



**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Consolidated Financial Statements

June 30, 2020

(With Independent Auditors' Reports Thereon)

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

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KPMG LLP
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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, 2020, 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 Consolidated 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 did not audit the financial statements of the Eastern Virginia Medical School Foundation (EVMS Foundation), for which EVMS records a beneficial interest in net assets, which statements reflect total assets constituting 26.8% of consolidated total assets as of June 30, 2020 and total changes in net assets of 5.1% of consolidated changes in net assets for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EVMS Foundation, is based solely on the report of the other auditors. 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 auditor considers internal control relevant to EVMS' 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 EVMS' 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, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eastern Virginia Medical School and Affiliated Organization as of June 30, 2020, and the results of their activities and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited EVMS' 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 31, 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 consolidated financial statements from which it has been derived before the adjustments to adopt Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. As part of our audit of the 2020 consolidated financial statements, we also audited the adjustments described in note 2t that were applied to adopt ASU No. 2016-18 retrospectively in the 2019 consolidated financial statements. In our opinion such adjustments are appropriate and have been properly applied.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 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 solely 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 EVMS' 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 30, 2020

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Consolidated Balance Sheet

June 30, 2020

(With summarized financial information as of June 30, 2019)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 95,503,199	77,945,889
Restricted cash and investments	8,129,587	6,780,183
Operating investments	19,277,247	21,113,202
Accounts receivable, net	21,103,219	24,539,434
Accounts receivable from affiliate	585,207	382,991
Current portion of notes receivable from students	735,300	730,800
Prepaid expenses and other current assets	2,893,154	2,504,232
Total current assets	<u>148,226,913</u>	<u>133,996,731</u>
Property, plant, and equipment, net	183,315,667	146,705,843
Other long-term assets:		
Operating investments	19,135,608	16,063,700
Notes receivable from students	3,101,431	3,746,182
Interest in net assets of affiliate	130,867,829	128,081,411
Other long-term assets	4,046,044	3,892,971
Total other long-term assets	<u>157,150,912</u>	<u>151,784,264</u>
Total assets	<u>\$ 488,693,492</u>	<u>\$ 432,486,838</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Current portion of long-term debt	\$ 2,735,000	1,945,000
Accounts payable – trade	11,614,555	11,745,932
Accrued compensation	11,100,211	8,109,769
Deferred income	3,334,898	5,647,702
Accrued expenses and other current liabilities	9,492,100	11,017,911
Total current liabilities	<u>38,276,764</u>	<u>38,466,314</u>
Long-term debt, excluding current portion and net of bond issuance costs	36,773,191	34,364,036
Other long-term liabilities:		
Grant deposits	1,841,010	3,019,292
Refundable federal student loans	2,931,369	4,030,610
Assets held for affiliate	947,086	928,199
Other long-term liabilities	5,452,689	3,986,134
Total other long-term liabilities	<u>11,172,154</u>	<u>11,964,235</u>
Total liabilities	<u>86,222,109</u>	<u>84,794,585</u>
Net assets:		
Net assets without donor restrictions		
Operating	9,381,539	8,377,770
EVMS reserves	67,817,528	65,582,782
Department reserves	67,786,753	52,774,577
Net investment in plant	30,871,928	28,510,973
Sponsored research	1,058,914	—
Parking facility reserves	73,891	301,413
Total net assets without donor restrictions	<u>176,990,553</u>	<u>155,547,515</u>
Net assets with donor restrictions		
Revolving student loans	1,375,405	1,686,376
Program restricted	628,323	718,497
Net investment in plant	92,609,273	61,658,454
Interest in net assets of affiliate	130,867,829	128,081,411
Total net assets with donor restrictions	<u>225,480,830</u>	<u>192,144,738</u>
Total net assets	<u>402,471,383</u>	<u>347,692,253</u>
Commitments and contingencies		
Total liabilities and net assets	<u>\$ 488,693,492</u>	<u>\$ 432,486,838</u>

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Consolidated Statement of Activities

Year ended June 30, 2020

(With summarized financial information for the year ended June 30, 2019)

	Net assets without donor restrictions	Net assets with donor restrictions	Total	2019 total
Operating revenues and support:				
Tuition and fees, net	\$ 45,448,095	—	45,448,095	46,379,664
State appropriations	33,213,871	33,716,444	66,930,315	49,836,863
Municipal subsidies	1,399,726	—	1,399,726	1,386,108
Federal grants and contracts	19,755,820	—	19,755,820	23,002,741
State grants and contracts	562,454	—	562,454	930,891
Private grants, contracts, and gifts	4,447,164	—	4,447,164	3,734,201
EVMS Foundation endowment income and gifts	6,398,492	—	6,398,492	6,843,199
Patient care services, net	57,140,059	—	57,140,059	57,064,595
Contractual services of graduate school residents	38,697,160	—	38,697,160	37,010,340
Contractual services	34,845,441	—	34,845,441	94,956,673
Sales and services of auxiliary enterprises	7,149,922	—	7,149,922	7,106,272
Other sources	9,188,630	626,879	9,815,509	6,984,423
Interest and investment income	1,917,559	14,512	1,932,071	1,234,451
Released from restriction	3,808,161	(3,808,161)	—	—
Total operating revenues and support	<u>263,972,554</u>	<u>30,549,674</u>	<u>294,522,228</u>	<u>336,470,421</u>
Operating expenses:				
Undergraduate instruction	60,011,925	—	60,011,925	99,198,688
Graduate instruction	28,545,649	—	28,545,649	29,338,809
Research	21,127,548	—	21,127,548	25,557,860
Patient services	68,053,545	—	68,053,545	70,730,340
Academic support	10,236,152	—	10,236,152	9,964,639
Institutional support	23,260,637	—	23,260,637	23,390,257
Auxiliary services	22,112,344	—	22,112,344	21,235,549
Patient services support	8,214,511	—	8,214,511	7,763,569
Total operating expenses	<u>241,562,311</u>	<u>—</u>	<u>241,562,311</u>	<u>287,179,711</u>
Changes in net assets from operations	22,410,243	30,549,674	52,959,917	49,290,710
Nonoperating items:				
Unrealized gains from investments, net	473,422	—	473,422	1,529,794
Change in interest of net assets of affiliate	—	2,786,418	2,786,418	22,181,069
Change in fair value of interest rate swaps	(1,440,627)	—	(1,440,627)	(1,227,681)
Changes in net assets	21,443,038	33,336,092	54,779,130	71,773,892
Net assets at beginning of year	<u>155,547,515</u>	<u>192,144,738</u>	<u>347,692,253</u>	<u>275,918,361</u>
Net assets at end of year	<u>\$ 176,990,553</u>	<u>225,480,830</u>	<u>402,471,383</u>	<u>347,692,253</u>

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Consolidated Statement of Cash Flows

Year ended June 30, 2020

(With summarized financial information for the year ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Changes in net assets	\$ 54,779,130	71,773,892
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,692,504	9,386,553
Change in fair value of interest rate swaps	1,440,627	1,227,681
Net realized and unrealized gains on investments	(508,377)	(1,564,627)
Change in interest of net assets of affiliate	(2,786,418)	(22,181,069)
Net loss on sale of property, plant, and equipment	4,369	23,474
Provision for bad debts	11,674,140	16,405,457
Amortization of bond issuance costs	19,539	22,102
Restricted contributions for property, plant, and equipment	(33,475,506)	(23,786,087)
Changes in:		
Accounts receivable, net	(8,082,537)	(17,149,309)
Accounts receivable from affiliate	(202,216)	388,971
Prepaid expenses and other current assets	(388,922)	(22,167)
Other long-term assets	(2,400)	(2,400)
Accounts payable – trade	(131,377)	2,855,781
Accrued compensation	2,990,442	2,664,198
Deferred income	(2,312,804)	(178,538)
Accrued expenses and other current liabilities	(1,525,811)	2,029,753
Grant deposits	(1,178,282)	385,853
Assets held for affiliate	18,887	17,344
Other long-term liabilities	1,466,555	1,216,769
Net cash provided by operating activities	<u>31,491,543</u>	<u>43,513,631</u>
Cash flows from investing activities:		
Purchases of restricted investments	(712,377)	(740,215)
Proceeds from sales and maturities of restricted investments	214,906	1,363,650
Purchases of operating investments	(20,216,360)	(12,366,315)
Proceeds from sales and maturities of operating investments	19,488,784	12,886,076
Purchases of property, plant, and equipment	(46,306,697)	(30,728,847)
Proceeds from sale of property, plant, and equipment	—	68,890
Disbursements for notes receivable from students	(326,952)	(429,133)
Collections of notes receivable from students	811,815	988,851
Change in cash surrender value of life insurance	(150,673)	(100,222)
Net cash used in investing activities	<u>(47,197,554)</u>	<u>(29,057,265)</u>
Cash flows from financing activities:		
Restricted contributions for property, plant, and equipment	33,475,506	23,786,087
Proceeds from long-term borrowings	3,683,990	2,340,582
Payments for bond issuance costs	—	(68,250)
Principal payments on bonds	(1,945,001)	(5,250,000)
Refundable federal student loans	(1,099,241)	(386,835)
Net cash provided by financing activities	<u>34,115,254</u>	<u>20,421,584</u>
Net increase in cash, cash equivalents, and restricted cash	18,409,243	34,877,950
Cash, cash equivalents, and restricted cash at beginning of year	<u>81,892,875</u>	<u>47,014,925</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 100,302,118</u>	<u>81,892,875</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 1,186,332	1,161,668
Purchases of property, plant, and equipment included in accounts payable – trade	3,565,186	3,771,722

See accompanying notes to consolidated financial statements.

EASTERN VIRGINIA MEDICAL SCHOOL AND AFFILIATED ORGANIZATION

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized financial information as of June 30, 2019)

(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) is a nonmember organization incorporated under the Virginia Nonstock 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 accompanying 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 of \$130,867,829 and \$128,081,411 as of June 30, 2020 and 2019, respectively, is presented as interest in net assets of affiliate within net assets with donor restrictions. Once the funds have met their donor-imposed restrictions and are remitted to EVMS, they are reported as net assets without donor restrictions. 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 June 30, 2020 and 2019, income from the EVMS Foundation of \$6,398,492 and \$6,843,199, 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 2012, 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. Renewal of this accreditation is scheduled to be completed in 2021.

EASTERN VIRGINIA MEDICAL SCHOOL AND AFFILIATED ORGANIZATION

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized financial information as of June 30, 2019)

In 2009, the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) awarded EVMS a continuation of accreditation for a 10-year period. EVMS is currently undergoing the SACSCOC reaffirmation process and selected cultural humility as the topic for the required Quality Enhancement Plan. Reaffirmation is scheduled to be completed in 2021.

EVMS also offers several health professions programs, including master's degrees in art therapy, public health, physician assistant, clinical embryology, lab animal science, medical master's, surgical assistant, biotechnology and biomedical sciences, and doctoral degrees in health sciences, medical and professional education, reproductive clinical sciences, 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.

**EASTERN VIRGINIA MEDICAL SCHOOL
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Notes to Consolidated Financial Statements

June 30, 2020

(With summarized financial information as of June 30, 2019)

(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 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. Resources are classified based on the existence or absence of donor-imposed restrictions and are segregated into two net asset groups as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions are those net assets that are the result of revenues and income minus expenses and are grouped by operating, EVMS reserves, department reserves, net investment in plant, sponsored research, and the parking facility. Designated net assets are reported on the balance sheet as EVMS reserves and department reserves and represent net assets that are subject to self-imposed limits by action of management, as delegated by the governing board.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met by actions of EVMS and/or the passage of time. The interest in net assets of affiliate is restricted by time, while the remaining net assets with donor restrictions are restricted by purpose.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions or net assets with donor restrictions. 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 net assets released from restriction in the consolidated statement of activities. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions for acquisition or construction of plant facilities are released from restrictions in the period in which the assets are placed in service, unless the donor specifies the asset must be used for a specified period of time. Contributions that impose restrictions that are met in the same fiscal year they are received are reported as increases in net assets without donor restrictions.

**EASTERN VIRGINIA MEDICAL SCHOOL
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Notes to Consolidated Financial Statements

June 30, 2020

(With summarized financial information as of June 30, 2019)

Designated net assets at June 30 are summarized as follows:

	<u>2020</u>	<u>2019</u>
EVMS reserves:		
President and institutional development	\$ 57,689,308	51,362,074
Faculty development	1,672,198	6,441,006
Internal research	968,797	958,332
Strategic planning	7,103,051	6,094,676
Academic student information	384,174	726,694
Total EVMS reserves	<u>67,817,528</u>	<u>65,582,782</u>
Department reserves:		
Insurance and legal reserves	12,872,767	11,446,929
Faculty development	11,520,793	9,350,538
Internal research	9,584,707	7,896,591
President and institutional development	8,361,851	4,686,495
Chairman's fund	4,695,549	3,748,526
Facilities and equipment	4,686,641	3,598,088
Strategic planning	3,149,847	1,549,778
Resident education	1,522,377	1,508,383
Student fees	1,595,151	1,497,054
Other	3,986,368	2,392,001
Physician supplemental payment program – EVMS MG	2,647,149	2,040,450
Unallocated nonsalary physician compensation – EVMS MG	337,835	1,656,657
Operating reserve – EVMS MG	2,825,718	1,403,087
Total department reserves	<u>67,786,753</u>	<u>52,774,577</u>
Total designated net assets without donor restrictions	<u>\$ 135,604,281</u>	<u>118,357,359</u>

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 (GAAP). Accordingly, such information should be read in conjunction with EVMS' consolidated financial statements as of and for the year ended June 30, 2019, 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.

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Notes to Consolidated Financial Statements

June 30, 2020

(With summarized financial information as of June 30, 2019)

(b) Cash and 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. Cash and cash equivalents that are managed by EVMS' investment managers as part of its long-term investment portfolio are reported within operating investments on the consolidated balance sheet. Cash equivalents consist primarily of temporary investments in money market funds and bank repurchase agreements.

(c) Restricted Cash and Investments

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

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheet that sum to the total of the same such amounts shown in the consolidated statement of cash flows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 95,503,199	77,945,889
Restricted cash included in assets restricted to revolving student loans	2,296,651	2,111,541
Restricted cash included in assets restricted to parking facility	<u>2,502,268</u>	<u>1,835,445</u>
	<u>\$ 100,302,118</u>	<u>81,892,875</u>

Assets restricted to revolving student loans on the consolidated balance sheet include cash received with a donor-imposed restriction that limits use of that cash to refundable federal loans and refundable institutional loans. Assets restricted to parking facility include cash received for the parking consortium.

(d) Operating Investments

Investments are classified as trading and are reported on the consolidated balance sheet 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 net assets without donor restrictions, 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 and identifies trends for each of its major payor sources of revenue to

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Notes to Consolidated Financial Statements

June 30, 2020

(With summarized financial information as of June 30, 2019)

estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, EVMS MG analyzes contractually due amounts and provides an allowance for doubtful accounts and provision for bad debts, if necessary. For receivables associated to self-pay patients, EVMS MG records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay a portion of their bill for which they are financially responsible. 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.

(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 using 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 cash surrender value of life insurance policies held by EVMS MG.

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 \$3,914,586 and \$3,763,913 as of June 30, 2020 and 2019, respectively.

The cash surrender value of life insurance is valued under Level 2 of the fair value hierarchy at June 30, 2020 and 2019. The cash surrender value of life insurance was determined by the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, cash values for paid-up additions, and dividend accumulations. The cash surrender value represents the guaranteed value EVMS MG would receive upon surrender of these policies held on key employees as of June 30, 2020.

(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

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consolidated balance sheet. Due to the dissolution of the Perkins Loan program, no new Perkins Loans were disbursed during the year ended June 30, 2020.

(i) Tuition and Fees, net

Student tuition and fees are recorded as revenue during the year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred income. Student aid provided by EVMS for tuition and fees is reflected as a reduction of gross tuition and fee revenue.

(j) Patient Care Services, net

EVMS MG has agreements with third-party payors that provide for payments to EVMS MG at amounts different from its established rates. Payment arrangements include prospectively determines rates, reimbursement costs, discounted charges, and per diem payments. Patient care services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Reimbursements from third-party payors are subject to examination by the agencies administering the programs from compliance with procedures and documentation standards.

EVMS MG has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. The HMOs generally make fee-for-service payments to EVMS MG for certain covered services based upon discounted fee schedules.

(k) 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 rates. 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.

EVMS MG maintains detailed records to identify and monitor the level of charity care it provides to its patients. These records include the amount of charges foregone and estimated direct and indirect costs incurred for services furnished under its charity care policy. Costs incurred are estimated based on the ratio of total operating expenses to gross charges applied to charity care charges. The following information measures the level of charity care provided during the years ended June 30:

	<u>2020</u>	<u>2019</u>
Charges foregone, based on established rates	\$ 579,808	1,041,775
Estimated costs incurred	322,909	566,755

(l) Sponsored Grants and Contracts

EVMS is awarded grants, contracts, and similar agreements by federal, state, and private sponsoring organizations. Nonreciprocal transactions generally contain restrictions, by sponsors, for certain purposes and are recognized as revenue when EVMS has met the conditions of the agreements.

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EVMS has elected the simultaneous release policy, which allows a not-for-profit organization to report as without donor restrictions donor-restricted contributions whose restrictions are met in the same period as the revenue is recognized. Exchange transactions are recognized as revenue in the period in which the services are rendered. The majority of revenues from sponsored grants and contracts include facilities and administration cost recovery reimbursement from the federal government and are recognized when allowable expenditures are incurred.

(m) 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.

(n) 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.

(o) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, EVMS first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. There was no impairment recorded in fiscal years 2020 or 2019.

(p) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and reported amount of revenues and expenses during the reporting period. Actual results

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could differ from those estimates. Significant items subject to such estimates and assumptions include the useful life of fixed assets, allowance for doubtful accounts, the valuation of derivatives, and investments.

(q) Income Taxes

EVMS is exempt from income taxes under Section 501(a) of the IRC as an organization described in Section 501(c)(3). Accordingly, no provision for income taxes is made in the consolidated financial statements. As of June 30, 2020 and 2019, there were no uncertain tax positions.

(r) Release from Restriction

EVMS receives restricted revenue from the Commonwealth of Virginia to fund the construction and purchase of certain real property. As a part of the agreement, EVMS is required to fund a percentage of the cost of the projects. EVMS' share of the cost is funded through fundraising 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, in accordance with the donor stipulations specified within the agreement.

(s) Recent Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for EVMS as of July 1, 2020. Early adoption is permitted. EVMS is currently evaluating the impact on the consolidated financial statements and the options of adopting using either the retrospective or cumulative effect transition method.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, intended to improve financial reporting about leasing transactions. The new lease standard requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting. The guidance also eliminates today's real estate-specific provisions and changes the sale and leaseback accounting model for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The standard is effective for EVMS as of July 1, 2022. Early adoption is permitted. EVMS is currently evaluating the impact of adoption of the new lease standard on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, amends, and adds disclosure requirements for fair value measurements. The standard is effective for

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EVMS as of July 1, 2020. Early adoption is permitted. EVMS is currently evaluating the impact of adoption on the consolidated financial statements.

(t) Recently Adopted Accounting Standards

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. EVMS adopted the ASU effective July 1, 2019. The adoption of this ASU had no impact on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires cash and cash equivalents with restrictions on withdrawal or use to be included in total cash and cash equivalents in the statement of cash flows. It also requires additional disclosure of the nature of restrictions on cash and cash equivalents. EVMS adopted the ASU effective July 1, 2019, using the required retrospective application. As a result of adopting the ASU, EVMS includes restricted cash in cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statement of cash flows. EVMS also revised the consolidated statement of cash flows as of June 30, 2019 to conform to current period presentation.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance on how to determine whether a contribution is conditional. EVMS adopted the ASU effective July 1, 2019, using the modified prospective approach. The adoption of this ASU did not have a material impact on the consolidated financial statements.

(u) Coronavirus Disease (COVID-19)

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic that continues to spread throughout the United States. In response to the economic impact of COVID-19, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 and included a variety of relief provisions for businesses and individuals. EVMS temporarily suspended all in-person classes and recalled Eastern Virginia Medical School MD and Health Professions students from all clinical rotations. Most coursework was transitioned to online learning and rotations were postponed from mid-March until July 2020. Research and other revenue streams that would not allow for social distancing were able to continue with modifications. EVMS was awarded \$164,872 from the Department of Education in CARES Act funds to award aid to qualifying students under Section 18004(a)(1). EVMS also received \$1,654,710 from the Commonwealth of Virginia for Coronavirus Relief Funding to aid in additional expenses incurred. EVMS MG received \$1,418,478 under the CARES Act Provider Relief fund to aid in lost patient service revenue and additional expenses incurred. Given the current financial impact as well as the government aid received, management feels that much of the financial risk associated with COVID-19 has been mitigated.

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(v) Subsequent Events

EVMS has evaluated subsequent events from the consolidated balance sheet date through October 30, 2020, the date at which the consolidated financial statements were available to be issued, and determined there are no items to disclose.

(3) Cash and Cash Equivalents

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

	<u>2020</u>	<u>2019</u>
EVMS	\$ 93,032,799	76,813,101
EVMS MG	<u>2,470,400</u>	<u>1,132,788</u>
	<u>\$ 95,503,199</u>	<u>77,945,889</u>

(4) Operating Investments and Restricted Cash and Investments

(a) Operating investments at June 30 comprised the following:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 2,684,038	1,709,509
Equity securities	169,672	428,221
Certificates of deposit	5,150,694	4,808,603
Mutual funds – fixed income	4,305,615	4,239,413
Corporate bonds	10,676,420	10,694,778
Agency mortgage-backed securities	2,545,338	3,513,069
Asset-backed securities	—	249,973
U.S. treasury securities	8,718,098	9,936,181
Municipal bonds	2,674,126	301,824
Equity method investment	<u>1,488,854</u>	<u>1,295,331</u>
Total operating investments	38,412,855	37,176,902
Less amounts available for current obligations	<u>(19,277,247)</u>	<u>(21,113,202)</u>
Long-term operating investments	<u>\$ 19,135,608</u>	<u>16,063,700</u>

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(b) Restricted cash and investments at June 30 comprised the following:

	<u>2020</u>	<u>2019</u>
Restricted for parking garage operations – cash	\$ 2,502,268	1,835,445
Restricted for student loans – cash	2,296,651	2,111,541
Restricted for cash balance pension plan – equities	1,304,395	1,021,160
Restricted for interest, debt retirement, and construction per trust indentures:		
General Revenue Bonds, Series 2006:		
Interest fund – money market funds	19,716	15,097
Principal fund – money market funds	<u>304,948</u>	<u>294,728</u>
Total Bonds, Series 2006	<u>324,664</u>	<u>309,825</u>
General Revenue Refunding Bonds, Series 2010:		
Interest fund – money market funds	41,904	50,180
Principal fund – money market funds	<u>272,684</u>	<u>260,857</u>
Total Bonds, Series 2010	<u>314,588</u>	<u>311,037</u>
General Revenue Bonds, Series 2010:		
Interest fund – money market funds	50,238	30,187
Principal fund – money market funds	<u>731,402</u>	<u>407,175</u>
Total Bonds, Series 2010	<u>781,640</u>	<u>437,362</u>
General Revenue Bonds, Series 2011:		
Interest fund – money market funds	51,069	29,276
Principal fund – money market funds	<u>293,268</u>	<u>293,107</u>
Total Bonds, Series 2011	<u>344,337</u>	<u>322,383</u>

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	<u>2020</u>	<u>2019</u>
General Revenue Bonds, Series 2018:		
Interest fund – money market funds	7	2,714
Capitalized interest fund – money market funds	<u>261,037</u>	<u>428,716</u>
Total Bonds, Series 2018	<u>261,044</u>	<u>431,430</u>
Total restricted for interest, debt retirement, and construction per trust indentures	<u>2,026,273</u>	<u>1,812,037</u>
Total restricted cash and investments	<u>\$ 8,129,587</u>	<u>6,780,183</u>

(5) Accounts Receivable, net

At June 30, accounts receivable comprised the following:

	<u>2020</u>	<u>2019</u>
Gross patient accounts receivable	\$ 19,982,650	20,577,219
Less contractual allowances	(6,760,272)	(6,282,511)
Less allowance for doubtful accounts	<u>(4,077,573)</u>	<u>(5,469,662)</u>
Patient accounts receivable, net	<u>9,144,805</u>	<u>8,825,046</u>
Sponsored programs receivables:		
Grants and contracts – federal	3,342,078	5,585,604
Grants and contracts – private	178,413	835,499
Grants and contracts – state	<u>82,136</u>	<u>147,348</u>
Total sponsored programs receivables	3,602,627	6,568,451
Local hospitals, net	3,808,541	5,113,807
Parking	47,983	90,914
U.S. Department of Education	1,100,608	843,563
Tuition receivable, net	—	2,205,241
Contribution for capital projects	2,446,845	—
Other, net	<u>951,810</u>	<u>892,412</u>
Total accounts receivable, net	<u>\$ 21,103,219</u>	<u>24,539,434</u>

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The activity in the patient allowance for doubtful accounts is summarized as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Beginning balance as of July 1	\$ 5,469,662	5,618,249
Provision for bad debts, net of recoveries	11,518,752	16,221,293
Less write-offs	<u>(12,910,841)</u>	<u>(16,369,880)</u>
Ending balance as of June 30	<u>\$ 4,077,573</u>	<u>5,469,662</u>

(6) Accounts Receivable from Affiliate

At June 30, 2020 and 2019, accounts receivable from affiliate were due from the EVMS Foundation in the amount of \$585,207 and \$382,991, respectively. This receivable is secured by the EVMS Foundation's investments.

(7) Fair Value Measurements

EVMS uses valuation approaches 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.

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

	Total as of June 30, 2020	Level 1	Level 2	Level 3
Assets:				
Restricted cash and investments				
Cash and cash equivalents	\$ 6,842,667	6,842,667	—	—
Equity securities	1,286,920	1,286,920	—	—
Operating investments				
Money market funds	2,684,038	2,684,038	—	—
Equity securities	169,672	169,672	—	—
Certificates of deposit	5,150,694	—	5,150,694	—
Mutual funds – fixed income	4,305,615	4,305,615	—	—
Corporate bonds	10,676,420	—	10,676,420	—
Agency mortgage-backed securities	2,545,338	—	2,545,338	—
U.S. treasury securities	8,718,098	—	8,718,098	—
Municipal bonds	2,674,126	—	2,674,126	—
Beneficial interest in net assets of affiliate	130,867,829	—	—	130,867,829
Total assets at fair value	\$ 175,921,417	15,288,912	29,764,676	130,867,829
Liability:				
Interest rate swaps	\$ (3,032,298)	—	(3,032,298)	—
	Total as of June 30, 2019	Level 1	Level 2	Level 3
Assets:				
Restricted cash and investments				
Cash and cash equivalents	\$ 5,786,368	5,786,368	—	—
Equity securities	993,815	993,815	—	—
Operating investments				
Money market funds	1,709,509	1,709,509	—	—
Equity securities	428,221	428,221	—	—
Certificates of deposit	4,808,603	—	4,808,603	—
Mutual funds – fixed income	4,239,413	4,239,413	—	—
Corporate bonds	10,694,778	—	10,694,778	—
Agency mortgage-backed securities	3,513,069	—	3,513,069	—
Asset-backed securities	249,973	—	249,973	—
U.S. treasury securities	9,936,181	—	9,936,181	—
Municipal bonds	301,824	—	301,824	—
Beneficial interest in net assets of affiliate	128,081,411	—	—	128,081,411
Total assets at fair value	\$ 170,743,165	13,157,326	29,504,428	128,081,411
Liability:				
Interest rate swaps	\$ (1,591,672)	—	(1,591,672)	—

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

- Cash and cash equivalents and money market funds: Consist of cash and short-term money market funds, which are valued at \$1 per share, which is the price the shares trade at in an active market
- Mutual funds: Valued at the daily quoted net asset value of shares held, which is based on the quoted market prices of the underlying assets of the funds
- Equity securities: Valued using quoted prices from the exchanges upon which the securities actively trade
- Agency mortgage-backed securities, U.S. treasury securities, municipal bonds, corporate bonds, asset-backed securities, and certificates of deposit: Valued based upon proprietary valuation models that may consider market characteristics, such as benchmark yield curves, option-adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal repayments, underlying collateral, and other security features in order to estimate relevant cash flows, which are discounted to fair value
- Beneficial interest in net assets of affiliate: Reported at fair value, based on the value of the underlying assets, which approximates the present value of future income
- Interest rate swaps (note 10): The fair value of the interest rate swaps is determined using pricing models that consider assumptions, including time value, interest rates, 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 years ended June 30, 2020 or 2019.

(8) Property, Plant, and Equipment, net

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

	<u>2020</u>	<u>2019</u>
Land	\$ 2,969,342	2,969,342
Land improvements	9,320,941	9,320,940
Buildings and improvements	192,400,594	191,961,029
Equipment	79,828,832	78,003,220
Construction in progress	76,011,123	32,279,521
	360,530,832	314,534,052
Less accumulated depreciation and amortization	<u>(177,215,165)</u>	<u>(167,828,209)</u>
Total property, plant, and equipment, net	<u>\$ 183,315,667</u>	<u>146,705,843</u>

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Depreciation and amortization expenses related to property, plant, and equipment for the years ended June 30, 2020 and 2019 were \$9,692,504 and \$9,386,553, 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 LIBOR plus 1.50% (1.68% at June 30, 2020). The line of credit was not utilized during the years ended June 30, 2020 and 2019; and expires on January 9, 2023.

EVMS MG has a \$3,000,000 line of credit facility with a bank, which is subject to semiannual review and expires on May 30, 2021. This facility is collateralized by certain accounts receivable. Interest is payable at the one-month LIBOR plus 1.50% (1.68% at June 30, 2020). No amounts were outstanding under the line of credit at June 30, 2020 or 2019.

(10) Long-Term Debt

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

	<u>2020</u>	<u>2019</u>	
Bonds (property and equipment fund):			
General Revenue Bonds, Series 2006	\$ 5,475,000	5,975,000	(A)
General Revenue Bonds, Series 2010	9,500,000	10,000,000	(B)
General Revenue Refunding Bonds, Series 2010	7,980,000	8,425,000	(C)
General Revenue Bonds, Series 2011	7,800,000	8,300,000	(D)
General Revenue Bonds, Series 2018	<u>6,024,572</u>	<u>2,340,582</u>	(E)
	36,779,572	35,040,582	
Interest rate swaps	3,032,298	1,591,672	(F)
Less bond issuance costs	(303,679)	(323,218)	
Less current portion	<u>(2,735,000)</u>	<u>(1,945,000)</u>	
Noncurrent portion	<u>\$ 36,773,191</u>	<u>34,364,036</u>	

(A) 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.

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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. Mandatory sinking fund payments will be due annually on November 15 as follows:

Fiscal year maturities	Principal amount	Fiscal year maturities	Principal amount	Fiscal year maturities	Principal amount
2021	\$ 520,000	2025	\$ 605,000	2029	\$ 710,000
2022	540,000	2026	630,000		
2023	560,000	2027	650,000		
2024	580,000	2028	680,000		

- (B) On October 29, 2010, EVMS issued the Series 2010 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 2010 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. In addition, the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

On February 27, 2019, EVMS modified the Series 2010 Bonds, in accordance with the Seventeenth Supplemental Indenture of Trust, dated as of April 1, 2019, to delete the put date, remove the 2010 foundation guarantee, and to modify the floating interest rate from 67% of the sum of one-month LIBOR plus 184 basis points to 79% of the sum of one-month LIBOR plus 85 basis points (0.82% and 2.57% as of June 30, 2020 and 2019, respectively).

Interest is payable semi-annually on each November 15 and May 15. Mandatory sinking fund payments will be due annually on November 15 as follows:

Fiscal year maturities	Principal amount	Fiscal year maturities	Principal amount	Fiscal year maturities	Principal amount
2021	\$ 1,250,000	2024	\$ 1,250,000	2027	1,250,000
2022	1,250,000	2025	1,250,000	2028	750,000
2023	1,250,000	2026	1,250,000		

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(With summarized financial information as of June 30, 2019)

- (C) 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 Refunding 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 Refunding 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.

On February 27, 2019, EVMS modified the Series 2010 Refunding Bonds, in accordance with the Seventeenth Supplemental Indenture of Trust, dated as of April 1, 2019, to delete the put date, remove the 2010 foundation guarantee, and to modify the floating interest rate from 67% of the sum of one-month LIBOR plus 169 basis points to 79% of the sum of one-month LIBOR plus 95 basis points (0.90% and 2.65% as of June 30, 2020 and 2019, respectively).

Interest is payable semi-annually on each November 15 and May 15. Mandatory sinking fund payments will be due annually on November 15 as follows:

Fiscal year maturities	Principal amount	Fiscal year maturities	Principal amount	Fiscal year maturities	Principal amount
2021	\$ 465,000	2026	\$ 580,000	2031	\$ 720,000
2022	490,000	2027	605,000	2032	755,000
2023	510,000	2028	635,000	2033	785,000
2024	530,000	2029	660,000		
2025	555,000	2030	690,000		

- (D) 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.

On February 27, 2019, EVMS modified the Series 2011 General Revenue Bonds, in accordance with the Seventeenth Supplemental Indenture of Trust, dated as of April 1, 2019, to delete the put date, remove the 2010 foundation guarantee, and to modify the floating interest rate from 65% of the sum of one-month LIBOR plus 170 basis points to 79% of the sum of one-month LIBOR plus 95 basis points (0.90% and 2.65% as of June 30, 2020 and 2019, respectively).

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Interest is payable semi-annually on each November 15 and May 15. Mandatory sinking fund payments will be due annually on November 15 as follows:

<u>Fiscal year maturities</u>	<u>Principal amount</u>	<u>Fiscal year maturities</u>	<u>Principal amount</u>	<u>Fiscal year maturities</u>	<u>Principal amount</u>
2021	\$ 500,000	2026	\$ 550,000	2031	\$ 700,000
2022	500,000	2027	600,000	2032	700,000
2023	500,000	2028	600,000	2033	750,000
2024	550,000	2029	650,000		
2025	550,000	2030	650,000		

- (E) On December 12, 2018, EVMS issued the Series 2018 General Revenue Bonds. The Series 2018 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 Fourteenth Supplemental Indenture and Master Indenture dated November 1, 2018. The Series 2018 Bonds, maturing November 15, 2038, 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, 2019 and each May 15 and November 15, thereafter through 2038.

Interest is payable semi-annually on each May 15 and November 15 at a rate of 3.46% per annum. Mandatory sinking fund payments will be due annually on November 15 as follows:

<u>Fiscal year maturities</u>	<u>Principal amount</u>	<u>Fiscal year maturities</u>	<u>Principal amount</u>	<u>Fiscal year maturities</u>	<u>Principal amount</u>
2022	\$ 90,375	2028	\$ 253,050	2034	\$ 475,975
2023	123,513	2029	295,225	2035	491,038
2024	126,525	2030	355,475	2036	509,113
2025	162,675	2031	346,438	2037	527,188
2026	195,813	2032	364,513	2038	548,275
2027	204,850	2033	388,613	2039	565,918

- (F) EVMS has entered into interest rate swap contracts for its variable rate debt to minimize the effect of changes in LIBOR. The terms of the related interest rate swap contracts are as follows:

The Series 2010 General Revenue Bonds bear interest at 79% of one-month LIBOR plus 85 basis points (0.82% and 2.57% as of June 30, 2020 and 2019, respectively). The related interest rate swap contract has a current notional principal amount of \$9,500,000, under which EVMS pays interest at 3.07% and receives interest at 79% of one-month LIBOR plus 85 basis points. The cumulative unrealized loss of \$791,614 and \$466,416 as of June 30, 2020 and 2019, respectively, from the changes in the swap contract's fair value is included in long-term debt. The swap will expire on November 15, 2027.

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The Series 2010 General Revenue Refunding Bonds bear interest at 79% of one-month LIBOR plus 95 basis points (0.90% and 2.65% as of June 30, 2020 and 2019, respectively). The related interest rate swap contract has a current notional principal amount of \$7,980,000, under which EVMS pays interest at 3.28% and receives interest at 79% of one-month LIBOR plus 95 basis points. The cumulative unrealized loss of \$1,221,311 and \$657,762 as of June 30, 2020 and 2019, respectively, from the changes in the swap contract's fair value is included in long-term debt. The swap will expire on November 15, 2032.

The Series 2011 General Revenue Bonds bear interest at 79% of one-month LIBOR plus 95 basis points (0.90% and 2.65% as of June 30, 2020 and 2019, respectively). The related interest rate swap contract has a current notional principal amount of \$7,800,000, under which EVMS pays interest at 2.99% and receives interest at 79% of one-month LIBOR plus 95 basis points. The cumulative unrealized loss of \$1,019,373 and \$467,494 as of June 20, 2019 and 2018, respectively, from the changes in the swap contract's fair value is included in long-term debt. The swap will expire on November 15, 2032.

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

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. EVMS was in compliance with its covenants for the fiscal years ended June 30, 2020 and 2019. The Series 2006 Bonds are equally and ratably secured by an unconditional guaranty of EVMS Foundation and by security interest in revenue granted by EVMS. The Series 2010, Series 2011, and Series 2018 Bonds are equally and ratably secured by security interest in revenue granted by EVMS.

The aggregate maturities of long-term debt for each of the five fiscal years subsequent to June 30, 2020 are as follows:

2021	\$ 2,735,000
2022	2,870,375
2023	2,943,513
2024	3,036,525
2025	3,122,675
Thereafter	<u>22,071,484</u>
	<u>\$ 36,779,572</u>

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(11) Leases

EVMS has several noncancelable operating leases, primarily for buildings and medical and office equipment, which expire over the next five years. These leases generally contain renewal options for periods ranging from one to five years. Rental expense for operating leases for the years ended June 30, 2020 and 2019 was \$3,031,379 and \$2,647,546, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows:

Year ending June 30:		
2021	\$	2,297,481
2022		2,230,608
2023		1,839,250
2024		1,379,279
2025		522,789
Thereafter		<u>213,741</u>
Total minimum operating lease payments	\$	<u>8,483,148</u>

(12) Grant Deposits

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

	<u>2020</u>	<u>2019</u>
Federal grants	\$ 349,899	421,029
State and local grants	315,103	352,003
Private gifts and grants	<u>1,176,008</u>	<u>2,246,260</u>
Total grant deposits	<u>\$ 1,841,010</u>	<u>3,019,292</u>

Grant deposits represent amounts received for various grants and contracts that have not been expended at June 30, 2020 and 2019. 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, 2020 and 2019 was \$947,086 and \$928,199, respectively.

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(14) State Appropriations

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

	<u>2020</u>	<u>2019</u>
Education	\$ 22,893,189	18,708,617
Indigent care	6,158,108	6,158,108
Family medicine	658,597	658,597
Medical modeling and simulation	454,643	464,834
Higher education equipment trust fund	341,329	183,101
Capital maintenance reserve	457,274	146,538
Capital projects – renovations	1,407,304	2,896,907
Capital projects – new construction	33,716,444	20,559,541
Virginia Area Health Education Center	60,620	60,620
Coronavirus relief funding	782,807	—
	<u>\$ 66,930,315</u>	<u>49,836,863</u>

(15) Functional Expenses by Natural Classification

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 using cost allocation methods, including square footage, facility usage, and time and attendance. The expenses allocated include depreciation and amortization, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other.

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Expenses are reported in the consolidated statement of activities in functional categories. Expenses by natural category for the years ended June 30 were as follows:

For the year ended June 30, 2020									
	Undergraduate instruction	Graduate instruction	Research	Patient services	Academic support	Institutional support	Auxiliary services	Patient services support	Totals
Operating expenses:									
Salaries and wages	\$ 40,919,726	21,860,331	8,901,804	46,503,581	6,450,778	13,225,760	5,091,016	4,190,027	147,143,023
Fringe benefits	7,152,307	5,651,876	1,631,983	6,465,927	1,262,570	3,059,420	1,177,886	922,720	27,324,689
Operating supplies	2,638,716	272,790	1,162,914	4,573,350	1,474,668	525,673	141,751	145,381	10,935,243
Contractual services	2,933,837	320,640	7,071,164	2,351,494	1,005,228	4,353,617	2,355,533	1,257,041	21,648,554
General expenses	4,624,017	422,278	2,034,759	7,472,137	42,908	1,929,604	6,957,334	1,335,261	24,818,298
Depreciation and amortization	1,743,322	17,734	324,924	687,056	—	166,563	6,388,824	364,081	9,692,504
Total operating expenses	\$ 60,011,925	28,545,649	21,127,548	68,053,545	10,236,152	23,260,637	22,112,344	8,214,511	241,562,311

For the year ended June 30, 2019									
	Undergraduate instruction	Graduate instruction	Research	Patient services	Academic support	Institutional support	Auxiliary services	Patient services support	Totals
Operating expenses:									
Salaries and wages	\$ 37,661,010	21,061,621	10,238,417	46,743,295	6,621,286	12,032,933	5,027,625	3,775,265	143,161,452
Fringe benefits	7,127,391	6,054,170	2,015,759	7,093,808	1,296,477	3,210,005	659,866	968,547	28,426,023
Operating supplies	1,287,157	256,076	1,226,660	5,654,260	1,486,801	1,237,859	369,067	138,813	11,656,693
Contractual services	46,887,674	329,106	9,857,606	1,213,380	716,880	4,669,792	2,217,709	1,021,802	66,913,949
General expenses	4,641,326	1,620,102	1,860,349	9,357,557	(156,805)	2,060,099	6,725,213	1,527,200	27,635,041
Depreciation and amortization	1,594,130	17,734	359,069	668,040	—	179,569	6,236,069	331,942	9,386,553
Total operating expenses	\$ 99,198,688	29,338,809	25,557,860	70,730,340	9,964,639	23,390,257	21,235,549	7,763,569	287,179,711

(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 Sections 403(b) and 401(a) of the IRC. EVMS' contributions to the plans are based on percentages of qualified employee earnings. EVMS contributions to this program were \$5,569,320 and \$5,298,952 for the fiscal years ended June 30, 2020 and 2019, respectively.

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(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. Appropriate provision has been made for possible losses, and in the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial position, results of activities, or liquidity of the School.

(18) Concentrations of Credit Risk

EVMS MG grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The approximate mix of receivables from patients and third-party payors by type of payor, for the years ended June 30, is as follows:

	<u>2020</u>	<u>2019</u>
Self-pay	29 %	32 %
Medicare	16	15
Medicaid	16	7
HMO (none more than 10%)	12	17
Commercial	10	12
Anthem	9	8
Other	8	9
	<u>100 %</u>	<u>100 %</u>

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(19) Sources of Patient Service Revenue

EVMS MG recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of established contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, EVMS MG recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a portion of uninsured patients will be unable or unwilling to pay for the services provided. Thus, EVMS MG records a provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts recognized in the period from these major payor sources are as follows:

	<u>2020</u>	<u>2019</u>
Third-party payors	\$ 56,266,032	60,801,593
Self-pay	<u>12,392,779</u>	<u>12,484,295</u>
Total all payors	<u>\$ 68,658,811</u>	<u>73,285,888</u>

(20) Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date are as follows:

	<u>2020</u>	<u>2019</u>
Total assets	\$ 488,693,492	432,486,838
Less:		
Restricted cash and investments	8,129,587	6,780,183
Property, plant, and equipment, net	183,315,667	146,705,843
Noncurrent operating investments	19,135,608	16,063,700
Notes receivable from students	3,101,431	3,746,182
Interest in net assets of affiliate	130,867,829	128,081,411
Other long-term assets	<u>4,046,044</u>	<u>3,892,971</u>
Financial assets available within one year	<u>\$ 140,097,326</u>	<u>127,216,548</u>

EVMS manages its financial assets to be available as its operating expenditures, liabilities, and other obligations come due. Although the noncurrent investments disclosed in the table above are intended to be held long-term, EVMS could utilize those investments within the next year if deemed necessary. As described in note 9, EVMS has available lines of credit in the amounts of \$10 million and \$3 million, with no amounts outstanding at June 30, 2020. The lines of credit expire in January 2023 and May 2021, respectively.



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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, 2020, 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 30, 2020. Our report includes a reference to other auditors who audited the financial statements of the Eastern Virginia Medical School Foundation (EVMS Foundation), as described in our report on EVMS' consolidated financial statements. The financial statements of EVMS Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with EVMS Foundation.

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) as a basis for designing 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 financial statements. 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*.

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.

KPMG LLP

Norfolk, Virginia
October 30, 2020