EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION

Consolidated Financial Statements

June 30, 2015

(With Independent Auditors' Reports Thereon)

EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Visitors
Eastern Virginia Medical School:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Eastern Virginia Medical School and Affiliated Organization (EVMS), which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Virginia Medical School and Affiliated Organization as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Report on Summarized Comparative Information

We have previously audited EVMS' 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 31, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015 on our consideration of EVMS' 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 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 EVMS' internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
October 27, 2015

EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION

Consolidated Balance Sheet

June 30, 2015
(With summarized financial information as of June 30, 2014)

Assets		2015	2014
Current assets:			
Cash and cash equivalents (notes 3 and 7)	$	21,313,067	23,378,507
Restricted cash (notes 4 and 7)		5,007,356	5,475,631
Operating investments (notes 4 and 7)		28,900,324	23,445,024
Accounts receivable, net (notes 5 and 9)		25,951,283	20,930,904
Accounts receivable from affiliate (note 6)		1,062,142	432,888
Current portion of notes receivable from students		839,250	697,860
Prepaid expenses and other current assets		1,876,290	1,967,155
Total current assets		84,949,712	76,327,969
Property, plant, and equipment, net (note 8)		130,208,678	135,785,987
Other long-term assets:			
Operating investments (notes 4 and 7)		3,053,803	4,181,368
Notes receivable from students		6,003,489	6,321,876
Interest in net assets of affiliate (note 1)		54,917,362	55,175,885
Other long-term assets		3,756,264	3,595,497
Total other long-term assets		67,730,918	69,274,626
Total assets	$	282,889,308	281,388,582
Liabilities and Net Assets			
Liabilities:			
Current liabilities:			
Current portion of long-term debt (note 10)	$	3,590,000	3,740,000
Accounts payable – trade		6,318,390	5,569,931
Line of credit (note 9)		—	—
Accrued compensation		7,023,678	6,713,959
Deferred income		5,390,133	3,701,718
Accrued expenses and other current liabilities		14,702,093	14,001,641
Total current liabilities		37,024,294	33,727,249
Long-term debt, excluding current portion (note 10)		49,322,528	53,572,653
Other long-term liabilities:			
Grant deposits (note 12)		4,234,607	6,757,651
Refundable federal student loans		6,095,630	6,149,375
Assets held for affiliate (note 13)		847,124	825,463
Other long-term liabilities		1,411,408	1,671,371
Total other long-term liabilities		12,588,769	15,403,860
Total liabilities		98,935,591	102,703,762
Net assets:			
Unrestricted:			
Operating		6,950,217	6,689,744
EVMS reserves		23,373,933	20,087,543
Department reserves		32,122,102	28,573,891
Net investment in plant		10,756,871	9,812,982
Parking facility reserves		56,752	41,003
Total unrestricted net assets		73,259,875	65,205,163
Temporarily restricted:			
Revolving student loans		1,755,695	1,736,937
Program restricted		1,859,372	1,639,797
Net investment in plant		52,161,413	54,927,038
Interest in net assets of affiliate (note 1)		54,917,362	55,175,885
Total temporarily restricted net assets		110,693,842	113,479,657
Total net assets		183,953,717	178,684,820
Commitments and contingencies (notes 9, 11 and 17)			
Total liabilities and net assets	$	282,889,308	281,388,582

See accompanying notes to consolidated financial statements.

EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION

Consolidated Statement of Activities

Year ended June 30, 2015
(With summarized financial information for the year ended June 30, 2014)

	Unrestricted net assets	Temporarily restricted net assets	Total	2014 Total
Operating revenues and support:				
Tuition and fees	$ 37,543,840	—	37,543,840	35,577,482
State appropriations (note 14)	23,585,095	—	23,585,095	24,995,189
Municipal subsidies	1,579,170	—	1,579,170	1,365,480
Federal grants and contracts	32,869,729	—	32,869,729	32,770,123
State grants and contracts	1,104,130	—	1,104,130	572,793
Private grants, contracts and gifts	8,008,959	—	8,008,959	10,334,677
EVMS Foundation endowment income and gifts	6,275,862	—	6,275,862	6,100,801
Patient care services, net	55,344,991	—	55,344,991	53,162,710
Contractual services of graduate school residents	32,194,337	—	32,194,337	30,819,047
Contractual services	20,226,824	—	20,226,824	20,254,702
Sales and services of auxiliary enterprises	6,086,477	—	6,086,477	6,072,675
Other sources	11,428,292	250,000	11,678,292	11,829,421
Interest and investment income	455,113	16,384	471,497	397,560
Released from restriction	2,793,676	(2,793,676)	—	—
Total operating revenues and support	239,496,495	(2,527,292)	236,969,203	234,252,660
Operating expenses (notes 11, 15, and 16):				
Program services:				
Undergraduate instruction	44,605,733	—	44,605,733	42,337,703
Graduate instruction	27,840,352	—	27,840,352	26,151,719
Research	39,172,796	—	39,172,796	41,283,195
Patient services	68,275,891	—	68,275,891	64,964,727
Total program services	179,894,772	—	179,894,772	174,737,344
Management and general:				
Academic support	5,501,110	—	5,501,110	5,164,742
Institutional support	16,913,179	—	16,913,179	16,118,010
Auxiliary services	22,704,420	—	22,704,420	22,217,971
Patient services support	6,314,388	—	6,314,388	6,090,408
Total management and general	51,433,097	—	51,433,097	49,591,131
Total operating expenses	231,327,869	—	231,327,869	224,328,475
Changes in net assets from operations	8,168,626	(2,527,292)	5,641,334	9,924,185
Nonoperating items:				
Unrealized losses from investments, net	(84,039)	—	(84,039)	(164)
Change in interest of net assets of affiliate (note 1)	—	(258,523)	(258,523)	6,584,438
Change in fair value of interest rate swaps (note 10)	(29,875)	—	(29,875)	240,107
Changes in net assets	8,054,712	(2,785,815)	5,268,897	16,748,566
Net assets at beginning of year	65,205,163	113,479,657	178,684,820	161,936,254
Net assets at end of year	$ 73,259,875	110,693,842	183,953,717	178,684,820

See accompanying notes to consolidated financial statements.

EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION

Consolidated Statement of Cash Flows

Year ended June 30, 2015
(With summarized financial information for the year ended June 30, 2014)

		2015	2014
Cash flows from operating activities:			
Changes in net assets	$	5,268,897	16,748,566
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Depreciation and amortization		9,932,945	9,989,779
Change in fair value of interest rate swaps (note 10)		29,875	(240,107)
Unrealized losses on investments, net		84,039	164
Change in interest of net assets of affiliate (note 1)		258,523	(6,584,438)
Loss on disposal of property and equipment		11,824	—
Provision for bad debts		11,587,143	11,832,534
Amortization of bond costs		28,201	31,957
State appropriation for property, plant and equipment (note 14)		—	(711,899)
Changes in:			
Accounts receivable		(16,546,377)	(12,090,385)
Accounts receivable from affiliate		(629,254)	(65,314)
Prepaid expenses and other current assets		90,865	72,812
Other long-term assets		(188,968)	(151,665)
Accounts payable – trade		748,459	(558,264)
Accrued compensation		309,719	(363,120)
Deferred income		1,688,415	2,190,094
Accrued expenses and other current liabilities		700,452	(8,226,519)
Grant deposits		(2,523,044)	542,253
Assets held for affiliate		21,661	18,761
Other long-term liabilities		(259,963)	(74,467)
Net cash provided by operating activities		10,613,412	12,360,742
Cash flows from investing activities:			
Purchases of restricted cash		(10,583,301)	(9,708,041)
Proceeds from restricted cash		11,051,575	9,680,461
Purchases of operating investments		(8,418,821)	(9,285,778)
Proceeds from sales and maturities of operating investments		4,007,048	59,987
Purchases of property, plant, and equipment, including interest capitalized		(4,367,460)	(3,926,736)
Disbursements for notes receivable from students		(1,210,081)	(1,245,257)
Collections of notes receivable from students		1,325,933	982,827
Net cash used in investing activities		(8,195,107)	(13,442,537)
Cash flows from financing activities:			
State appropriation for property, plant and equipment (note 14)		—	711,899
Payments on bonds and notes payable		(4,430,000)	(4,275,000)
Refundable federal student loans		(53,745)	134,635
Net cash used in financing activities		(4,483,745)	(3,428,466)
Net decrease in cash and cash equivalents		(2,065,440)	(4,510,261)
Cash and cash equivalents at beginning of year		23,378,507	27,888,768
Cash and cash equivalents at end of year	$	21,313,067	23,378,507
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest, net of amounts capitalized	$	1,984,690	2,246,572
Purchases of property, plant and equipment included in accounts payable – trade		242,295	166,598

See accompanying notes to consolidated financial statements.

(1) EVMS and Affiliated Organization

The Eastern Virginia Medical School (EVMS or the School) was created in 1964 by enabling legislation of the General Assembly of Virginia to identify, document and evaluate needs, problems, and resources relating to health and medical care within its service area and to plan, develop, and implement programs to meet such needs on both an immediate and long-range basis. EVMS may plan, design, construct, remove, enlarge, equip, maintain, and operate medical educational institutions and medical and paramedical facilities, together with related and supporting facilities, and do all things necessary and convenient to carry out any of its purposes. EVMS' powers also include the right of eminent domain within the City of Norfolk and the authorization to borrow funds and issue bonds. EVMS has been classified as an organization described in Section 501(c)(3) of the Internal Revenue Code (IRC). As such, EVMS is exempt from federal and state income taxation, and contributions to it are tax deductible.

EVMS Medical Group (EVMS MG), formerly EVMS Health Services, is a nonmember organization incorporated under the Virginia Non Stock Corporation Act. Prior to July 1, 1989, EVMS MG was an operating division of EVMS. Effective July 1, 1989, EVMS MG began operations as a not-for-profit foundation through the approval of EVMS MG's Articles of Incorporation and Bylaws by the EVMS Board of Visitors. EVMS MG bylaws cannot be altered or amended without the approval of the EVMS Board of Visitors. EVMS MG has been classified as an organization described in Section 501(c)(3) of the IRC and is exempt from federal and state income taxation. The accounts of EVMS MG are included in the accompanying consolidated financial statements.

The Eastern Virginia Medical School Foundation (EVMS Foundation) is a nonprofit organization established to provide financial support to EVMS. The EVMS Foundation qualifies as a charitable foundation and is exempt from federal and state income taxation under Section 501(c)(3) of the IRC. As such, contributions to it are tax deductible. The accounts of EVMS Foundation are not included in the consolidated financial statements of EVMS. Amounts received from the EVMS Foundation are reported as endowment income in EVMS' consolidated financial statements. EVMS' beneficial interest in the net assets of EVMS Foundation related to estimated future distributions totaling $54,917,362 and $55,175,885 as of June 30, 2015 and 2014, respectively, is presented as interest in net assets of affiliate and temporarily restricted net assets. Changes in the interest of the net assets of EVMS Foundation are included in nonoperating items on the accompanying consolidated statement of activities. During the years ended December 31, 2015 and 2014, income from the EVMS Foundation of $6,275,862 and $6,100,801, respectively, is presented in operating revenues and support on the accompanying consolidated statement of activities.

EVMS has defined its mission as a community-based academic institution dedicated to medical and health education, research, and patient care.

(a) Education

Undergraduate Education – Opened in 1973, EVMS offers a Doctor of Medicine (M.D.) degree. In 2004, the Association of American Medical Colleges' Liaison Committee on Medical Education awarded EVMS continued full accreditation of the educational program leading to the M.D. degree.

In 2009, the Southern Association of Colleges and Schools awarded EVMS a continuation of accreditation for a 10-year period.

EVMS also offers several health professions programs including masters' degrees in art therapy, public health, physician assistant, clinical embryology, surgical assistant, biotechnology and biomedical sciences; doctoral degrees in clinical psychology and biomedical sciences in conjunction with other local universities.

Graduate Medical Education (GME) – Founded in 1974, GME offers residency and fellowship programs at numerous healthcare facilities in EVMS' service area. Programs are accredited by the Accreditation Council of Graduate Medical Education or the American Psychological Association or are approved by specialty boards.

(b) Research

EVMS conducts numerous research projects in various areas including proteomics, cancer, reproductive medicine, systemic diseases and infectious diseases. EVMS-sponsored research is supported by various federal and state agencies, pharmaceutical companies and private foundations.

(c) Patient Care

Clinical care is provided through the following affiliates:

EVMS MG – EVMS MG was formed exclusively for charitable, scientific and educational purposes and to further the mission and goals of EVMS. EVMS MG is organized and shall at all times operate to fulfill its corporate purpose by supporting clinical practice and research in conjunction with providing faculty the opportunity to teach in a physician group practice setting within the academic environment of EVMS. EVMS MG also provides education and training to EVMS students and residents. EVMS MG incorporates the professional practice units of the EVMS faculty in all departments except pediatrics. The practice units are staffed solely by faculty members of EVMS who provide professional patient care at EVMS facilities or through agreements with other area hospitals.

EVMS Pediatrics, formerly Pediatric Faculty Associates, Inc. (PFA) – PFA was established through an affiliation agreement between EVMS, Children's Hospital of the King's Daughters (CHKD), and Children's Health System, Inc. During fiscal year 1998, PFA underwent significant organizational and structural changes. A majority of the full-time faculty members in the pediatric specialties established a for-profit professional limited liability company, Children's Specialty Group, PLLC (CSG). On June 30, 2008, the PFA corporate status was dissolved. All assets and liabilities were transferred to EVMS and reported as EVMS Pediatrics.

EVMS Pediatrics, along with CSG, incorporates the professional practice units of the EVMS faculty in the pediatric specialties. They provide professional patient care at EVMS or CHKD facilities or through agreements with other area hospitals.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

EVMS' consolidated financial statements have been prepared on the accrual basis of accounting. All significant intercompany balances and transactions have been eliminated in consolidation. These consolidated financial statements have been prepared to focus on EVMS as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions and are segregated into three net asset groups as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of EVMS and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of EVMS. There were no permanently restricted net assets at EVMS as of June 30, 2015 or 2014.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are generally reported as increases or decreases in unrestricted or temporarily restricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

EVMS considers the following items to be nonoperating items: unrealized gains and losses from investments, changes in the interest in net assets of affiliate and changes in fair value of interest rate swap agreements.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with EVMS' consolidated financial statements as of and for the year ended June 30, 2014, from which the summarized information was derived. In addition, certain reclassifications have been made to the prior year amounts in order to conform to the current year presentation.

(b) Cash Equivalents

EVMS considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents for consolidated financial statement presentation, except for those short-term investments managed by EVMS' investment managers as part of their long-term investment portfolio. Cash equivalents consist primarily of temporary investments in bank repurchase agreements, money market funds and cash reserve funds. Cash equivalents make up substantially all of the balance in cash and cash equivalents on the consolidated balance sheet as of June 30, 2015 and 2014.

(c) Restricted Cash

Restricted cash represents funds that have been externally restricted or internally designated by management for a specific purpose and are reported on the consolidated balance sheet at fair value.

(d) Investments

Investments are stated at fair value. Net realized gains and losses on investments are reflected in operating revenues and support in the accompanying consolidated statement of activities. Net unrealized gains and losses on investments are reflected in nonoperating items in the accompanying consolidated statement of activities. The current year gains and losses on investments have been recognized in the accompanying consolidated statement of activities as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations.

(e) Patient Accounts Receivable

Patient receivables are recorded net of allowances for contractual adjustments and uncollectible receivables. The allowance for doubtful accounts is EVMS MG's best estimate of the amount of probable credit losses in its existing receivables. EVMS MG determines the allowance based on historical write-off experience. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. EVMS MG does not have any off-balance-sheet credit exposure related to its customers. Patient service revenue is presented net of contractual allowances and discounts and the provision for bad debts.

(f) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or at estimated fair value at date of gift if acquired by gift. Depreciation is computed by the straight-line method over the estimated useful lives of the property, plant, and equipment.

The estimated useful lives are as follows:

Land improvements	5–20 years
Buildings and improvements	5–40 years
Equipment	3–20 years

(g) Other Long-Term Assets

Other long-term assets in the accompanying consolidated balance sheet are primarily comprised of bond issuance costs and cash surrender value of life insurance policies held by EVMS MG. Bond issuance costs relating to the general revenue refunding bonds are capitalized and amortized over the life of the bonds.

EVMS MG is the owner of two insurance policies for current and retired faculty of EVMS, where EVMS MG is the beneficiary. These policies are recorded at their net cash surrender values, as reported by the issuing insurance company, whose Standard & Poor's financial strength rating is AA+. The net cash surrender values totaled $3,280,617 and $3,095,587 as of June 30, 2015 and 2014, respectively.

(h) Refundable Federal Student Loans

Funds provided by the U.S. government under the Federal Perkins and Health Professions Student Loan Programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are reported as liabilities in the accompanying consolidated balance sheet.

(i) Patient Care Services

EVMS MG has agreements with third-party payors that provide for payments to EVMS MG at amounts different from its established rates. Patient care services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period related services are rendered and adjusted in future periods as final settlements are determined. Reimbursements are subject to examination by agencies administering the programs for compliance with procedures and documentation standards.

(j) Charity Care

EVMS MG provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rate. Because EVMS MG does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue in the accompanying consolidated statement of activities.

(k) Sponsored Grants and Contracts

Revenues under grants, contracts and similar agreements with sponsoring organizations are recognized as expenses are incurred for agreement purposes. The revenues include recoveries of indirect costs and fringe benefits, which are generally determined as a negotiated or agreed-upon percentage of direct costs with certain exclusions.

(l) Donated Services

A number of volunteers have made contributions of time to the School's program and support functions. The value of this contributed time does not meet the accounting criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying consolidated financial statements.

(Continued)

(m) Functional Expenses

EVMS allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated on various statistical bases.

(n) Derivative Instruments

EVMS utilizes derivative financial instruments to reduce its exposure to cash flow risks from changes in interest rates, specifically variable interest rates. EVMS is exposed to credit losses in the event of nonperformance by the counterparty to the interest rate swap; however, the counterparty is a major financial institution, and the risk of loss due to nonperformance is considered remote. Interest rate differentials paid or received on the swap are recognized as adjustments to expense in the period earned or incurred. Interest rate swaps are recorded at fair value and reflected as assets or liabilities in the accompanying consolidated balance sheet. Changes in the fair value of interest rate swaps are reflected as nonoperating items in the accompanying consolidated statement of activities.

(o) Concentration of Credit Risk

Financial instruments, which potentially subject EVMS and its affiliated organization to concentration of credit risk, consist principally of cash, investments, patient receivables and student notes receivable.

EVMS and its affiliated organization place unrestricted cash and temporary overnight investments with high credit quality financial institutions. EVMS and the EVMS Foundation’s endowment assets are allocated between several established, reputable asset management firms and, according to their investment policy, are invested in investment-grade instruments. The asset management firms are independent of the funds’ trustees, who review their performance on a periodic basis.

(p) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and amortized over its estimated useful life.

(q) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management of EVMS to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosures of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(r) Income Taxes

EVMS is exempt from income taxes under Section 501(a) of the IRC as an organization described in Section 501(c)(3). Management has determined there are no uncertain tax positions as of June 30, 2015.

(Continued)

(s) Release from Restriction

EVMS received temporarily restricted revenue from the Commonwealth of Virginia to fund the construction and purchase of certain real property during the years ended June 30, 2009–2015. As a part of the agreement, EVMS was required to fund a percentage of the cost of the project. EVMS' share of the cost was funded through fund-raising and the issuance of long-term debt. The restriction on the funds received from the Commonwealth of Virginia is being released over the life of the debt EVMS issued to fund the project.

(3) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2015 and 2014 are summarized as follows:

		2015	2014
EVMS	$	18,372,340	21,215,357
EVMS MG		2,940,727	2,163,150
	$	21,313,067	23,378,507

(4) Investments and Restricted Cash

(a) Operating investments at June 30, 2015 and 2014 were comprised of the following:

		2015	2014
Money market funds	$	3,764	3,520
Certificates of deposit		5,497,736	5,520,080
Mutual fund – fixed income		18,948,077	16,636,139
U.S. government securities		7,423,535	4,918,531
Cash reserve fund		81,015	548,122
Total operating investments		31,954,127	27,626,392
Less amounts available for current obligations		28,900,324	23,445,024
Long-term operating investments	$	3,053,803	4,181,368

(b) Restricted cash at June 30, 2015 and 2014 were comprised of the following:

		2015	2014
Restricted for parking garage operations – cash	$	888,733	739,667
Restricted for student loans – money market funds		1,730,045	1,670,240
Restricted for cash pension fund – mutual funds – large cap		201,371	148,215
Restricted for interest, debt retirement, and construction per trust indentures:			
General Revenue and Refunding Bonds, Series 1998:			
Interest fund – money market funds		—	5,083
Principal fund – money market funds		—	729,167
Total Bonds, Series 1998		—	734,250
General Revenue Bonds, Series 1999:			
Interest fund – money market funds		—	2,875
Principal fund – money market funds		—	437,500
Total Bonds, Series 1999		—	440,375
General Revenue Refunding Bonds, Series 2001:			
Interest fund – money market funds		7,780	8,266
Principal fund – money market funds		971,250	466,667
Total Bonds, Series 2001		979,030	474,933
General Revenue Refunding Bonds, Series 2002:			
Interest fund – money market funds		3,066	3,689
Principal fund – money market funds		487,083	105,000
Total Bonds, Series 2002		490,149	108,689
General Revenue Bonds, Series 2006:			
Interest fund – money market funds		19,114	20,121
Principal fund – money market funds		247,917	239,167
Total Bonds, Series 2006		267,031	259,288

		2015	**2014**
General Revenue Refunding Bonds,			
Series 2010:			
Interest fund – money market funds	$	18,099	18,803
Principal fund – money market funds		145,833	58,333
Total Bonds, Series 2010		163,932	77,136
General Revenue Bonds, Series 2010:			
Capitalized interest fund – money market funds		11,781	13,629
Interest fund – money market funds		17,400	20,677
Principal fund – money market funds		183,750	87,500
Total Bonds, Series 2010		212,931	121,806
General Revenue Bonds, Series 2011:			
Interest fund – money market funds		10,910	9,008
Principal fund – money market funds		58,333	58,333
Capitalized interest fund – money market funds		4,891	7,497
Construction fund – money market funds		—	626,194
Total Bonds, Series 2011		74,134	701,032
Total restricted for interest, debt retirement and construction per trust indentures		2,187,207	2,917,509
Total restricted cash	$	5,007,356	5,475,631

(Continued)

(5) Accounts Receivable

At June 30, 2015 and 2014, accounts receivable were comprised of the following:

		2015	2014
Patient receivables	$	14,250,133	13,262,880
Allowance for uncollectible accounts		(4,791,893)	(4,587,049)
Total net patient receivables		9,458,240	8,675,831
Sponsored programs receivables:			
Grants and contracts – federal		8,397,968	7,981,423
Grants and contracts – private		555,718	861,511
Grants and contracts – state		209,029	105,178
Total sponsored programs receivables		9,162,715	8,948,112
Local hospitals		2,889,918	2,267,509
Parking		80,064	76,380
U.S. Department of Education		3,356,822	584,257
Other		1,003,524	378,815
Total accounts receivable, net	$	25,951,283	20,930,904

(6) Accounts Receivable from Related Party

At June 30, 2015 and 2014, accounts receivable from affiliate were due from the EVMS Foundation in the amount of $1,062,142 and $432,888, respectively. This receivable is secured by the EVMS Foundation's investments.

(7) Fair Value Measurements

Fair Value of Financial Instruments

The fair values of financial instruments are determined based on the amount 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.

Excluding the derivative instruments described in note 2(n), EVMS has a number of financial instruments, none of which are held for trading purposes. EVMS estimates that the fair values of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated balance sheet.

Fair Value Hierarchy

EVMS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. EVMS determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date

The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2015 and 2014:

	June 30, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	$ 26,203,830	26,203,830	—	—
Mutual funds – fixed income	18,948,078	18,948,078	—	—
Mutual funds – large cap	201,371	201,371	—	—
U.S. government securities	7,423,535	—	7,423,535	—
Certificates of deposit	5,497,736	—	5,497,736	—
Beneficial interest in net assets of affiliate	54,917,362	—	—	54,917,362
Total	$ 113,191,912	45,353,279	12,921,271	54,917,362
Liability:				
Interest rate swaps	$ (2,272,528)		(2,272,528)	

	June 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	$ 28,517,898	28,517,898	—	—
Mutual funds – fixed income	16,636,139	16,636,139	—	—
Mutual funds – large cap	148,215	148,215	—	—
U.S. government securities	4,918,531	—	4,918,531	—
Certificates of deposit	5,520,080	—	5,520,080	—
Beneficial interest in net assets of affiliate	55,175,885	—	—	55,175,885
Total	$ 110,916,748	45,302,252	10,438,611	55,175,885
Liability:				
Interest rate swaps	$ (2,242,653)	—	(2,242,653)	—

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash equivalents: Repurchase agreements and cash reserve funds are valued at cost, which equals fair value. Money market funds are valued at fair value based on the closing price reported on the active market on which the fund is traded.
- Mutual funds: Valued at the net asset value (NAV) of shares held by EVMS at year-end.
- U.S. government securities: Valued at fair value using pricing models maximizing the use of observable inputs for similar securities.
- Certificates of deposit – Valued at fair value using a market approach by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.
- Beneficial interest in net assets of affiliate – Valued at the net present value of future benefits using an income approach through discounted cash flows.
- Interest rate swaps (note 10): The fair value of the interest rate swaps is determined using pricing models that consider various assumptions, including time value and yield curves, as well as other relevant economic measures.

EVMS' accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2 or Level 3 for the year ended June 30, 2015.

(Continued)

(8) Property, Plant, and Equipment

At June 30, 2015 and 2014, property, plant, and equipment consisted of the following:

		2015	2014
Land	$	2,992,315	2,992,314
Land improvements		9,215,801	9,164,001
Buildings and improvements		183,554,899	182,621,420
Equipment		64,668,282	65,000,301
Construction in progress		2,404	38,023
		260,433,701	259,816,059
Less accumulated depreciation and amortization		(130,225,023)	(124,030,072)
Total property, plant, and equipment, net	$	130,208,678	135,785,987

Depreciation and amortization expenses related to property, plant, and equipment for the years ended June 30, 2015 and 2014 were $9,932,945 and $9,826,824, respectively.

(9) Lines of Credit

EVMS has a $10,000,000 unsecured line-of-credit facility with a bank. Under the terms of the agreement, interest is payable at one-month London Interbank Offered Rate (LIBOR) plus 1.50% (1.68% at June 30, 2015). The line of credit was not utilized during the year ended June 30, 2015.

EVMS MG has a $3,000,000 line-of-credit facility with a bank, which is subject to semi-annual review and expires on April 30, 2016. This facility is collateralized by certain accounts receivable. Interest is payable at the 30-day LIBOR plus 1.50% (1.68% at June 30, 2015). No amounts were outstanding under the line of credit at June 30, 2015 or 2014.

(10) Long-Term Debt

At June 30, 2015 and 2014, long-term debt consisted of bonds payable and related interest rate swap agreements as follows:

		2015	2014	
Bonds (property and equipment fund):				
General Revenue and Refunding Bonds, Series 1998	$	—	1,250,000	(A)
General Revenue Bonds, Series 1999		—	750,000	(B)
General Revenue Refunding Bonds, Series 2001		6,800,000	7,600,000	(C)
General Revenue Refunding Bonds, Series 2002		3,145,000	3,325,000	(D)
General Revenue Bonds, Series 2006		7,775,000	8,185,000	(E)
General Revenue Bonds, Series 2010		14,020,000	14,860,000	(F)
General Revenue Refunding Bonds, Series 2010		9,800,000	9,900,000	(G)
General Revenue Bonds, Series 2011		9,100,000	9,200,000	(H)
		50,640,000	55,070,000	
Interest rate swaps		2,272,528	2,242,653	(I)
Less current portion		(3,590,000)	(3,740,000)	
Noncurrent portion	$	49,322,528	53,572,653	

(A) On May 1, 1998, EVMS refunded the Series 1991B Bonds and issued an additional $2,055,000 Series 1998 General Revenue and Refunding Bonds. The Series 1998 Bonds were secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by a Fourth Supplemental Indenture of Trust dated May 1, 1998. The Series 1998 Bonds, which matured on November 15, 2014, were subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on November 15, 2003, and each November 15 thereafter through 2014.

Interest was payable semi-annually at the rate of 4.88% per annum on each November 15 and May 15. The remaining principal balance was paid in full November 15, 2014.

(B) On May 1, 1999, EVMS issued $5,750,000 Series 1999 General Revenue Bonds. The Series 1999 Bonds were secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by a Fifth Supplemental Indenture of Trust dated May 1, 1999. The Series 1999 Bonds, which matured on November 15, 2014, were subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on November 15, 2004, and each November 15 thereafter through 2014.

Interest is payable semi-annually at the rate of 4.60% per annum on each November 15 and May 15. The remaining principal balance was paid in full November 15, 2014.

(C) On December 5, 2001, EVMS refunded $9,735,000 of the Series 1991A Bonds by issuing the Series 2001 General Revenue Refunding Bonds. The Series 2001 Bonds are secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by a Sixth Supplemental Indenture of Trust dated November 15, 2001. The Series 2001 Bonds, maturing on November 18, 2018, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on November 15, 2008 and each November 15 thereafter through 2018. In addition, the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

Interest is payable semi-annually at a floating rate per annum equal to 64% of 30-day LIBOR plus 50 basis points (0.62% and 0.60% as of June 30, 2015 and 2014, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2018. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates		Principal amount	Maturity dates		Principal amount
2015	$	1,665,000	2017	$	2,065,000
2016		1,870,000	2018		1,200,000

(D) On January 15, 2002, EVMS refunded $4,620,000 of the Series 1991A Bonds by issuing the Series 2002 General Revenue Refunding Bonds. The Series 2002 Bonds are secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by a Seventh Supplemental Indenture of Trust dated January 15, 2002. The Series 2002 Bonds, maturing on November 18, 2018, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on November 15, 2003 and each November 15 thereafter through 2018. In addition, the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

Interest is payable semi-annually at a floating rate per annum equal to 64% of 30-day LIBOR plus 50 basis points (0.62% and 0.60% as of June 30, 2015 and 2014, respectively) on each November 15 and

May 15, and the entire principal balance is due on November 15, 2018. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates		Principal amount	Maturity dates		Principal amount
2015	$	835,000	2017	$	735,000
2016		930,000	2018		645,000

(E) On June 15, 2006, EVMS issued the Series 2006 General Revenue Bonds. The Series 2006 Bonds are secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by an Eighth Supplemental Indenture of Trust dated June 1, 2006. The Series 2006 Bonds, maturing on November 15, 2028, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on November 15, 2009 and each November 15 thereafter through 2028. In addition, the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

On October 17, 2011, EVMS modified the Series 2006 General Revenue Bonds, in accordance with the Twelfth Supplemental Indenture of Trust, effective November 1, 2011, to reduce the current interest rate payable from 4.00% per annum to 2.95% per annum until the rate reset date, which was also adjusted from June 15, 2021 to November 15, 2021.

Interest is payable semi-annually on each May 15 and November 15 at a rate of 2.95% per annum until the reset date of November 15, 2021. Effective November 15, 2021, the interest rate per annum will reset based on the 10-year average of the 7-year U.S. Treasury bond plus 30 basis points (2.65% and 2.83% as of June 30, 2015 and 2014, respectively). The entire principal balance is due on November 15, 2028. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates		Principal amount	Maturity dates		Principal amount	Maturity dates		Principal amount
2015	$	425,000	2020	$	520,000	2025	$	630,000
2016		440,000	2021		540,000	2026		650,000
2017		460,000	2022		560,000	2027		680,000
2018		475,000	2023		580,000	2028		710,000
2019		500,000	2024		605,000			

(F) On October 29, 2010, EVMS issued the Series 2010A and Series 2010B General Revenue Bonds. The Series 2010 Bonds are secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by a Tenth Supplemental Indenture of Trust dated October 1, 2010. The Series 2010A Bonds, maturing on November 15, 2027, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on May 15, 2011, and each May 15 and November 15 thereafter through 2027. The Series 2010B Bonds, maturing on November 15, 2032, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on May 15, 2011, and each May 15 and November 15 thereafter through 2032. In addition, the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

Interest is payable semi-annually at a floating rate per annum equal to 67% of 30-day LIBOR plus 184 basis points (1.96% and 1.94% as of June 30, 2015 and 2014, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2032.

EVMS made early redemption payments of $690,000 and $1.3 million on the Series 2010B Bonds during the years ended June 30, 2015 and 2014, respectively, reducing the total principal to $14.0 million as of June 30, 2015. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates	Principal amount	Maturity dates	Principal amount	Maturity dates	Principal amount
2015	$ 250,000	2021	$ 1,250,000	2027	$ 1,250,000
2016	250,000	2022	1,250,000	2028	770,000
2017	250,000	2023	1,250,000		
2018	1,250,000	2024	1,250,000		
2019	1,250,000	2025	1,250,000		
2020	1,250,000	2026	1,250,000		

(G) On November 15, 2010, EVMS refunded $10,000,000 of the Series 2008 Bonds by issuing the Series 2010 General Revenue Refunding Bonds. The Series 2010 Bonds are secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by an Eleventh Supplemental Indenture of Trust dated November 1, 2010. The Series 2010 Bonds, maturing on November 15, 2032, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on May 15, 2011, and each May 15 and November 15 thereafter through 2032. In addition, the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

Interest is payable semi-annually at a floating rate per annum equal to 67% of 30-day LIBOR plus 169 basis points (1.81% and 1.79% as of June 30, 2015 and 2014, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2032. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates	Principal amount	Maturity dates	Principal amount	Maturity dates	Principal amount
2015	$ 315,000	2022	$ 510,000	2029	$ 690,000
2016	230,000	2023	530,000	2030	720,000
2017	400,000	2024	555,000	2031	755,000
2018	430,000	2025	580,000	2032	785,000
2019	445,000	2026	605,000		
2020	465,000	2027	635,000		
2021	490,000	2028	660,000		

(H) On November 17, 2011, EVMS issued the Series 2011 General Revenue Bonds. The Series 2011 Bonds are secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by a Thirteenth Supplemental Indenture of Trust dated November 1, 2011. The Series 2011 Bonds, maturing on November 15, 2032, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on May 15, 2012, and each May 15 and November 15 thereafter through 2032.

Interest is payable semi-annually at a floating rate per annum equal to 65% of 30-day LIBOR plus 170 basis points (1.82% and 1.80% as of June 30, 2015 and 2014, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2032. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates	Principal amount	Maturity dates	Principal amount	Maturity dates	Principal amount
2015	$ 100,000	2022	$ 500,000	2029	$ 650,000
2016	100,000	2023	550,000	2030	700,000
2017	100,000	2024	550,000	2031	700,000
2018	500,000	2025	550,000	2032	750,000
2019	500,000	2026	600,000		
2020	500,000	2027	600,000		
2021	500,000	2028	650,000		

(I) The Series 2001 and 2002 General Revenue Refunding Bonds bear interest at 64% of 30-day LIBOR plus 50 basis points (0.62% and 0.60% as of June 30, 2015 and 2014, respectively). To minimize the effect of changes in LIBOR, EVMS entered into an interest swap contract with a current notional principal amount of $9,902,100, under which it pays interest at 5.635% and receives interest at 64% of 30-day LIBOR plus 50 basis points. The swap will expire on November 15, 2018. The cumulative unrealized loss of $825,588 and $1,234,315 as of June 30, 2015 and 2014, respectively, from the changes in the swap contract's fair value is included in long-term debt.

The Series 2010 General Revenue Refunding Bonds bear interest at 67% of 30-day LIBOR plus 169 basis points (1.81% and 1.79% as of June 30, 2015 and 2014, respectively). To minimize the effect of changes in LIBOR, EVMS entered into an interest swap contract with a current notional principal amount of $9,800,000, under which it pays interest at 3.31% and receives interest at 67% of 30-day LIBOR plus 169 basis points. The swap will expire on November 15, 2032. The cumulative unrealized loss of $560,837 and $398,958 as of June 30, 2015 and 2014, respectively, from the changes in the swap contract's fair value is included in long-term debt.

The Series 2010 General Revenue Bonds bear interest at 67% of 30-day LIBOR plus 184 basis points (1.96% and 1.94% as of June 30, 2015 and 2014, respectively). To minimize the effect of changes in LIBOR, EVMS entered into an interest swap contract with a current notional principal amount of $12,750,000, under which it pays interest at 3.28% and receives interest at 67% of 30-day LIBOR plus 184 basis points. The swap will expire on November 15, 2027. The cumulative unrealized loss of $603,543 and $503,300 as of June 30, 2015 and 2014, respectively, from the changes in the swap contracts' fair value is included in long-term debt.

The Series 2011 General Revenue Bonds bear interest at 65% of 30-day LIBOR plus 170 basis points (1.82% and 1.80% as of June 30, 2015 and 2014, respectively). To minimize the effect of changes in LIBOR, EVMS entered into an interest swap contract with a current notional principal amount of $9,100,000, under which it pays interest at 2.94% and receives interest at 65% of 30-day LIBOR plus 170 basis points. The swap will expire on November 15, 2032. The cumulative unrealized loss of $282,560 and $106,080 as of June 20, 2015 and 2014, respectively, from the changes in the swap contract's fair value are included in long-term debt.

Annual changes in the swap contracts' fair value are included in nonoperating items in the accompanying consolidated statement of activities.

(J) Pursuant to the terms of the Indenture of Trust, Series 2001, Series 2002, Series 2006, Series 2010 and Series 2011 Bonds (described above) are equally and ratably secured by an unconditional guaranty of EVMS Foundation and by security interest in revenues granted by EVMS.

Pursuant to the terms of the Indentures of Trust, EVMS is required to comply with certain covenants regarding payment of bonds, pledging of revenues, the operations of EVMS, insurance, accounting and financial statements, limitations on liens and the incurrence of additional indebtedness, and the sale, lease, or other disposition of assets. It is management's opinion that these requirements have been met for the fiscal years ended June 30, 2015 and 2014.

Payment requirements on EVMS’ bonds payable for the next five years ending June 30 and thereafter are as follows:

2016	$	3,590,000
2017		3,820,000
2018		4,010,000
2019		4,500,000
2020		2,695,000
Thereafter		32,025,000
	$	50,640,000

(11) Leases

EVMS has several noncancelable operating leases, primarily for buildings and medical and office equipment, which expire over the next six years. These leases generally contain renewal options for periods ranging from one to five years. Total rental expense for operating leases for the years ended June 30, 2015 and 2014 amounted to $2,452,320 and $2,294,021, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2015 were as follows:

Year ending June 30:		
2016	$	2,265,511
2017		2,194,825
2018		2,009,154
2019		1,269,784
2020		1,260,155
Thereafter		3,345,634
Total minimum operating lease payments	$	12,345,063

(12) Grant Deposits

At June 30, 2015 and 2014, grant deposits for sponsored research consisted of the following:

		2015	2014
Federal grants	$	175,931	—
State and local grants		221,514	336,023
Private gifts and grants:			
Bill and Melinda Gates Foundation		2,682,194	4,901,200
Obici Healthcare Foundation		249,700	35,011
Accelovance, Inc.		223,412	—
Others		681,856	1,485,417
Total private gifts and grants		3,837,162	6,421,628
Total grant deposits	$	4,234,607	6,757,651

Grant deposits represent amounts received for various grants and contracts that have not been expended at June 30, 2015 and 2014. If amounts are not expended per agreement, they will be refunded to the grantors, as required.

(13) Assets Held for Affiliate

Various donors contributed funds to the EVMS Foundation for the purpose of establishing loan funds for EVMS students. EVMS manages the award and subsequent collection of these loans from EVMS students on behalf of the EVMS Foundation. The amount of loan funds held for the EVMS Foundation at June 30, 2015 and 2014 was $847,124 and $825,463, respectively.

(14) State Appropriations

EVMS receives state appropriations funds annually. A summary of the programs supported for the years ended June 30, 2015 and 2014 is as follows:

		2015	2014
Contribution for capital projects	$	—	711,899
Education		15,938,620	16,795,854
Indigent care		6,158,108	6,158,108
Family medicine		722,146	722,146
Medical modeling and simulation		706,232	544,036
Virginia Area Health Education Center		59,989	63,146
	$	23,585,095	24,995,189

(Continued)

(15) Expenses by Object Class

Expenses by object class for the years ended June 30, 2015 and 2014 were as follows:

		2015	2014
Salaries and wages	$	123,192,684	118,460,018
Contractual services		34,111,845	36,823,543
General expenses		26,588,358	25,514,041
Fringe benefits		25,328,914	21,977,300
Operating supplies and minor equipment		10,177,988	9,352,451
Depreciation and amortization		9,932,945	9,989,779
Interest expense		1,915,135	2,131,343
Indigent care – institutional component		80,000	80,000
Total expenses	$	231,327,869	224,328,475

(16) Retirement Plan

Substantially all of the salaried personnel of EVMS are eligible after specified periods of employment to participate in qualified tax-deferred annuity plans under Section 403(b) and Section 401(a) of the IRC. EVMS' policy is to fund the pension cost accrued. EVMS contributions to this program were $4,474,952 and $4,693,839 for the fiscal years ended June 30, 2015 and 2014, respectively.

(17) Commitments and Contingencies

Amounts received and expended by EVMS under various federal and state programs are subject to audit by various federal and state agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the consolidated financial position of the School.

EVMS is subject to various legal proceedings and claims, which arise in the ordinary course of its business. In the opinion of management, appropriate provision has been made for possible losses, and the ultimate resolution of these matters will not have a significant effect on the consolidated financial position of the School.

(18) Subsequent Events

EVMS has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2015 consolidated financial statements through October 27, 2015, the date the consolidated financial statements were issued.

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Visitors
Eastern Virginia Medical School:

We have audited, in accordance with the 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, the consolidated financial statements of Eastern Virginia Medical School and Affiliated Organization (EVMS), which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered EVMS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of EVMS' internal control. Accordingly, we do not express an opinion on the effectiveness of EVMS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EVMS' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of EVMS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EVMS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Norfolk, Virginia
October 27, 2015