



**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Consolidated Financial Statements  
and Supplementary Schedule of Financial Responsibility Data

June 30, 2021

(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, 2021, 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 30.5% of consolidated total assets as of June 30, 2021 and total changes in net assets of 52.1% 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, 2021, 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' 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 30, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### *Other Matter*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of financial responsibility data as of and for the year ended June 30, 2021, is presented for purposes of additional analysis as required by the US Department of Education, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of financial responsibility data is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021 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 26, 2021

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Consolidated Balance Sheet

June 30, 2021

(With summarized financial information as of June 30, 2020)

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Current assets:		
Cash and cash equivalents	\$ 124,504,652	95,503,199
Restricted cash and investments	9,223,700	8,129,587
Operating investments	21,093,703	19,277,247
Accounts receivable, net	24,862,209	21,103,219
Accounts receivable from affiliate	230,784	585,207
Current portion of notes receivable from students	977,400	735,300
Prepaid expenses and other current assets	2,826,052	2,893,154
Total current assets	<u>183,718,500</u>	<u>148,226,913</u>
Property, plant, and equipment, net	200,372,653	183,315,667
Other long-term assets:		
Operating investments	17,980,617	19,135,608
Notes receivable from students	1,965,813	3,101,431
Interest in net assets of affiliate	179,232,604	130,867,829
Other long-term assets	4,200,428	4,046,044
Total other long-term assets	<u>203,379,462</u>	<u>157,150,912</u>
Total assets	<u>\$ 587,470,615</u>	<u>488,693,492</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current liabilities:		
Current portion of long-term debt	\$ 2,870,369	2,735,000
Accounts payable – trade	7,553,971	11,614,555
Accrued compensation	17,693,205	11,100,211
Deferred income	5,731,632	3,334,898
Accrued expenses and other current liabilities	9,736,490	9,492,100
Total current liabilities	<u>43,585,667</u>	<u>38,276,764</u>
Long-term debt, excluding current portion and net of bond issuance costs	36,169,761	36,773,191
Other long-term liabilities:		
Grant deposits	2,054,042	1,841,010
Refundable federal student loans	2,475,304	2,931,369
Assets held for affiliate	962,068	947,086
Other long-term liabilities	6,943,858	5,452,689
Total other long-term liabilities	<u>12,435,272</u>	<u>11,172,154</u>
Total liabilities	<u>92,190,700</u>	<u>86,222,109</u>
Net assets:		
Net assets without donor restrictions:		
Operating	9,767,579	9,381,539
EVMS reserves	74,857,336	67,817,528
Department reserves	86,255,270	67,786,753
Net investment in plant	32,324,690	30,871,928
Sponsored research	419,114	1,058,914
Parking facility reserves	690,949	73,891
Total net assets without donor restrictions	<u>204,314,938</u>	<u>176,990,553</u>
Net assets with donor restrictions:		
Revolving student loans	987,523	1,375,405
Program restricted	638,745	628,323
Net investment in plant	110,106,105	92,609,273
Interest in net assets of affiliate	179,232,604	130,867,829
Total net assets with donor restrictions	<u>290,964,977</u>	<u>225,480,830</u>
Total net assets	<u>495,279,915</u>	<u>402,471,383</u>
Commitments and contingencies		
Total liabilities and net assets	<u>\$ 587,470,615</u>	<u>488,693,492</u>

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Consolidated Statement of Activities

Year ended June 30, 2021

(With summarized financial information for the year ended June 30, 2020)

	Net assets without donor restrictions	Net assets with donor restrictions	Total	2020
Operating revenues and support:				
Tuition and fees	\$ 47,412,850	—	47,412,850	45,448,095
State appropriations	32,829,872	20,262,457	53,092,329	66,930,315
Municipal subsidies	1,331,460	—	1,331,460	1,399,726
Federal grants and contracts	18,966,602	—	18,966,602	19,755,820
State grants and contracts	474,409	—	474,409	562,454
Private grants, contracts, and gifts	2,379,500	—	2,379,500	4,447,164
EVMS Foundation support	7,995,323	—	7,995,323	6,398,492
Patient care services	61,737,508	—	61,737,508	57,140,059
Contractual services of graduate school residents	41,519,019	—	41,519,019	38,697,160
Contractual services	37,646,840	—	37,646,840	34,845,441
Sales and services of auxiliary enterprises	6,688,140	—	6,688,140	7,149,922
Other sources	9,001,923	598,414	9,600,337	9,815,509
Interest and investment income	1,005,102	14,074	1,019,176	1,932,071
Released from restriction	3,755,573	(3,755,573)	—	—
Total operating revenues and support	<u>272,744,121</u>	<u>17,119,372</u>	<u>289,863,493</u>	<u>294,522,228</u>
Operating expenses:				
Undergraduate instruction	59,561,504	—	59,561,504	60,011,925
Graduate instruction	30,223,320	—	30,223,320	28,545,649
Research	20,217,440	—	20,217,440	21,127,548
Patient services	69,381,779	—	69,381,779	68,053,545
Academic support	9,709,539	—	9,709,539	10,236,152
Institutional support	25,451,105	—	25,451,105	23,260,637
Auxiliary services	23,572,474	—	23,572,474	22,112,344
Patient services support	8,689,171	—	8,689,171	8,214,511
Total operating expenses	<u>246,806,332</u>	<u>—</u>	<u>246,806,332</u>	<u>241,562,311</u>
Changes in net assets from operations	25,937,789	17,119,372	43,057,161	52,959,917
Nonoperating items:				
Unrealized gains from investments, net	270,700	—	270,700	473,422
Change in interest of net assets of affiliate	—	48,364,775	48,364,775	2,786,418
Change in fair value of interest rate swaps	1,115,896	—	1,115,896	(1,440,627)
Changes in net assets	27,324,385	65,484,147	92,808,532	54,779,130
Net assets at beginning of year	<u>176,990,553</u>	<u>225,480,830</u>	<u>402,471,383</u>	<u>347,692,253</u>
Net assets at end of year	<u>\$ 204,314,938</u>	<u>290,964,977</u>	<u>495,279,915</u>	<u>402,471,383</u>

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Consolidated Statement of Cash Flows

Year ended June 30, 2021

(With summarized financial information for the year ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Changes in net assets	\$ 92,808,532	54,779,130
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,811,806	9,692,504
Change in fair value of interest rate swaps	(1,115,896)	1,440,627
Net realized and unrealized gains on investments	(269,246)	(508,377)
Change in interest of net assets of affiliate	(48,364,775)	(2,786,418)
Net (gain) loss on sale of property, plant, and equipment	(129,532)	4,369
Provision for bad debts	135,848	11,674,140
Amortization of bond issuance costs	28,070	19,539
Restricted contributions for property, plant, and equipment	(23,613,675)	(33,475,506)
Changes in:		
Accounts receivable, net	(3,758,990)	(8,082,537)
Accounts receivable from affiliate	354,423	(202,216)
Prepaid expenses and other current assets	67,102	(388,922)
Other long-term assets	(2,400)	(2,400)
Accounts payable – trade	(4,060,584)	(131,377)
Accrued compensation	6,592,994	2,990,442
Deferred income	2,396,734	(2,312,804)
Accrued expenses and other current liabilities	244,390	(1,525,811)
Grant deposits	213,032	(1,178,282)
Assets held for affiliate	14,982	18,887
Other long-term liabilities	1,491,169	1,466,555
Net cash provided by operating activities	<u>34,843,984</u>	<u>31,491,543</u>
Cash flows from investing activities:		
Purchases of restricted investments	(1,277,184)	(712,377)
Proceeds from sales and maturities of restricted investments	263,011	214,906
Purchases of operating investments	(14,799,887)	(20,216,360)
Proceeds from sales and maturities of operating investments	14,407,668	19,488,784
Purchases of property, plant, and equipment	(28,944,818)	(46,306,697)
Proceeds from sale of property, plant, and equipment	205,558	—
Disbursements for notes receivable from students	(320,000)	(326,952)
Collections of notes receivable from students	1,077,670	811,815
Change in cash surrender value of life insurance	(151,984)	(150,673)
Net cash used in investing activities	<u>(29,539,966)</u>	<u>(47,197,554)</u>
Cash flows from financing activities:		
Restricted contributions for property, plant, and equipment	23,613,675	33,475,506
Proceeds from long-term borrowings	3,424,765	3,683,990
Payments for bond issuance costs	(70,000)	—
Principal payments on bonds	(2,735,000)	(1,945,001)
Refundable federal student loans	(456,065)	(1,099,241)
Net cash provided by financing activities	<u>23,777,375</u>	<u>34,115,254</u>
Net increase in cash, cash equivalents, and restricted cash	29,081,393	18,409,243
Cash, cash equivalents, and restricted cash at beginning of year	<u>100,302,118</u>	<u>81,892,875</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 129,383,511</u>	<u>100,302,118</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 736,523	1,186,332
Purchases of property, plant, and equipment included in accounts payable – trade	1,623,537	3,565,186

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Notes to Consolidated Financial Statements

June 30, 2021

(With summarized financial information as of June 30, 2020)

**(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 EVMS Foundation support in the accompanying consolidated statement of activities. EVMS' beneficial interest in the net assets of EVMS Foundation of \$179,232,604 and \$130,867,829 as of June 30, 2021 and 2020, 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, 2021 and 2020, income from the EVMS Foundation of \$7,995,323 and \$6,398,492, 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 was completed in February 2021 giving EVMS full accreditation of the medical education program for an eight-year term.



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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 2022.

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 on a contractual basis.

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Notes to Consolidated Financial Statements

June 30, 2021

(With summarized financial information as of June 30, 2020)

**(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.

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(With summarized financial information as of June 30, 2020)

Designated net assets without donor restrictions contained within EVMS reserves and department reserves at June 30 are as follows:

	<u>2021</u>	<u>2020</u>
EVMS reserves:		
President and institutional development	\$ 65,153,995	57,689,308
Faculty development	748,791	1,672,198
Internal research	785,655	968,797
Strategic planning	8,026,407	7,103,051
Academic student information	142,488	384,174
Total EVMS reserves	<u>74,857,336</u>	<u>67,817,528</u>
Department reserves:		
Insurance and legal reserves	17,532,120	12,872,767
Faculty development	14,015,854	11,520,793
Internal research	12,789,728	9,584,707
President and institutional development	6,478,789	8,361,851
Chairman's fund	5,530,474	4,695,549
Facilities and equipment	5,812,072	4,686,641
Strategic planning	3,084,938	3,149,847
Resident education	3,125,864	1,522,377
Student fees	2,144,612	1,595,151
Other	5,841,965	3,986,368
Physician supplemental payment program – EVMS MG	4,834,218	2,647,149
Unallocated nonsalary physician compensation – EVMS MG	2,234,338	337,835
Operating reserve – EVMS MG	2,830,298	2,825,718
Total department reserves	<u>86,255,270</u>	<u>67,786,753</u>
Total designated net assets without donor restrictions	<u>\$ 161,112,606</u>	<u>135,604,281</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, 2020, from which the summarized information was derived.

**(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

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June 30, 2021

(With summarized financial information as of June 30, 2020)

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 124,504,652	95,503,199
Restricted cash included in assets restricted to revolving student loans	1,731,150	2,296,651
Restricted cash included in assets restricted to parking facility	<u>3,147,709</u>	<u>2,502,268</u>
	<u>\$ 129,383,511</u>	<u>100,302,118</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 accounts receivable consist of patient receivables and is recorded net of contractual adjustments, discounts, and implicit price concessions. Accounts receivable also includes contracts receivable, which represents amounts due from various healthcare entities for services provided.

**(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.

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Notes to Consolidated Financial Statements

June 30, 2021

(With summarized financial information as of June 30, 2020)

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 primarily comprise 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 \$4,066,570 and \$3,914,586 as of June 30, 2021 and 2020, respectively.

The cash surrender value of life insurance is valued under Level 2 of the fair value hierarchy at June 30, 2021 and 2020. 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, 2021.

**(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. Due to the dissolution of the Perkins Loan program, no new Perkins Loans were disbursed during the year ended June 30, 2021.

**(i) Tuition and Fees**

Student tuition and fees are recognized as revenue over time as the related academic services are provided. 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 tuition and fee revenue. EVMS had \$5,627,527 and \$2,358,890 of deferred tuition and fees as of June 30, 2021 and 2020, respectively, that will be recognized in the subsequent fiscal year when the programs occur.

**(j) 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. EVMS has elected the simultaneous release policy, which allows a not-for-profit organization to report

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as without donor restrictions donor-restricted contributions whose restrictions are met in the same period as the revenue is recognized. In accordance with Topic 606, revenue from exchange grants and contracts is recognized as EVMS meets the performance obligations contained in the agreement with the sponsor or 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.

**(k) Patient Care Services**

Patient care services revenue is reported at the amount that reflects the consideration to which EVMS MG expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others, and includes variable consideration for retroactive revenue adjustments due to settlements of audits, reviews, and investigations.

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.

**(l) 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>2021</u>	<u>2020</u>
Charges foregone, based on established rates	\$ 586,565	579,808
Estimated costs incurred	298,680	322,909

**(m) Contractual Services of Graduate School Residents**

EVMS provides services for administering internships, residency, and fellowship programs to hospitals and healthcare facilities in EVMS' service area. Services are provided on a contractual basis at annually negotiated rates. EVMS manages the schedules for residents at the healthcare facilities and incurs payroll costs for the residents. Revenues are recognized over time as the related services are provided to the healthcare facilities.

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**(n) Contractual Services**

EVMS provides standardized patient services, histotechnology, biorepository, and professional patient care on a contractual basis to other institutions, hospitals, and medical facilities. Revenues are recognized over time as the services are rendered. Included within contractual services is support from affiliates of \$21,715,500 and \$18,167,166 for the years ended June 30, 2021 and 2020, respectively, which are recognized as revenue when EVMS has met the conditions of the agreements.

**(o) 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.

**(p) 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.

**(q) 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 year 2021 or 2020.

**(r) Use of Estimates**

The preparation of the consolidated financial statements in conformity with 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 the reported amounts of revenues and expenses during the reporting period.

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Significant items subject to such estimates and assumptions include the useful lives of fixed assets, the valuation of implicit and explicit price concessions for patient receivables, the valuation of derivatives, and the valuation of investments. Actual results could differ from those estimates.

**(s) 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, 2021 and 2020, there were no uncertain tax positions.

**(t) 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.

**(u) Recent Accounting Standard Not Yet Adopted**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 standard on its consolidated financial statements.

**(v) Recently Adopted Accounting Standard**

EVMS adopted FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, on July 1, 2020 using the modified retrospective approach. Topic 606 replaces existing revenue recognition guidance under GAAP and requires an entity to recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for the transfer of promised goods and services to customers. The adoption did not have a material impact on the timing or amount of revenues recognized by EVMS, or on the financial position or results of operations.

**(w) 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



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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 \$1,854,791 and \$164,872 during fiscal years 2021 and 2020, respectively, from the Department of Education in CARES Act funds to award aid to qualifying students under Section 18004(a)(1) and to help with additional costs incurred by the institution resulting from COVID-19. EVMS recognized \$652,362 and \$46,090 during fiscal years 2021 and 2020, respectively, which is recorded within federal grants and contracts in the accompanying consolidated statement of activities.

EVMS also received \$870,272 and \$1,654,710 during fiscal years 2021 and 2020, respectively, from the Commonwealth of Virginia for Coronavirus Relief Funding to aid in additional expenses incurred. EVMS recognized \$1,742,175 and \$782,807 during fiscal years 2021 and 2020, respectively, which is recorded within state appropriations in the accompanying consolidated statement of activities.

EVMS MG received \$1,418,478 during fiscal year 2020 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.

**(x) Subsequent Events**

EVMS has evaluated subsequent events from the consolidated balance sheet date through October 26, 2021, the date at which the consolidated financial statements were available to be issued, and determined there are no other items to disclose.

**(3) Cash and Cash Equivalents**

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

	<u>2021</u>	<u>2020</u>
EVMS	\$ 110,740,038	93,032,799
EVMS MG	<u>13,764,614</u>	<u>2,470,400</u>
	<u>\$ 124,504,652</u>	<u>95,503,199</u>

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**(4) Operating Investments and Restricted Cash and Investments**

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

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 3,095,082	2,684,038
Equity securities	266,024	169,672
Certificates of deposit	4,552,893	5,150,694
Mutual funds – fixed income	5,383,105	4,305,615
Corporate bonds	8,419,803	10,676,420
Agency mortgage-backed securities	961,583	2,545,338
U.S. Treasury securities	9,408,742	8,718,098
Municipal bonds	5,089,211	2,674,126
Equity method investment	<u>1,897,877</u>	<u>1,488,854</u>
Total operating investments	39,074,320	38,412,855
Less amounts available for current obligations	<u>(21,093,703)</u>	<u>(19,277,247)</u>
Long-term operating investments	<u>\$ 17,980,617</u>	<u>19,135,608</u>

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

	<u>2021</u>	<u>2020</u>
Restricted for parking garage operations – cash	\$ 3,147,709	2,502,268
Restricted for student loans – cash	1,731,150	2,296,651
Restricted for cash balance pension plan – equities	1,816,883	1,304,395
Restricted for interest, debt retirement, and construction per trust indentures:		
General Revenue Bonds, Series 2006:		
Interest fund – money market funds	12,935	19,716
Principal fund – money market funds	<u>315,011</u>	<u>304,948</u>
Total Bonds, Series 2006	<u>327,946</u>	<u>324,664</u>
General Revenue Refunding Bonds, Series 2010:		
Interest fund – money market funds	50,578	41,904
Principal fund – money market funds	<u>285,842</u>	<u>272,684</u>
Total Bonds, Series 2010	<u>336,420</u>	<u>314,588</u>

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	<b>2021</b>	<b>2020</b>
General Revenue Bonds, Series 2010:		
Interest fund – money market funds	\$ 17,817	50,238
Principal fund – money market funds	<u>729,189</u>	<u>731,402</u>
Total Bonds, Series 2010	<u>747,006</u>	<u>781,640</u>
General Revenue Bonds, Series 2011:		
Interest fund – money market funds	44,270	51,069
Principal fund – money market funds	<u>291,676</u>	<u>293,268</u>
Total Bonds, Series 2011	<u>335,946</u>	<u>344,337</u>
General Revenue Bonds, Series 2018:		
Interest fund – money market funds	10,937	7
Principal fund – money market funds	25,000	—
Capitalized interest fund – money market funds	<u>49,703</u>	<u>261,037</u>
Total Bonds, Series 2018	<u>85,640</u>	<u>261,044</u>
General Revenue Bonds, Series 2021:		
Capitalized interest fund – money market funds	<u>695,000</u>	<u>—</u>
Total Bonds, Series 2021	<u>695,000</u>	<u>—</u>
Total restricted for interest, debt retirement, and construction per trust indentures	<u>2,527,958</u>	<u>2,026,273</u>
Total restricted cash and investments	<u>\$ 9,223,700</u>	<u>8,129,587</u>

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**(5) Accounts Receivable, Net**

At June 30, accounts receivable comprised the following:

	<u>2021</u>	<u>2020</u>
Patient accounts receivable	\$ 10,194,520	9,144,805
Sponsored programs receivables:		
Grants and contracts – federal	4,605,095	3,342,078
Grants and contracts – private	90,612	178,413
Grants and contracts – state	<u>101,713</u>	<u>82,136</u>
Total sponsored programs receivables	4,797,420	3,602,627
Local hospitals, net	4,997,244	3,808,541
Parking	337,698	47,983
Tuition receivable, net	3,604,055	1,100,608
Contribution for capital projects	—	2,446,845
Other, net	<u>931,272</u>	<u>951,810</u>
Total accounts receivable, net	<u>\$ 24,862,209</u>	<u>21,103,219</u>

**(6) Accounts Receivable from Affiliate**

At June 30, 2021 and 2020, accounts receivable from affiliate were due from the EVMS Foundation in the amount of \$230,784 and \$585,207, 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:

	<b>Total as of June 30, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Restricted cash and investments:				
Cash and cash equivalents	\$ 7,488,649	7,488,649	—	—
Equity securities	1,735,051	1,735,051	—	—
Operating investments:				
Money market funds	3,095,082	3,095,082	—	—
Equity securities	266,024	266,024	—	—
Certificates of deposit	4,552,893	—	4,552,893	—
Mutual funds – fixed income	5,383,105	5,383,105	—	—
Corporate bonds	8,419,803	—	8,419,803	—
Agency mortgage-backed securities	961,583	—	961,583	—
U.S. Treasury securities	9,408,742	—	9,408,742	—
Municipal bonds	5,089,211	—	5,089,211	—
Beneficial interest in net assets of affiliate	<u>179,232,604</u>	<u>—</u>	<u>—</u>	<u>179,232,604</u>
Total assets at fair value	<u>\$ 225,632,747</u>	<u>17,967,911</u>	<u>28,432,232</u>	<u>179,232,604</u>
<b>Liability:</b>				
Interest rate swaps	\$ (1,916,403)	—	(1,916,403)	—

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	<b>Total as of June 30, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
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	<u>130,867,829</u>	<u>—</u>	<u>—</u>	<u>130,867,829</u>
Total assets at fair value	<u>\$ 175,921,417</u>	<u>15,288,912</u>	<u>29,764,676</u>	<u>130,867,829</u>
<b>Liability:</b>				
Interest rate swaps	\$ (3,032,298)	—	(3,032,298)	—

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

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- 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, 2021 or 2020.

**(8) Property, Plant, and Equipment, Net**

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

	<u>2021</u>	<u>2020</u>
Land	\$ 2,969,342	2,969,342
Land improvements	9,409,623	9,320,941
Buildings and improvements	274,982,754	192,400,594
Equipment	89,735,106	79,828,832
Construction in progress	<u>10,327,966</u>	<u>76,011,123</u>
	387,424,791	360,530,832
Less accumulated depreciation and amortization	<u>(187,052,138)</u>	<u>(177,215,165)</u>
Total property, plant, and equipment, net	<u>\$ 200,372,653</u>	<u>183,315,667</u>

Depreciation and amortization expenses related to property, plant, and equipment for the years ended June 30, 2021 and 2020 were \$11,811,806 and \$9,692,504, 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 Inter-Bank Rate (LIBOR) plus 1% (1.58% at June 30, 2021). The line of credit was not utilized during the years ended June 30, 2021 and 2020; 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 November 30, 2021. This facility is collateralized by certain accounts receivable. Interest is payable at the one-month LIBOR plus 1.50% (1.59% at June 30, 2021). No amounts were outstanding under the line of credit at June 30, 2021 or 2020.

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**(10) Long-Term Debt**

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

	<u>2021</u>	<u>2020</u>	
Bonds (property and equipment fund):			
General Revenue Bonds, Series 2006	\$ 4,955,000	5,475,000	(A)
General Revenue Bonds, Series 2010	8,250,000	9,500,000	(B)
General Revenue Refunding Bonds, Series 2010	7,515,000	7,980,000	(C)
General Revenue Bonds, Series 2011	7,300,000	7,800,000	(D)
General Revenue Bonds, Series 2018	6,024,572	6,024,572	(E)
General Revenue Bonds, Series 2021	3,424,764	—	(F)
	<u>37,469,336</u>	<u>36,779,572</u>	
Interest rate swaps	1,916,403	3,032,298	(G)
Less bond issuance costs	(345,609)	(303,679)	
Less current portion	<u>(2,870,369)</u>	<u>(2,735,000)</u>	
Noncurrent portion	<u>\$ 36,169,761</u>	<u>36,773,191</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.

On April 1, 2021, EVMS modified the Series 2006 General Revenue Bonds, in accordance with the Eighteenth Supplemental Indenture of Trust, effective April 1, 2021, to reduce the current interest rate payable from 2.95% per annum to 2.13% per annum until principal thereof shall have been paid or provided for in full. Interest is payable semiannually on each May 15 and November 15 at a rate of 2.13% 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>
2022	\$ 540,000	2026	\$ 630,000
2023	560,000	2027	650,000
2024	580,000	2028	680,000
2025	605,000	2029	710,000



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- (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 (0.74% and 0.82% as of June 30, 2021 and 2020, respectively).

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

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
2022	\$ 1,250,000	2025	\$ 1,250,000	2028	\$ 750,000
2023	1,250,000	2026	1,250,000		
2024	1,250,000	2027	1,250,000		

- (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 (0.82% and 0.90% as of June 30, 2020 and 2019, respectively).

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

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
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		
2026	580,000	2031	720,000		

- (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 (0.82% and 0.90% as of June 30, 2021 and 2020, respectively).

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

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
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		
2026	550,000	2031	700,000		

- (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.

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Interest is payable semiannually 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:

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
2022	\$ 90,369	2028	\$ 253,032	2034	\$ 475,941
2023	123,504	2029	295,204	2035	491,003
2024	126,516	2030	355,450	2036	509,076
2025	162,663	2031	346,413	2037	527,150
2026	195,799	2032	364,487	2038	548,236
2027	204,835	2033	388,585	2039	566,309

- (F) On June 1, 2021, EVMS issued the Series 2021 General Revenue Bonds. The Series 2021 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 June 1, 2006. The Series 2021 Bonds, maturing November 15, 2040, 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, 2021 and each May 15 and November 15, thereafter through 2040.

Interest is payable semiannually on each May 15 and November 15 at a rate of 2.20% per annum. Mandatory sinking fund payments will be due annually on November 15 as follows:

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
2024	\$ 47,566	2030	\$ 227,366	2036	\$ 259,711
2025	47,566	2031	233,074	2037	265,419
2026	47,566	2032	237,831	2038	271,127
2027	47,566	2033	243,539	2039	277,786
2028	47,566	2034	248,295	2040	283,494
2029	95,132	2035	254,003	2041	290,157

- (G) 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 (0.74% and 0.82% as of June 30, 2021 and 2020, respectively). The related interest rate swap contract has a current notional principal amount of \$8,250,000, 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 \$496,963 and \$791,614 as of June 30, 2021 and 2020, 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 (0.82% and 0.90% as of June 30, 2021 and 2020, respectively). The related interest rate swap contract has a current notional principal amount of \$7,515,000, 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 \$790,558 and \$1,221,311 as of June 30, 2021 and 2020, 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 (0.82% and 0.90% as of June 30, 2021 and 2020, respectively). The related interest rate swap contract has a current notional principal amount of \$7,300,000, 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 \$628,883 and \$1,019,373 as of June 30, 2021 and 2020, 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, 2021 and 2020. 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, Series 2018, and Series 2021 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, 2021 are as follows:

2022	\$ 2,870,369
2023	2,943,504
2024	3,084,082
2025	3,170,229
2026	3,253,365
Thereafter	<u>22,147,787</u>
	<u>\$ 37,469,336</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, 2021 and 2020 was \$2,951,119 and \$3,031,379, 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:	
2022	\$ 1,952,621
2023	1,233,480
2024	812,409
2025	600,238
2026	249,983
Thereafter	<u>65,441</u>
Total minimum operating lease payments	\$ <u>4,914,172</u>

**(12) Grant Deposits**

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

	<u>2021</u>	<u>2020</u>
Federal grants	\$ 625,210	349,899
State and local grants	1,202,059	315,103
Private gifts and grants	<u>226,773</u>	<u>1,176,008</u>
Total grant deposits	\$ <u>2,054,042</u>	<u>1,841,010</u>

Grant deposits represent amounts received for various grants and contracts that have not been expended at June 30, 2021 and 2020. 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, 2021 and 2020 was \$962,068 and \$947,086, respectively.

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**(14) State Appropriations**

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

	<b>2021</b>	<b>2020</b>
Education	\$ 22,893,188	22,893,189
Indigent care	6,158,108	6,158,108
Family medicine	658,597	658,597
Medical modeling and simulation	412,811	454,643
Higher education equipment trust fund	723,789	341,329
Capital maintenance reserve	180,584	457,274
Capital projects – renovations	—	1,407,304
Capital projects – new construction	20,262,457	33,716,444
Virginia Area Health Education Center	60,620	60,620
Coronavirus Relief Funding	1,742,175	782,807
	<u>\$ 53,092,329</u>	<u>66,930,315</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.

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, 2021								
	Undergraduate instruction	Graduate instruction	Research	Patient services	Academic support	Institutional support	Auxiliary services	Patient services support	Totals
Operating expenses:									
Salaries and wages	\$ 42,330,288	22,987,503	8,421,900	50,495,294	7,352,509	13,927,078	5,491,798	4,125,079	155,131,449
Fringe benefits	6,726,310	6,276,067	1,459,824	6,168,010	1,420,335	3,258,086	1,249,004	981,121	27,538,757
Operating supplies	2,574,443	390,754	1,196,318	4,519,094	1,379,054	576,135	97,186	180,899	10,913,883
Contractual services	2,836,517	293,498	5,803,928	2,110,854	778,187	5,932,894	2,710,544	1,264,040	21,730,462
General expenses	3,431,477	257,912	2,941,858	5,527,426	(1,220,546)	1,482,043	5,609,142	1,650,663	19,679,975
Depreciation and amortization	1,662,469	17,586	393,612	561,101	—	274,869	8,414,800	487,369	11,811,806
Total operating expenses	\$ 59,561,504	30,223,320	20,217,440	69,381,779	9,709,539	25,451,105	23,572,474	8,689,171	246,806,332

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	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

**(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 \$5,424,938 and \$5,569,320 for the fiscal years ended June 30, 2021 and 2020, 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. 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.

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**(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>2021</u>	<u>2020</u>
Self-pay	24 %	29 %
Medicare	17	16
Medicaid	20	16
HMO (none more than 10%)	12	12
Commercial	9	10
Anthem	10	9
Other	8	8
	<u>100 %</u>	<u>100 %</u>

**(19) Sources of Patient Service Revenue**

Patient care service revenue is due from patients, third-party payors (including health insurers and government payors), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, EVMS MG bills the patients and third-party payors after the services are performed. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. EVMS MG believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in our outpatient centers. EVMS MG measures the performance obligation at the time of completion of each inpatient or outpatient encounter.

The transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with EVMS MG's policy, or implicit price concessions provided to uninsured patients. Estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Estimate of implicit price concessions based on its historical collection experience with this class of patients.



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EVMS MG has agreements with third-party payors to provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

**Medicare.** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

**Medicaid.** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

**Other.** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge EVMS MG's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon EVMS MG. In addition, the contracts EVMS MG has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and EVMS MG's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Consistent with EVMS MG's mission, care is provided to patients regardless of their ability to pay. Therefore, EVMS MG has determined it has provided implicit price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts expected to collect based on its collection history with those patients.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. EVMS MG also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. EVMS MG estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is

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determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

EVMS MG has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Method of reimbursement
- Medical specialty that provided the service

**(20) Liquidity and Availability**

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

	<u>2021</u>	<u>2020</u>
Total assets	\$ 587,470,615	488,693,492
Less:		
Restricted cash and investments	9,223,700	8,129,587
Property, plant, and equipment, net	200,372,653	183,315,667
Noncurrent operating investments	17,980,617	19,135,608
Notes receivable from students	1,965,813	3,101,431
Interest in net assets of affiliate	179,232,604	130,867,829
Other long-term assets	<u>4,200,428</u>	<u>4,046,044</u>
Financial assets available within one year	<u>\$ 174,494,800</u>	<u>140,097,326</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, 2021. The lines of credit expire in January 2023 and November 2021, respectively.

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**(21) Department of Education Financial Responsibility Standards**

EVMS participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR Subpart 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR Subpart 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. Inputs to these ratios as of and for the year ended June 30, 2021 are bolded below and include (a) elements directly from the accompanying consolidated financial statements and related other notes to the consolidated financial statements, as well as (b) certain other financial data. Additional financial information, which is not bolded, has also been presented to facilitate understanding and reconciliation of such data elements to the accompanying consolidated financial statements and related other notes.

<b>Data element</b>	<b>Amount</b>
<b>(a)</b> Property, plant and equipment, net: pre-implementation	\$ 130,430,557
Property, plant and equipment, net: post-implementation without outstanding debt for original purchase	59,614,130
Construction in progress, net: post-implementation	<u>10,327,966</u>
<b>Total property, plant and equipment, net on Consolidated Balance Sheet</b>	<b>\$ <u>200,372,653</u></b>
Pre-implementation is defined as before July 1, 2019, and represents amounts capitalized as of June 30, 2019. Post-implementation is defined as July 1, 2019 and after.	
<b>(b)</b> Long-term debt, net: pre-implementation	\$ 35,615,366
Long-term debt, net: post-implementation	<u>3,424,764</u>
<b>Total long-term debt, net on Consolidated Balance Sheet</b>	<b>\$ <u>39,040,130</u></b>
Pre-implementation is defined as before July 1, 2019. Post-implementation is defined as July 1, 2019 and after.	
<b>(c)</b> Total Net assets with donor restrictions – restricted in perpetuity	\$ 81,366,491
Total Net assets with donor restrictions – not restricted in perpetuity	<u>209,598,486</u>
<b>Total net assets with donor restrictions on Consolidated Balance Sheets</b>	<b>\$ <u>290,964,977</u></b>

**EASTERN VIRGINIA MEDICAL SCHOOL AND AFFILIATED ORGANIZATION**

**Appendix A**

Schedule of Financial Responsibility Data

As of and for the year ended June 30, 2021

Financial data element	Source of data element in consolidated financial statements or notes to consolidated financial statements	Amount used for ratio
<b>Primary Reserve Ratio:</b>		
Numerator – Expendable Net Assets Ratio Inputs:		
Net assets without donor restrictions	Consolidated Balance Sheet	\$ 204,314,938
Net assets with donor restrictions	Consolidated Balance Sheet	290,964,977
Property, plant and equipment, net: pre-implementation	Note 21 – Financial Responsibility Standards	130,430,557
Property, plant and equipment, net: post-implementation with outstanding debt for original purchase	Note 21 – Financial Responsibility Standards	59,614,130
Construction in progress, net: post-implementation	Note 21 – Financial Responsibility Standards	10,327,966
Long-term debt, net: pre-implementation	Note 21 – Financial Responsibility Standards	35,615,366
Long-term debt, net: post-implementation	Note 21 – Financial Responsibility Standards	3,424,764
Net assets with donor restrictions: restricted in perpetuity	Note 21 – Financial Responsibility Standards	81,366,491
Denominator – Total Expenses and Losses Without Donor Restrictions:		
Total operating expenses	Consolidated Statement of Activities	248,806,332
Net gain on sale of property, plant, and equipment	Consolidated Statement of Cash Flows	(129,532)
Gain on change in fair value of interest rate swaps	Consolidated Statement of Activities	(1,115,896)
<b>Equity Ratio:</b>		
Numerator – Modified Net Assets Inputs:		
Net assets without donor restrictions	Consolidated Balance Sheet	\$ 204,314,938
Net assets with donor restrictions	Consolidated Balance Sheet	290,964,977
Denominator – Modified Assets Inputs:		
Total assets	Consolidated Balance Sheet	587,470,615
<b>Net Income Ratio:</b>		
Numerator – Change in Net Assets Without Donor Restrictions	Consolidated Statement of Activities	\$ 27,324,385
Denominator: Total Revenue and Gains Without Donor Restrictions:		
Total operating revenues and support without donor restrictions	Consolidated Statement of Activities	274,744,121
Unrealized gains from investments, net	Consolidated Statement of Activities	270,700

See accompanying independent auditors' report.



KPMG LLP  
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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, 2021, 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 26, 2021. 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 26, 2021