative Data

The Medical Center presents its financial statements on a comparative basis. The basic financial statements include certain prior year summarized comparative information, in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the Medical Center's financial statements for the year ended June 30, 2019, 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, 2020

Deferred Outflows		Deferred Inflows	
Goodwill	11,166,654	OPEB-VRS administered	6,350,748
Pension Expense	11,381,473	OPEB-UVA administered	14,998,831
OPEB-UVA administered	1,144,323	VRS Pension Liability	6,573,880
OPEB-VRS administered	10,829,203		
Total	<u>34,521,653</u>		<u>27,923,459</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 has not been stipulated by the donor to be reinvested permanently.

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

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

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 is in support of the University, primarily the School of Medicine. During fiscal year 2020, the Medical Center reported transfers of \$55.3M to the University. These transfers were for salary and research support, as well as furthering the University's strategic plan.

U. Grants Payable

Grants Payable primarily consists of a \$32.3M liability to Culpeper Hospital Foundation as of June 30, 2020.

V. Restatement of Net Position

Net Position

The following adjustments were made to the beginning net position reported in the Medical Center's financial statements at June 30, 2019:

Net position originally stated at June 30, 2019	\$ 1,708,711,876
Correction to Medicaid estimate calculation:	
Due from 3rd Party	11,737,838
Net position restated at June 30, 2019	<u>\$ 1,720,449,714</u>

The change in Net Position is due to the discovery of a formula error embedded in the Medicaid estimation calculation worksheet. The Medicaid estimation calculation worksheet is used to estimate, annually, the amount of cost the Medical Center incurs serving the indigent patient population.

W. 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. CREDIT RISK UNDERLYING CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, Cash Equivalents, Investments, and Endowments:

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

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Medical Center has no investments subject to custodial credit risk for 2020.

Credit risk – The credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk. The Medical Center does not have any credit risk for 2020.

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 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 2020.

The following information is provided with respect to the risks associated with the Medical Center's cash, cash equivalents, and investments at June 30, 2020.

#### 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, are maintained and deposited in collateralized, commercial bank 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 subsidiary. The University of Virginia uncollateralized cash balance for FY20 was \$10,400,305. 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), a component unit of the University, was established to provide investment management services to the University and University foundations. 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 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, 2020:

# INVESTMENTS MEASURED AT FAIR VALUE

		BALANCE AT JUNE 30, 2020	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
CASH AND CASH EQUIVALENTS	Cash on hand	\$ 19,460,371	-	-	-	-	-
TOTAL CASH AND CASH EQUIVALENTS		\$ 19,460,371	-	-	-	-	-
DEPOSITS WITH THE UNIVERSITY	Deposits with the University	267,795,407	-	-	-	-	-
DEPOSITS WITH THE UNIVERSITY		\$ 267,795,407	-	-	-	-	-
LONG-TERM INVESTMENTS	UVIMCO LTP	389,845,413	-	-	-	389,845,413	-
TOTAL LONG-TERM INVESTMENTS		\$ 389,845,413	-	-	-	389,845,413	-
ENDOWMENT	UVIMCO LTP	676,519,217	-	-	-	676,519,217	-
TOTAL ENDOWMENT		\$ 676,519,217	-	-	-	676,519,217	-

<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.

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

# INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)

		FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY (IF CURRENTLY ELIGIBLE)	REDEMPTION NOTICE PERIOD
TOTAL INVESTMENTS MEASURED AT NAV	UVIMCO LTP	\$ 1,066,364,630	-	Monthly	(a)
		\$ 1,066,364,630	-		

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

# ENDOWMENTS

The market value of the Medical Center's endowment on June 30, 2020 was \$676.5 million. Biannual distributions are made from the University's endowment to the Medical Center's endowment accounts. Restricted expendable assets includes \$5.5 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 23-50.10:01 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 2020, the Medical Center received \$35.3 million in endowment distribution, consisting of \$32.0 million for spending distribution and \$3.3 million for administrative fees. For the year ended June 20, 2020, 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	\$ 4,953	23,444	28,397
Spending distributions	(5,956)	(29,314)	(35,270)
Transfers in (out)			
<b>TOTAL CHANGE IN ENDOWMENT FUNDS</b>	<b>\$ (1,003)</b>	<b>(5,870)</b>	<b>(6,873)</b>

### 3. ACCOUNTS RECEIVABLE

As of June 30, 2020, the components of accounts receivable consist of the following:

Patient Accounts Receivable (net)	\$	240,697,891
UVA Receivable-Health Insurance		20,706,843
Deposits Receivable-vendor deposits		16,926,266
Novant-Revaluation		6,494,487
University Physicians Group-Funds Flow		4,938,347
Pharmacy		4,155,193
Trauma Grant		1,753,903
Other Receivables		165,187
Total Accounts Receivable (net)	\$	<u>295,838,117</u>

### 4. GOODWILL

Goodwill is reflected in Deferred Outflows (Note 4) 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 November 2004, the Medical Center purchased Amherst and Lynchburg renal facilities. As a result of the purchase, the Medical Center recorded goodwill of \$3.4 and \$4.0 million, respectively, for the Amherst and Lynchburg facilities. The goodwill was to be amortized over a period of 20 years, however as a result of staffing, operational, and business environment changes related to the Amherst and Lynchburg renal facilities during fiscal year 2020, the Medical Center fully amortized the remaining goodwill balances related to those facilities. As a result of management's determination the goodwill was worthless, the total amount amortized is \$1.5 and \$1.8 million, respectively, for the Amherst and Lynchburg renal facilities.

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

### 5. INVESTMENTS IN AFFILIATED COMPANIES

#### 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.

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

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

#### Novant Health University of Virginia Health System

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

#### Fortify Children's Health, LLC

On July 1, 2018 the University of Virginia Medical Center entered in to 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.

#### Broadaxe Care Coordination, Inc.

As a result of the dissolution of Healthcare Partners, Inc, in June 2019, the 8.73% investment in the Broadaxe Care Coordination, Inc. was transferred to the Medical Center. BroadAxe, also known as Locus-Health Broad Axe, is the remote patient monitoring system used by the Medical Center to manage the reductions with readmissions. The Medical Center uses the equity method of accounting to record the financial activity of

Broadaxe Care Coordination, Inc. During fiscal year 2020, the Medical Center determined the investment is not expected to increase, and will therefore yield no future returns. Therefore, the Medical Center wrote off the investment in the amount at the end of fiscal year 2020. The amount of the write-off was \$804,925.

Schedule of Affiliates  
As of June 30, 2020

	Common Stock and Equity Contribution	Share of accumulated income (loss)	Net investment
Encompass Health (formerly Healthsouth)	\$ -	\$ 22,216,267	\$22,216,267
Riverside	0	(140,000)	(140,000)
Valley Health Regional	4,861	0	4,861
Valiance, LLC	249,147	0	249,147
University HealthSystem Consortium	3,229,578	0	3,229,578
JOC/Novant	94,041,170	(31,837,257)	62,203,913
Fortify	2,500,000	(2,272,558)	227,443
Locus-Health Broadaxe	804,925	(804,925)	0

HealthCare Partners, Inc.

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

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

During the June 2019 Board Meeting for HealthCare Partners, Inc, the Board passed by unanimous vote the Plan of Complete Liquidation and Dissolution of Healthcare Partners, Inc. As a result of the dissolution of Healthcare Partners, Inc, the Broadaxe investment was recorded on the Medical Center's books at June 30, 2019. Upon completion of the independent annual audit of HealthCare Partners, Inc, the remaining asset, Cash, will be distributed based on the contributing partners' investment percentages during fiscal year 2020.

6. PROPERTY, PLANT, AND EQUIPMENT

A summary of the property, plant, and equipment accounts and the related accumulated depreciation as of June 30, 2020, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 33,898,328			\$ 33,898,328
Construction in Progress	375,671,520	135,679,831	365,137,974	146,213,377
Depreciable Capital Assets				
Land improvements	11,573,037		4,901	11,568,136
Buildings	1,243,803,620	356,801,715	233,514	1,600,371,821
Equipment-Fixed	13,454,542	1,087,284	180,409	14,361,417
Equipment-Movable	505,738,122	83,857,522	5,257,402	584,338,242
Total depreciable capital assets	<u>1,774,569,321</u>	<u>441,746,521</u>	<u>5,676,226</u>	<u>2,210,639,616</u>
Less accumulated depreciation				
Land improvements	9,747,200	349,818	3,404	10,093,614
Buildings	604,487,161	50,318,613	371,972	654,433,802
Equipment-fixed	9,325,947	662,432	77,026	9,911,353
Equipment-movable	359,126,202	42,984,985	4,753,048	397,358,139
Total accumulated depreciation	<u>982,686,510</u>	<u>94,315,848</u>	<u>5,205,450</u>	<u>1,071,796,908</u>
Depreciable land improvements, buildings and equipment, net	<u>791,882,811</u>	<u>347,430,673</u>	<u>470,776</u>	<u>1,138,842,708</u>
Depreciable Intangible Assets	187,975,891	5,589,583	23,353	193,542,121
Less accumulated amortization: Intangible Assets	125,844,157	14,484,710	9,073	140,319,794
Depreciable intangible assets	<u>62,131,734</u>	<u>(8,895,127)</u>	<u>14,280</u>	<u>53,222,327</u>
Total depreciable capital and intangible assets (net)	<u>\$ 854,014,545</u>	<u>\$ 338,535,546</u>	<u>\$ 485,057</u>	<u>\$ 1,192,065,034</u>

7. 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, 2020:

Bond Sinking Fund-2016A	\$ 32,618,299
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8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of June 30, 2020, the components of accounts payable and accrued expenses consist of the following:

Accrued Leave	\$ 43,827,909
Accounts Payable	37,999,824
Funds Flow-UPG Clin Svcs/Oth	13,709,517
Accrued Payroll	20,498,171
Payroll Liabilities	16,561,143
Accounts Payable-Other	15,357,510
Retainage Payable	8,345,882
Credit Balance in AR	6,800,707
Funds Flow-UPG Med Dir, Admin	4,764,262
Funds Flow-various	2,464,812
Other accrued expenses	419,593
Total Accounts Payable	<u>\$ 170,749,329</u>

## 9. LONG-TERM OBLIGATIONS

\*In thousands

Description	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:							
Series 2012 Pooled	4.75	2032	\$ 83,181		\$ 4,950	\$ 78,231	\$ 5,190
Series 2013 Pooled	4.75	2033	12,168		507	11,661	531
Series 2014 Pooled (1)	4.75	2034	11,841		757	11,084	873
Series 2014 Pooled (2)	4.75	2034	5,260		832	4,428	794
Series 2014 Pooled (4)	4.75	2034	24,515		1,243	23,272	1,304
Series 2014 Pooled (5)	4.75	2034	215,061		12,313	202,748	12,911
Series 2016 Pooled (1)	4.15	2036	383,873	6,544		390,417	-
Series 2017 Pooled (1)	4.56	2037	22,369		832	21,537	871
Series 2017 Pooled (2)	4.56	2037	17,624		647	16,977	677
Total bonds payable			775,892	6,544	22,081	760,355	23,151
Notes payable:							
UVA Imaging			2,580	2,904	839	4,645	681
Total notes payable			2,580	2,904	839	4,645	681
Capitalized leases:							
Kirtley			5,439		195	5,244	191
Total capitalized leases:			5,439		195	5,244	191
Total long-term obligations			\$ 783,911	\$ 9,448	\$ 23,115	\$ 770,244	\$ 24,023

### TOTAL LONG-TERM OBLIGATIONS

Fiscal Year	Principal	Interest	Total
2021	\$ 24,023,112	\$ 17,151,014	\$ 41,174,126
2022	37,975,833	28,064,013	66,039,846
2023	38,837,310	30,438,888	69,276,197
2024	40,624,806	28,662,282	69,287,088
2025	42,115,540	26,805,145	68,920,684
2026-2030	237,807,196	104,003,410	341,810,606
2031-2035	181,943,037	52,252,976	234,196,013
2036-2040	130,112,239	23,170,800	153,283,039
2041-2045	35,627,253	3,704,737	39,331,991
2046-2050	1,176,360	6,281,713	7,458,073
	<u>\$770,242,686</u>	<u>\$320,534,976</u>	<u>\$1,090,777,662</u>

## 10. FINANCING OF MAJOR CONSTRUCTION AND RENOVATION PROJECTS

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

As a result of the COVID19 global pandemic, and subsequent federal executive order cancelling elective surgeries and non-emergency clinic visits for hospitals, the expectation of an increased number of COVID19 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 2 floors of the Hospital Expansion project. The Medical Center is recognizing depreciation as percentage of completion, or current capitalized cost, based on percentage complete versus budgeted total cost.

## 11. NET PATIENT SERVICE REVENUE

The Medical Center's patient service revenue is as follows for the year ended June 30, 2020:

The Medical Center received \$91,855,147 in fiscal year 2020 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 \$19,015,351, two MCO Physician Supplemental Payments totaling \$18,269,683 plus an additional IME payment of \$16,539,410. A fourth quarterly payment was not received until July of the next fiscal year and therefore is not reflected in the financial statements or the footnote, but is included in the Medicaid Due to (From) estimate.

In FY 2019, the payment method changed. UVAMC did not receive Medicaid DSH for FY 2020, and instead was paid via MCO Physician Supplemental Payments. On a quarterly basis, these payments are made to a special dedicated bank account and then split between the MC and UPG. These payments are made 4 months in arrears and therefore, the Medical Center paid the first two quarters paid for FY 20. The last two quarters will be paid in FY 21.

Gross patient service revenue:	
Inpatient	
Routine	\$773,157,911
Ancillary	1,943,717,434
Outpatient services	
Ancillary	3,150,615,299
Pharmacy	160,856,067
Continuum	38,589
Total gross patient revenue	<u>6,028,385,299</u>
Allowances for indigent care and contractual adjustments	(4,339,619,736)
Net patient service revenue	<u><u>\$1,688,765,563</u></u>

## 12. UNIVERSITY ALLOCATIONS

The School of Medicine faculty assists the Medical Center in its mission of providing healthcare and medical education. A survey is conducted annually to determine the value of this effort. An allocation is made on the Statement of Revenues, Expenses, and Changes in Net Position to reflect the value of this effort as income. This allocation is offset in the operating expenses by an equal amount in purchased services. The amount of this allocation for fiscal year 2020 was \$(172,526).

Likewise, the University provides the Medical Center with various general and administrative support services. An analysis is prepared annually to determine the cost of providing these services. The same type of allocation as above is made to the Statement of Revenues, Expenses, and Changes in Net Position to reflect the difference between the direct charge to the Medical Center and the actual cost of these services. The amount of this allocation for fiscal year 2020 was \$ 5,487,681.

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

## 13. COMMITMENTS

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

Year Ending June 30,	Operating Leases
2021	\$ 11,851,013
2022	9,380,890
2023	7,627,527
2024	5,120,913
2025	8,609,781
2026-2030	11,082,363
2031-2034	2,418,440
Total	<u>\$56,090,928</u>

The total rental expense for operating leases for the year ended June 30, 2020, was \$12,032,069.

The Medical Center was party to construction contracts and commitments for the year ended June 30, 2019 totaling \$608,719,542 of which \$509,857,448 were incurred as of June 30, 2020.

## 14. UNIVERSITY OF VIRGINIA PHYSICIANS GROUP

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

On August 1, 2000, management of 63 outpatient clinics operated by UPG since July 1, 1994, transferred to the Medical Center. At that time, the Medical Center filed for provider-based status with the federal government and became responsible for all costs associated with the operations of these provider-based clinics except for physicians' costs. 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 \$19,651,387 as expense payable to the Physicians Group for the provision of supervisory and administrative services, and \$32,762,635 for other services which include expenses related to the purchased services, and employee and cost sharing agreements. In addition, the Medical Center paid, \$1,514,875 for rental of space for the year ended June 30, 2020. In addition, the Medical Center recorded non-operating expenses of \$8,516,578 payable to the Physicians Group.

The Medical Center recorded income from the Physicians Group of \$24,713,783 for clinic facility fees and other services, and \$712,540 for the rental of space for clinics for the year ended June 30, 2020.

#### 15. RISK MANAGEMENT AND SELF-INSURANCE

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

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

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

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

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

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

#### 16. RETIREMENT PLANS-VIRGINIA RETIREMENT SYSTEM

Employees of the Medical Center are employees of the Commonwealth. Approximately 10 percent of all full-time classified salaried employees participate in the VRS State Employee Retirement Plan, a defined benefit pension plan administered by the Virginia Retirement System (VRS), along with plans for other employer groups in the Commonwealth of Virginia. The State Employee Retirement Plan is a single employer plan treated as a cost-sharing employer plan for financial reporting purposes. Members earn one month of service credit for each month they are employed and for which they and their employer 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, creditable service 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, creditable service 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, creditable service 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>

<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>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>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</li> </ul>
<p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</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>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered 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>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>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</p> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They Include:</p> <ul style="list-style-type: none"> <li>• Members of the Virginia Law Officers' Retirement System</li> </ul> <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>

<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 pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer</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</p>
<p>contributions to provide funding for the future benefit payment.</p>		<p>contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

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

<p>five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions Component:</u></b> 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>Distribution not required by law except as required by law.</p>
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<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 opinion 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 <u>Defined Benefit Component:</u></b> See definition under Plan 1</p> <p><b><u>Defined Contribution Component:</u></b> 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 A</b> 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 A</b> 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</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</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 creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b> <b><u>Defined Benefit Component:</u></b> 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><b><u>Defined Contribution Component:</u></b> Not applicable.</p>
<p><b>Normal Retirement Age</b> Age 65.</p>	<p><b>Normal Retirement Age</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age <u>Defined Benefit Component:</u></b> Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p>	<p><b>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u></b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of service credit.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> Age 60 with at least five years (60 months) of service credit.</p>	<p><b>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u></b> Age 60 with at least five years (60 months) of service credit</p>

		<p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<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><b><u>Eligibility:</u></b> 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 creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following</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><b><u>Eligibility:</u></b> Same as Plan 1</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u></b> Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1 and Plan 2.</p>

<p>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. 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.</li> </ul>		
<p><b>Disability Coverage</b></p> <p>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><b>Disability Coverage</b></p> <p>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><b>Disability Coverage</b></p> <p>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</p>

VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	period before becoming eligible for non-work-related disability benefits.
<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 creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b>  <u><b>Defined Benefit Component:</b></u>  Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <u><b>Defined Contribution Component:</b></u>  Not applicable.</p>

## Contribution

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each state agency's contractually required contribution rate for the year ended June 30, 2020, 13.52% 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, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the state agency to the VRS State Employee Retirement Plan were \$5,026,434 and \$6,556,854 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

At June 30, 2020, the state agency reported a liability of \$63,766,733 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The Net Pension Liability was measured as of June 30, 2019 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The state agency's proportion of the Net Pension Liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the state agency's proportion of the VRS State Employee Retirement Plan was 1.00% as compared to 1.06% at June 30, 2018.

For the year ended June 30, 2020, the state agency recognized pension expense of \$5,552,398 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2018 and June 30, 2019, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2020, 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	\$ 1,328,710	\$ 1,715,409
Change in assumptions	5,026,329	-
Net difference between projected and actual earnings on pension plan investments	-	1,594,285
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	3,264,186
Employer contributions subsequent to the measurement date	5,026,434	
Total	<u>\$ 11,381,473</u>	<u>\$ 6,573,880</u>

\$5,026,434 reported as deferred outflows of resources related to pensions resulting from the state agency's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30

2021	19,588
2022	(1,288,447)
2023	923,593
2024	126,425

### Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5 percent
Salary increases, including	
Inflation	3.5 percent – 5.35 percent
Investment rate of return	6.75 percent, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 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, 2018 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 changes 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, 2019, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	<b>State Employee Plan</b>
Total Pension Liability	\$ 24,409,842
Plan Fiduciary Net Position	<u>19,090,110</u>
Employers' Net Pension Liability (Asset)	<u>\$ 6,319,732</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.13%

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:

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Average Long-Term Expected Rate of Return</b>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS-Multi Asset Public Strategies	6.00%	3.52%	.21%
PIP-Private Investment Partnership	3.00%	6.29%	.19%

Total	100.00%	5.13%
	Inflation	2.50%
• Expected arithmetic nominal return (stochastic)*		7.63%

- \*The above allocation provides a one-year return of 7.63%. 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%. The VRS Board elected a long-term rate of 6.75%, which is roughly at the 40% percentile of expected long-term results of the VRS asset allocation.

#### 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, 2019, the rate contributed by the state agency for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the state agency's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 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 (in thousands):

		1.00% DECREASE (5.75%)	CURRENT DISCOUNT RATE (6.75%)	1.00% INCREASE (7.75%)
State agency's proportionate share of the VRS State Employee Retirement				
Net pension liability (000's)	\$	93,673	63,767	38,627

## **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 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## **Payables to the Pension Plan**

The University of Virginia Medical Center had \$169,432 in payables as of June 30, 2020.

## **Deferred Compensation Plans**

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

The Deferred Compensation Plan for the Medical Center employees hired on or after September 30, 2002, allows employee contributions up to four percent of their salary and an employer match of 50 percent of the employee's four percent amount, not to exceed two percent of the employee's salary. Employer contributions under this plan were approximately \$5.0 million for the year ended June 30, 2020.

The University of Virginia provides executive deferred compensation retirement benefits for certain officers and executives of the University and the Medical Center. The University makes contributions on behalf of each participant as determined by the Board of Visitors. For the year ended June 30, the University contributed \$2.5 million to these accounts.

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

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

Total pension costs under the plans were \$17,676,778 for the year ended June 30, 2020. Contributions to the Optional Retirement Plans were calculated using base salaries of \$389,300,829 for the year ended June 30, 2020. The contribution percentage amounted to 4.5 percent for the year ended June 30, 2020.

## 18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

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

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

##### **Plan Description**

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

<b>GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS</b>
<p><b>Eligible Employees</b></p> <p>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:</p> <ul style="list-style-type: none"><li>• City of Richmond</li><li>• City of Portsmouth</li><li>• City of Roanoke</li><li>• City of Norfolk</li><li>• Roanoke City Schools Board</li></ul> <p>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.</p>

### **Benefit Amounts**

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

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

### **Reduction in benefit Amounts**

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

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

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute 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 \$8,463 as of June 30, 2020.

### **Contributions**

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer’s contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 \$167,529 and \$175,000 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, the entity reported a liability of \$2,784,741 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of June 20, 2018, and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .1711% as compared to .1839% at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$28,027. 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, 2020, 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	\$ 185,202	\$ 36,120
Net difference between projected and actual earnings on GLI OPEB program investments	-	57,201
Change in assumption	175,812	83,972
Changes in proportion		190,038
Employer contributions subsequent to the measurement date	167,529	
Total	<u>\$ 528,543</u>	<u>\$ 367,331</u>

\$ 167,529 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, 2021. 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 2021	\$ (26,473)
FY2022	(26,471)
FY2023	(2,244)
FY2024	19,867
FY2025	23,615
Thereafter	5,389

### Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5 percent
Salary increases, including inflation –	
General state employees	3.5 percent – 5.35 percent
Teachers	3.5 percent – 5.95 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
JRS employees	4.5 percent
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent
Investment rate of return	6.75 Percent, net of investment expenses, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 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, 2018 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 the 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	Decreased from 7.00% to 6.75%

#### Mortality rates – Teachers

##### Pre-Retirement:

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

##### Post-Retirement:

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

##### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decreased 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, 2018 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 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	Decreased 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the changes in the discount rate, which was based on the VRS Board action effective 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	Decreased 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, 2018 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective 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	Decreased rate from 7.00% to 6.75%

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the changes in the discount rate, which was based on VRS Board action, effective 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	Decreased rate from 7.00% to 6.75%

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

##### Pre-Retirement:

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

##### Post-Retirement:

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

##### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 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 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	Decreased rate from 7.00% to 6.75%

#### Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

##### Pre-Retirement:

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

##### Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 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 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	Decreased rate from 7.00% to 6.75%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 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 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
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Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decreased 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 June 30, 2019, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	<u>Group Life Insurance OPEB Program</u>
Total GLI OPEB Liability	\$ 3,390,238
Plan Fiduciary Net Position	<u>1,762,972</u>
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,627,266</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%

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)	TargetAllocation	Arithmetic		Weighted Average	
		Long-Term	Expected	Long-Term	Expected Rate
		Rate of Return		of Return*	
Public Equity	34.00 %	5.61 %		1.91 %	
Fixed Income	15.00 %	0.88 %		0.13 %	
Credit Strategies	14.00 %	5.13 %		0.72 %	
Real Assets	14.00 %	5.27 %		0.74 %	
Private Equity	14.00 %	8.77 %		1.23 %	
MAPS - Multi -Asset Public Strategies	6.00 %	3.52 %		0.21 %	
PIP- Private Investment Partnership	3.00 %	6.29 %		0.19 %	
<b>Total</b>	<b>100.00%</b>			<b>5.13%</b>	
Inflation					2.50 %
Expected arithmetic nominal return *					7.63%

\* The above allocation provides a one-year return of 7.63%. 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%. 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

#### 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board- certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 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:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Employer's proportionate share of the Group Life Insurance Net OPEB liability	\$3,658,379	\$2,784,741	\$ 2,076,245

#### **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 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at [varetire.org/pdf/publications/2019-annual-report.pdf](http://varetire.org/pdf/publications/2019-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 FY2020.

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

### **Plan Description**

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

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

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

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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 with at least 15 years of service credit, 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, 2020 was 1.17% 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, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the state agency to the VRS State Employee Health Insurance Credit Program were \$ 4,910,138 and \$ 4,989,855 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, the state agency reported a liability of \$ 54,400,004 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, 2019 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, 2018, and rolled forward to the measurement date of June 30, 2019. The University of Virginia Medical Center 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the state agency's proportion of the VRS State Employee Health Insurance Credit Program was 5.8934% as compared to 6.5325 % at June 30, 2018.

For the year ended June 30, 2020, the state agency recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$ 5,008,715. 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, 2020, the state agency reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 29,651	\$ 660,952
Net difference between projected and actual earnings on HIC OPEB plan investments	-	21,373
Change in assumption	1,119,523	372,515
Changes in proportionate share	4,241,347	
Employer contributions subsequent to the measurement date	4,910,138	4,928,577
Total	<u>\$ 10,300,659</u>	<u>\$ 5,983,417</u>

\$4,910,138 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the state agency's contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2021. 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 2021	\$ 255,291
FY2022	255,252
FY2023	288,171
FY2024	(443,078)
FY2025	(835,257)
Thereafter	(113,275)

### 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, 2018, 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, 2019.

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Inflation	2.50%
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#### Salary increases, including inflation –

General state employees	3.50% – 5.35%
SPORSEmployees	3.50% – 4.75%
VaLORSEmployees	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 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, 2018, 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, 2018, 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, 2018, 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, 2018, 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, 2019, NOL amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

State Employee HIC OPEB Plan

Total State Employee HIC OPEB Liability	\$ 1,032,094
Plan Fiduciary Net Position	<u>109,023</u>
State Employee net HIC OPEB Liability (Asset)	<u>\$ 923,071</u>

Plan Fiduciary Net Position as a Percentage	
of the Total State Employee HIC OPEB Liability	10.56%

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)		TargetAllocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00 %		5.61 %	1.91 %
Fixed Income	15.00 %		0.88 %	0.13 %
Credit Strategies	14.00 %		5.13 %	0.72 %
Real Assets	14.00 %		5.27 %	0.74 %
Private Equity	14.00 %		8.77 %	1.23 %
MAPS - Multi -Asset Public Strategies	6.00 %		3.52 %	0.21 %
PIP - Private Investment Partnership	3.00 %		6.29 %	0.19 %

Total	100.00%	5.13%
Inflation		2.50 %
Expected arithmetic nominal return *		7.63 %

\* The above allocation provides a one-year return of 7.63%. 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%. 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.

### 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, 2019, 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 rate. From July 1, 2019, 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 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 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%	6.75%	7.75%
Medical Center's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 60,293,147	\$ 54,400,004	\$ 49,335,364

**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 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at [varetire.org/pdf/publications/2019-annual-report.pdf](http://varetire.org/pdf/publications/2019-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 FY2020.

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

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

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

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

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

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

The University also provides dental benefits through the UVA Dental Plan for retirees enrolled in the UVA Health Plan that elected dental coverage. Enrollment in the UVA Dental Plan must be completed at initial enrollment in the health benefits program. Dental enrollment can also be added or dropped during the open enrollment period each year. If dropped by the employee, the employee and/or their covered family members will not be able to re-enroll in the dental plan. As of June 30, 2020, 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 2020, the University and Medical Center contributed \$288,252 to the plan for retiree costs. Retirees receiving benefits contributed \$3.9 million, or approximately 99.8 percent of the total costs, through their required contributions, ranging from \$757 to \$3,895 per month.

The actuarial valuation was based on personnel information from University records as of July 1, 2019. 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	102
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	7738
<b>TOTAL COVERED EMPLOYEES</b>	<b>7840</b>

#### **Life Insurance**

##### **EMPLOYEE CATEGORY**

Inactive employees currently receiving benefit payments	673
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	6722
<b>TOTAL COVERED EMPLOYEES</b>	<b>7395</b>

### **TOTAL OPEB LIABILITY**

The Medical Center's total OPEB liability for University administered programs of \$30,060,684 for the fiscal year ending June 30, 2020 was measured as of July 1, 2019, and was determined by an actuarial valuation as of July 1, 2019.

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

Inflation	2.5 percent
Salary increases	4.0 percent
Discount rate	3.51 percent, based on the Bond Buyer GO 20-Bond Municipal Bond Index.
Healthcare cost trend rates	7.25 percent for June 30, 2019, decreasing 0.25 percent per year to an ultimate rate of 5.0 percent for fiscal year 2027 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 again, and various demographic assumptions.
Mortality rates	For healthy annuitants: Pub TH-2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2019 for faculty and Pub GH-2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2019 for non-faculty. For disabled annuitants: Pub TH-2010 disabled mortality table projected generationally using Scale MP-2019 for faculty and Pub GH-2010 disabled mortality table projected generationally using Scale MP-2019 for non-faculty.

#### CHANGES IN THE TOTAL OPEB LIABILITY

	2020
<b>Total OPEB liability</b>	
Service Cost	1,933,883
Interest Cost	1,114,214
Changes in Benefit Term	
Differences Between Expected and Actual Experiences	(1,063,461)
Changes of Assumptions (1)	1,221,780
Benefit Payments	(5,820)
<b>Net Change in Total OPEB Liability</b>	3,200,596
<b>Total OPEB Liability-(Beginning)</b>	26,860,087
<b>Total OPEB Liability-(Ending)</b>	<u>\$ 30,060,683</u>

1. Changes of assumptions reflect the following:

- A change in the discount rate from 3.87 percent in 2019 to 3.51 percent in 2020
- A change in the employees and healthy annuitants mortality assumption from the Pub TH 2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2018 for faculty and the Pub GH-2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2018 for non-faculty to the Pub T 2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2019 for faculty and the Pub GH-2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2019 for non-faculty
- A change in the disability mortality assumption from the Pub TH 2010 disabled retirees mortality table projected generationally using Scale MP-2018 to the Pub TH 2010 disabled retirees mortality table projected generationally using Scale MP-2019.

The following presents the total OPEB liability of the University, as well as what the University's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.51 percent) or 1-percentage-point higher (4.51 percent) than the current discount rate:

Discount Rate Sensitivity	1% Decrease 2.51%	Current Rate 3.51%	1% Increase 4.51%
Total OPEB Liability	\$ 33,918,186	\$ 30,060,684	\$ 26,897,017

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

Healthcare Cost Trend Sensitivity	1% DECREASE 6.25% DECREASING TO 4.00%	HEALTHCARE TREND RATE 7.25% DECREASING TO 5.00%	1% INCREASE 8.25% DECREASING TO 6.00%
Total OPEB Liability	\$ 27,757,686	\$ 30,060,684	\$ 32,779,402

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

For the year ended June 30, 2020, the Medical Center recognized an OPEB expense of \$1,410,099. At June 30, 2020, the Medical Center 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	\$ -	\$ 5,859,809
Net difference between projected and actual earnings on OPEB plan investments	-	-
Change in assumption	1,014,700	9,139,022
Changes in proportionate share	-	-
Amounts associated with transactions subsequent to the measurement date	130,000	-
Total	<u>\$ 1,144,700</u>	<u>\$ 14,998,831</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 2021	\$ (3,670,605)
FY2022	(3,670,605)
FY2023	(3,670,605)
FY2024	(2,996,470)
FY2025	24,154

19. CONTINGENCIES

In June 2017, the Medical Center was advised that Palmetto GBA, LLC had overpaid renal outlier payments for fiscal years 2014 – 2017 by \$7.5 million. A liability was created in the University's financial statements for this amount as of June 30, 2018. In April 2019, CMS instructed UVA to pay back \$4.9 million of the total \$7.5 million. As of June 30, 2020, the issue remained unresolved, however, the Medical Center believes it is probable that a reserve is needed for the remainder, \$2.7 million. UVA continues fighting this issue for the entire amount, \$7.5 million, in court. The statute of limitation on this issue runs out for the remaining balance of 2.7 million on June 30, 2020, therefore, the Medical Center removed the remaining balance in FY 2020, even though the court case continues.

20. CARES Act

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

Source	Relief	Loans	Amount
CARES Act	\$ 40,412,216		\$ 40,412,216
CARES Act-Accelerated Payments		192,735,556	192,735,556
CARES Act-HRSA Telehealth Resource Grant	828,571		828,571
CARES Act-Ryan White Research Grant	153,211		153,211
CARES Act-VHHA	43,609		43,609
CARES Act-FCC Grant	767,139		767,139
CARES Act-State pass through	16,286,895		16,286,895
CARES Act-increased federal match (50%-56%) for Medicaid reimbursement	1,824,632		1,824,632
Total	<u>\$ 60,316,273</u>	<u>\$ 192,735,556</u>	<u>\$ 253,051,829</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, as the Medical Center expects for the intermediary to begin to retract portions of the funds as patient claims are filed.

21. SUBSEQUENT EVENT

On September 19, 2020, HHS issued a Post-Payment Notice of Reporting Requirements for funds that were disbursed under the CARES Act. This notice changed guidance that had been previously communicated in June and July 2020. Key differences include introduction of the concept of calendar year measurement as opposed to quarterly measurement, the requirement to first apply stimulus monies received to healthcare related expenses attributable to COVID19 (net of reimbursements from other sources), and change (negative change comparing 2020 over 2019) lost revenues, as defined to net patient care operating income as defined, net of healthcare expenses previously applied. These new requirements may result in a change in the amount of CARES Act stimulus funds the Medical Center will be able to retain based on the terms and conditions. If the Medical Center does not expend PRF in full by December 31, 2020, the Medical Center will have an additional six months through June 30, 2021, in which to use the remaining amounts toward expenses attributable to COVID19 not reimbursed by other sources, or apply toward lost net patient care operating income in an amount not to exceed the calendar 2019 net gain. The definitions included in the Post-

Payment Notice of Reporting Requirements may be subject to change or further interpretation. As a result, management cannot estimate the impact resulting from this change in the guidance. Management will continue to evaluate and monitor compliance with the terms and conditions through June 30, 2021.

## REQUIRED SUPPLEMENTARY INFORMATION (RSI)

### VIRGINIA RETIREMENT SYSTEM PENSION PLANS

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

	2020	2019	2018	2017	2016	2015
Medical Center's Proportion of the Net Pension Liability (Asset)	1.00901%	1.0647%	1.0941%	1.0981%	1.1178%	1.1239%
Medical Center's Proportionate Share of the Net Pension Liability	\$ 63,766,733	\$ 57,641,000	\$ 63,756,000	\$ 72,375,000	\$ 68,435,000	\$ 62,919,000
Medical Center's Covered Payroll	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	157.47%	139.15%	153.14%	187.07%	186.61%	126.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.13%	77.39%	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2020 is the sixth year for this presentation, only six 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, 2020

FY	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
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 2020 is the sixth year for this presentation, six years of data are available. However, additional years will be included as they become available.

### Notes to Required Supplementary Information-Virginia Retirement System Pension Plans

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

**Changes of assumptions:** The actuarial assumptions used in the June 30, 2018, 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%

#### POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS-VIRGINIA RETIREMENT SYSTEM OPEBS

##### Schedule of Medical Center's Share of Net OPEB Liability

##### Group Life Insurance Program

For the Years Ended June 30, 2020, 2019 and 2018\*

	2020	2019	2018
Medical Center Proportion of the Net GLI OPEB Liability (Asset)	0.1711%	0.1839%	0.18565%
Medical Center Proportionate Share of the Net GLI OPEB Liability (Asset)	2,784,741	2,793,000	2,794,000
Medical Center Covered Payroll	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	8.30%	7.99%	6.71%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three 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, 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
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 2020 is the third year for this presentation, only three years of data is available. However, additional years will be included as they become available.

**Notes to Required Supplementary Information For the Year Ended June 30, 2020**

**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, 2018, 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
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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, 2020, 2019 and 2018\***

	2020	2019	2018
Medical Center Proportion of the Net HIC OPEB Liability (Asset)	5.89337%	6.53250%	6.38664%
Medical Center Proportionate Share of the Net HIC OPEB Liability (Asset)	54,400,004	59,595,000	58,152,000
Medical Center's Covered Payroll	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	13.55%	13.55%	14.09%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	10.56%	9.51%	8.03%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three 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, 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
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 2020 is the third year for this presentation, only three years of data is available. However, additional years will be included as they become available.

**Notes to Required Supplementary Information For the Year Ended June 30, 2020**

**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, 2018, 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
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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%

**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\*

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

\*Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentations only three 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

	2020	2019	2018
<b>Total OPEB liability</b>			
Service Cost	1,933,883	3,499,754	\$ 3,508,399
Interest Cost	1,114,214	1,585,000	1,110,940
Changes in Benefit Term		-	4,735,948
Differences Between Expected and Actual Experiences	(1,063,461)	(7,493,282)	-
Changes of Assumptions	1,221,780	(11,293,026)	(3,196,088)
Benefit Payments	(5,820)	(420,991)	(1,288,000)
<b>Net Change in Total OPEB Liability</b>	3,200,596	(14,122,545)	4,871,199
<b>Total OPEB Liability-(Beginning)</b>	26,860,087	40,982,632	36,111,433
<b>Total OPEB Liability-(Ending)</b>	<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 benefit provisions since the prior actuarial valuation

**Changes of assumptions** reflect the following:

- A change in the discount rate from 3.87 percent in 2019 to 3.51 percent in 2020
- A change in the employees and healthy annuitants mortality assumption from the Pub TH 2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2018 for faculty and the Pub GH-2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2018 for non-faculty to the Pub T 2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2019 for faculty and the Pub GH-2010 employees and healthy annuitants mortality table projected generationally using Scale MP-2019 for non-faculty
- A change in the disability mortality assumption from the Pub TH 2010 disabled retirees mortality table projected generationally using Scale MP-2018 to the Pub TH 2010 disabled retirees mortality table projected generationally using Scale MP-2019.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 11, 2020

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 **University of Virginia Medical Center**, a division of the University of Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia Medical Center as of June 30, 2020, and the changes in financial position and, where applicable, 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 cash flows of only that portion of the business-type activities of the University of Virginia that is attributable to the transactions of the University of Virginia Medical Center. They do not purport to, and do not, present fairly the University of Virginia's overall financial position as of June 30, 2020, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### Correction of 2019 Financial Statements

As discussed in Note 1 of the accompanying financial statements, the fiscal year 2019 financial statements have been restated to correct a misstatement related to the settlement due to or due from the Department of Medical Assistance Services for services provided to Medicaid patients. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### Prior-Year Summarized Comparative Information

We have previously audited the University of Virginia Medical Center's 2019 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the Medical

Center in our report dated November 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived, except where revised, as necessary, to correct a previous misstatement.

#### 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 9; 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 81 through 82; 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 82 through 89; 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 90. 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 11, 2020, on our consideration of the University of Virginia's (including the University of Virginia Medical Center) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University of Virginia Medical Center's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

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