



**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Consolidated Financial Statements

June 30, 2014

(With Independent Auditors' Reports Thereon)

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

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KPMG LLP
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Norfolk, VA 23510

Independent Auditors' Report

The Board of Visitors
Eastern Virginia Medical School:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Eastern Virginia Medical School and Affiliated Organization (EVMS), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Virginia Medical School and Affiliated Organization as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited EVMS' 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 22, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of EVMS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EVMS' internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
October 31, 2014

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Consolidated Balance Sheet

June 30, 2014

(with summarized financial information as of June 30, 2013)

Assets	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents (notes 3 and 7)	\$ 23,378,507	27,888,768
Restricted cash (notes 4 and 7)	5,475,631	5,448,051
Operating investments (notes 4 and 7)	23,445,024	14,313,712
Accounts receivable, net (notes 5 and 9)	20,930,904	20,611,494
Accounts receivable from affiliate (note 6)	432,888	367,574
Current portion of notes receivable from students	697,860	665,604
Prepaid expenses and other current assets	<u>1,967,155</u>	<u>2,039,967</u>
Total current assets	<u>76,327,969</u>	<u>71,335,170</u>
Property, plant, and equipment, net (note 8)	135,785,987	141,686,075
Other long-term assets:		
Operating investments (notes 4 and 7)	4,181,368	4,087,053
Notes receivable from students	6,321,876	6,153,261
Interest in net assets of affiliate (note 1)	55,175,885	48,591,447
Other long-term assets	<u>3,595,497</u>	<u>3,638,744</u>
Total other long-term assets	<u>69,274,626</u>	<u>62,470,505</u>
Total assets	<u>\$ 281,388,582</u>	<u>275,491,750</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Current portion of long-term debt (note 10)	\$ 3,740,000	3,010,000
Accounts payable – trade	9,459,934	9,844,778
Line of credit (note 9)	—	—
Accrued compensation	6,713,959	7,077,079
Deferred income	3,701,718	1,511,624
Accrued expenses and other current liabilities	<u>10,111,638</u>	<u>18,511,577</u>
Total current liabilities	<u>33,727,249</u>	<u>39,955,058</u>
Long-term debt, excluding current portion (note 10)	53,572,653	58,817,760
Other long-term liabilities:		
Grant deposits (note 12)	6,757,651	6,215,398
Refundable federal student loans	6,149,375	6,014,740
Assets held for affiliate (note 13)	825,463	806,702
Other long-term liabilities	<u>1,671,371</u>	<u>1,745,838</u>
Total other long-term liabilities	<u>15,403,860</u>	<u>14,782,678</u>
Total liabilities	<u>102,703,762</u>	<u>113,555,496</u>
Net assets:		
Unrestricted:		
Operating	6,689,744	6,408,165
EVMS reserves	20,087,543	16,365,664
Department reserves	28,573,891	23,499,374
Net investment in plant	9,812,982	8,368,553
Parking facility reserves	<u>41,003</u>	<u>23,052</u>
Total unrestricted net assets	<u>65,205,163</u>	<u>54,664,808</u>
Temporarily restricted:		
Revolving student loans	1,736,937	1,699,235
Program restricted	1,639,797	—
Net investment in plant	54,927,038	56,980,764
Interest in net assets of affiliate (note 1)	<u>55,175,885</u>	<u>48,591,447</u>
Total temporarily restricted net assets	<u>113,479,657</u>	<u>107,271,446</u>
Total net assets	<u>178,684,820</u>	<u>161,936,254</u>
Commitments and contingencies (notes 9, 11 and 17)		
Total liabilities and net assets	<u>\$ 281,388,582</u>	<u>275,491,750</u>

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL
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Consolidated Statement of Activities

Year ended June 30, 2014

(with summarized financial information for the year ended June 30, 2013)

	Unrestricted net assets	Temporarily restricted net assets	Total	2013 Total
Operating revenues and support (note 12):				
Tuition and fees	\$ 35,577,482	—	35,577,482	31,920,913
State appropriations (note 14)	24,283,290	711,899	24,995,189	27,887,769
Municipal subsidies	1,365,480	—	1,365,480	1,507,882
Federal grants and contracts	32,770,123	—	32,770,123	34,427,449
State grants and contracts	572,793	—	572,793	628,849
Private grants, contracts, and gifts	10,334,677	—	10,334,677	10,248,760
EVMS Foundation endowment income and gifts	6,100,801	—	6,100,801	5,882,863
Patient care services, net	53,162,710	—	53,162,710	51,183,942
Contractual services of graduate school residents	30,819,047	—	30,819,047	30,253,883
Contractual services	20,254,702	—	20,254,702	17,984,274
Sales and services of auxiliary enterprises	6,072,675	—	6,072,675	6,211,375
Other sources	10,189,624	1,639,797	11,829,421	11,183,751
Interest and investment income	366,989	30,571	397,560	320,748
Released from restriction	2,758,494	(2,758,494)	—	—
Total operating revenues and support	<u>234,628,887</u>	<u>(376,227)</u>	<u>234,252,660</u>	<u>229,642,458</u>
Operating expenses (notes 11, 15, and 16):				
Program services:				
Undergraduate instruction	42,866,453	—	42,866,453	40,320,373
Graduate instruction	26,151,719	—	26,151,719	25,635,935
Research	41,706,633	—	41,706,633	43,275,294
Patient services	65,111,949	—	65,111,949	60,808,842
Total program services	<u>175,836,754</u>	<u>—</u>	<u>175,836,754</u>	<u>170,040,444</u>
Management and general:				
Academic support	5,164,742	—	5,164,742	5,009,455
Institutional support	14,974,972	—	14,974,972	14,798,291
Auxiliary services	22,261,599	—	22,261,599	21,291,534
Patient services support	6,090,408	—	6,090,408	5,582,502
Total management and general	<u>48,491,721</u>	<u>—</u>	<u>48,491,721</u>	<u>46,681,782</u>
Total operating expenses	<u>224,328,475</u>	<u>—</u>	<u>224,328,475</u>	<u>216,722,226</u>
Changes in net assets from operations	10,300,412	(376,227)	9,924,185	12,920,232
Nonoperating items:				
Unrealized losses from investments, net	(164)	—	(164)	(200,795)
Change in interest of net assets of affiliate (note 1)	—	6,584,438	6,584,438	6,347,623
Change in fair value of interest rate swaps (note 10)	240,107	—	240,107	2,567,623
Changes in net assets	10,540,355	6,208,211	16,748,566	21,634,683
Net assets at beginning of year	<u>54,664,808</u>	<u>107,271,446</u>	<u>161,936,254</u>	<u>140,301,571</u>
Net assets at end of year	<u>\$ 65,205,163</u>	<u>113,479,657</u>	<u>178,684,820</u>	<u>161,936,254</u>

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL
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Consolidated Statement of Cash Flows

Year ended June 30, 2014

(with summarized financial information for the year ended June 30, 2013)

	2014	2013
Cash flows from operating activities:		
Changes in net assets	\$ 16,748,566	21,634,683
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,989,779	9,822,708
Change in fair value of interest rate swaps (note 10)	(240,107)	(2,567,623)
Unrealized losses on investments, net	164	200,795
Change in interest of net assets of affiliate (note 1)	(6,584,438)	(6,347,623)
Loss on disposal of property and equipment	—	268
Provision for bad debts	11,832,534	10,011,161
Amortization of bond costs	31,957	31,958
State appropriation for property, plant and equipment	(711,899)	(3,730,116)
Changes in:		
Accounts receivable	(12,090,385)	(6,786,413)
Accounts receivable from affiliate	(65,314)	(119,043)
Prepaid expenses and other current assets	72,812	(847,403)
Other long-term assets	(151,665)	(134,161)
Accounts payable – trade	(384,844)	1,701,062
Accrued compensation	(363,120)	450,209
Deferred income	2,190,094	561,223
Accrued expenses and other current liabilities	(8,399,939)	10,222,011
Grant deposits	542,253	(1,053,713)
Assets held for affiliate	18,761	14,315
Other long-term liabilities	(74,467)	(269,261)
Net cash provided by operating activities	12,360,742	32,795,037
Cash flows from investing activities:		
Purchases of restricted cash	(9,708,041)	(9,275,179)
Proceeds from restricted cash	9,680,461	15,312,725
Purchases of operating investments	(9,285,778)	(13,153,669)
Proceeds from sales and maturities of operating investments	59,987	12,415,733
Purchases of property, plant, and equipment, including interest capitalized	(3,926,736)	(10,658,149)
Disbursements for notes receivable from students	(1,245,257)	(1,191,602)
Collections of notes receivable from students	982,827	907,659
Net cash used in investing activities	(13,442,537)	(5,642,482)
Cash flows from financing activities:		
State appropriation for property, plant and equipment	711,899	3,730,116
Payments on bonds and notes payable	(4,275,000)	(5,566,481)
Refundable federal student loans	134,635	(52,353)
Net cash used in financing activities	(3,428,466)	(1,888,718)
Net increase (decrease) in cash and cash equivalents	(4,510,261)	25,263,837
Cash and cash equivalents at beginning of year	27,888,768	2,624,931
Cash and cash equivalents at end of year	\$ 23,378,507	27,888,768
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	\$ 2,246,572	2,204,868
Purchases of property, plant and equipment included in accounts payable – trade	166,598	733,334

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Notes to Consolidated Financial Statements

June 30, 2014

(with summarized financial information as of June 30, 2013)

(1) EVMS and Affiliated Organization

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

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

The Eastern Virginia Medical School Foundation (EVMS Foundation) is a nonprofit organization established to provide financial support to EVMS. The EVMS Foundation qualifies as a charitable foundation and is exempt from federal and state income taxation under Section 501(c)(3) of the IRC. As such, contributions to it are tax deductible. The accounts of EVMS Foundation are not included in the consolidated financial statements of EVMS. Amounts received from the EVMS Foundation are reported as endowment income in EVMS' consolidated financial statements. EVMS' beneficial interest in the net assets of EVMS Foundation related to estimated future distributions totaling \$55,175,885 and \$48,591,447 as of June 30, 2014 and 2013, respectively, is presented as interest in net assets of affiliate and temporarily restricted net assets. Changes in the interest of the net assets of EVMS Foundation are included in nonoperating items on the accompanying consolidated statement of activities. During the years ended December 31, 2014 and 2013, income from the EVMS Foundation of \$6,100,801 and \$5,882,863, respectively, is presented in operating revenues and support on the accompanying consolidated statement of activities.

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

(a) Education

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

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(with summarized financial information as of June 30, 2013)

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

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

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.

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Notes to Consolidated Financial Statements

June 30, 2014

(with summarized financial information as of June 30, 2013)

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

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

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

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

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of EVMS. There were no permanently restricted net assets at EVMS as of June 30, 2014 or 2013.

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

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

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with EVMS' consolidated financial statements as of and for the year ended June 30, 2013, from which the summarized information was derived. In addition, certain reclassifications have been made to the prior year amounts in order to conform to the current year presentation.

(b) Cash Equivalents

EVMS considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents for consolidated financial statement presentation, except for those short-term investments managed by EVMS' investment managers as part of their long-term investment portfolio. Cash equivalents consist primarily of temporary investments in bank

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Notes to Consolidated Financial Statements

June 30, 2014

(with summarized financial information as of June 30, 2013)

repurchase agreements, money market funds and cash reserve funds. Cash equivalents make up substantially all of the balance in cash and cash equivalents on the consolidated balance sheet as of June 30, 2014 and 2013.

(c) *Restricted Cash*

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

(d) *Investments*

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

(e) *Patient Accounts Receivable*

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

(f) *Property, Plant, and Equipment*

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

The estimated useful lives are as follows:

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

(g) *Other Long-Term Assets*

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

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MG is the owner of two insurance policies for current and retired faculty of EVMS, where 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 \$3,095,587 and \$2,950,963 as of June 30, 2014 and 2013, respectively.

(h) Refundable Federal Student Loans

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

(i) Patient Care Services

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

(j) Charity Care

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

(k) Sponsored Grants and Contracts

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

(l) Donated Services

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

**EASTERN VIRGINIA MEDICAL SCHOOL
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Notes to Consolidated Financial Statements

June 30, 2014

(with summarized financial information as of June 30, 2013)

(m) *Functional Expenses*

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

(n) *Derivative Instruments*

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

(o) *Concentration of Credit Risk*

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

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

(p) *Asset Retirement Obligations*

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

(q) *Use of Estimates*

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

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Notes to Consolidated Financial Statements

June 30, 2014

(with summarized financial information as of June 30, 2013)

(r) **Income Taxes**

EVMS is exempt from income taxes under Section 501(a) of the IRC as an organization described in Section 501(c)(3). Management has determined there are no uncertain tax positions as of June 30, 2014.

(s) **Release from Restriction**

EVMS received temporarily restricted revenue from the Commonwealth of Virginia to fund the construction and purchase of certain real property during the years ended June 30, 2009–June 30, 2014. As a part of the agreement, EVMS was required to fund a percentage of the cost of the project. EVMS' share of the cost was funded through fund-raising and the issuance of long-term debt. The restriction on the funds received from the Commonwealth of Virginia is being released over the life of the debt EVMS issued to fund the project.

(3) **Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
EVMS	\$ 21,215,357	25,782,875
EVMS MG	2,163,150	2,105,893
	<u>\$ 23,378,507</u>	<u>27,888,768</u>

(4) **Investments**

(a) Operating investments at June 30, 2014 and 2013 were comprised of the following:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 3,520	2,832
Certificates of deposit	5,520,080	5,385,862
Mutual fund – fixed income	16,636,139	10,000,812
U.S. government securities	4,918,531	2,265,518
Cash reserve fund	548,122	745,741
Total operating investments	<u>27,626,392</u>	<u>18,400,765</u>
Less amounts available for current obligations	<u>23,445,024</u>	<u>14,313,712</u>
Long-term operating investments	<u>\$ 4,181,368</u>	<u>4,087,053</u>

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(b) Restricted cash at June 30, 2014 and 2013 were comprised of the following:

	2014	2013
Restricted for parking garage debt service and operations – savings account – variable rates	\$ 739,667	294,043
Restricted for student loans – money market funds	1,670,240	1,692,477
Restricted for cash pension fund – mutual funds – large cap	148,215	80,861
Restricted for interest, debt retirement, and construction per trust indentures:		
General Revenue and Refunding Bonds, Series 1998:		
Interest fund – money market funds	5,083	9,902
Principal fund – money market funds	729,167	691,250
Total Bonds, Series 1998	734,250	701,152
General Revenue Bonds, Series 1999:		
Interest fund – money market funds	2,875	5,309
Principal fund – money market funds	437,500	370,417
Total Bonds, Series 1999	440,375	375,726
General Revenue Refunding Bonds, Series 2001:		
Interest fund – money market funds	8,266	9,040
Principal fund – money market funds	466,667	233,333
Total Bonds, Series 2001	474,933	242,373
General Revenue Refunding Bonds, Series 2002:		
Interest fund – money market funds	3,689	4,055
Principal fund – money market funds	105,000	116,667
Total Bonds, Series 2002	108,689	120,722
General Revenue Bonds, Series 2006:		
Interest fund – money market funds	20,121	21,080
Principal fund – money market funds	239,167	227,500
Total Bonds, Series 2006	259,288	248,580

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	2014	2013
General Revenue Refunding Bonds, Series 2010:		
Interest fund – money market funds	\$ 18,803	18,865
Principal fund – money market funds	58,333	58,333
Total Bonds, Series 2010	77,136	77,198
General Revenue Bonds, Series 2010:		
Capitalized interest fund – money market funds	13,629	24,241
Interest fund – money market funds	20,677	16,465
Principal fund – money market funds	87,500	58,333
Total Bonds, Series 2010	121,806	99,039
General Revenue Bonds, Series 2011:		
Interest fund – money market funds	9,008	—
Principal fund – money market funds	58,333	—
Capitalized interest fund – money market funds	7,497	94,452
Construction fund – money market funds	626,194	1,421,428
Total Bonds, Series 2011	701,032	1,515,880
Total restricted for interest, debt retirement and construction per trust indentures	2,917,509	3,380,670
Total restricted cash	\$ 5,475,631	5,448,051

(5) Accounts Receivable

At June 30, 2014 and 2013, accounts receivable were comprised of the following:

	2014	2013
Patient receivables	\$ 13,262,880	12,859,498
Allowance for uncollectible accounts	(4,587,049)	(4,216,139)
Total net patient receivables	8,675,831	8,643,359
Sponsored programs receivables:		
Grants and contracts – federal	7,981,423	7,423,653
Grants and contracts – private	861,511	971,526
Grants and contracts – state	105,178	147,667
Total sponsored programs receivables	8,948,112	8,542,846
Local hospitals	2,267,509	2,274,528
Parking	76,380	87,284
Other	963,072	1,063,477
Total accounts receivable, net	\$ 20,930,904	20,611,494

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(6) Accounts Receivable from Affiliate

At June 30, 2014 and 2013, accounts receivable from affiliate were due from the EVMS Foundation in the amount of \$432,888 and \$367,574, respectively. This receivable is secured by the EVMS Foundation's investments.

(7) Fair Value Measurements

(a) Fair Value of Financial Instruments

The fair values of financial instruments are determined based on the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

(b) Fair Value Hierarchy

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

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

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The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2014 and 2013:

	<u>June 30, 2014</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Cash equivalents	\$ 28,517,898	28,517,898	—	—
Mutual funds – fixed income	16,636,139	16,636,139	—	—
Mutual funds – large cap	148,215	148,215	—	—
U.S. government securities	4,918,531	—	4,918,531	—
Certificates of deposit	5,520,080	—	5,520,080	—
Beneficial interest in net assets of affiliate	<u>55,175,885</u>	<u>—</u>	<u>—</u>	<u>55,175,885</u>
Total	<u>\$ 110,916,748</u>	<u>45,302,252</u>	<u>10,438,611</u>	<u>55,175,885</u>
Liability:				
Interest rate swaps	\$ (2,242,653)	—	(2,242,653)	—
	<u>June 30, 2013</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Cash equivalents	\$ 33,710,488	33,710,488	—	—
Mutual funds – fixed income	10,000,812	10,000,812	—	—
Mutual funds – large cap	80,861	80,861	—	—
U.S. government securities	2,265,518	—	2,265,518	—
Certificates of deposit	5,385,862	—	5,385,862	—
Beneficial interest in net assets of affiliate	<u>48,591,447</u>	<u>—</u>	<u>—</u>	<u>48,591,447</u>
Total	<u>\$ 100,034,988</u>	<u>43,792,161</u>	<u>7,651,380</u>	<u>48,591,447</u>
Liability:				
Interest rate swaps	\$ (2,482,760)	—	(2,482,760)	—

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

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

Fair value of the beneficial interest in net assets of affiliate increased by \$6,584,438 during the year ended December 31, 2014 due to the realized and unrealized gains on the trust assets and net purchases of trust assets.

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 or Level 2 for the year ended June 30, 2014.

(8) Property, Plant, and Equipment

At June 30, 2014 and 2013, property, plant, and equipment consisted of the following:

	2014	2013
Land	\$ 2,992,314	2,992,314
Land improvements	9,164,001	9,164,001
Buildings and improvements	182,621,420	178,415,791
Equipment	65,000,301	61,195,726
Construction in progress	38,023	4,272,572
	259,816,059	256,040,404
Less accumulated depreciation and amortization	(124,030,072)	(114,354,329)
Total property, plant, and equipment, net	\$ 135,785,987	141,686,075

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Depreciation and amortization expenses related to property, plant, and equipment for the years ended June 30, 2014 and 2013 were \$9,826,824 and \$9,649,299, respectively. Interest expense of \$55,808 was capitalized in 2013. No amounts were capitalized during the year ended June 30, 2014.

(9) Lines of Credit

EVMS has a \$10,000,000 unsecured line-of-credit facility with a bank. Under the terms of the agreement, interest is payable at one-month London Interbank Offered Rate (LIBOR) plus 1.50% (1.65% at June 30, 2014). The line of credit was not utilized during the year ended June 30, 2014.

EVMS MG has a \$3,000,000 line-of-credit facility with a bank, which is subject to semiannual review and expires on January 31, 2015. This facility is collateralized by certain accounts receivable. Interest is payable at the 30-day LIBOR plus 1.50% (1.66% at June 30, 2013). No amounts were outstanding under the line of credit at June 30, 2014 or 2013.

(10) Long-Term Debt

At June 30, 2014 and 2013, long-term debt consisted of bonds payable and related interest rate swap agreements as follows:

	2014	2013	
Bonds (property and equipment fund):			
General Revenue and Refunding Bonds, Series 1998	\$ 1,250,000	2,435,000	(A)
General Revenue Bonds, Series 1999	750,000	1,385,000	(B)
General Revenue Refunding Bonds, Series 2001	7,600,000	8,000,000	(C)
General Revenue Refunding Bonds, Series 2002	3,325,000	3,525,000	(D)
General Revenue Bonds, Series 2006	8,185,000	8,575,000	(E)
General Revenue Bonds, Series 2010	14,860,000	16,225,000	(F)
General Revenue Refunding Bonds, Series 2010	9,900,000	10,000,000	(G)
General Revenue Bonds, Series 2011	9,200,000	9,200,000	(H)
	55,070,000	59,345,000	
Interest rate swaps	2,242,653	2,482,760	(I)
Less current portion	(3,740,000)	(3,010,000)	
Noncurrent portion	\$ 53,572,653	58,817,760	

(A) On May 1, 1998, EVMS refunded the Series 1991B Bonds and issued an additional \$2,055,000 Series 1998 General Revenue and Refunding Bonds. The Series 1998 Bonds 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 Fourth Supplemental Indenture of Trust dated May 1, 1998. The Series 1998 Bonds, maturing on November 15, 2014, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed plus accrued interest on November 15, 2003, and each November 15 thereafter through 2014. In addition, the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

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Interest is payable semiannually at the rate of 4.88% per annum on each November 15 and May 15, and the entire principal balance is due on November 15, 2014. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates	Principal amount
2014	\$ 1,250,000

- (B) On May 1, 1999, EVMS issued \$5,750,000 Series 1999 General Revenue Bonds. The Series 1999 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 Fifth Supplemental Indenture of Trust dated May 1, 1999. The Series 1999 Bonds, maturing on November 15, 2014, 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, 2004, and each November 15 thereafter through 2014. In addition, the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

Interest is payable semiannually at the rate of 4.60% per annum on each November 15 and May 15, and the entire principal balance is due on November 15, 2014. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates	Principal amount
2014	\$ 750,000

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

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Interest is payable semiannually at a floating rate per annum equal to 64% of 30-day LIBOR plus 50 basis points (0.60% and 0.62% as of June 30, 2014 and 2013, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2018. Mandatory sinking fund payments will be due annually on November 15 as follows:

<u>Maturity dates</u>	<u>Principal amount</u>	<u>Maturity dates</u>	<u>Principal amount</u>	<u>Maturity dates</u>	<u>Principal amount</u>
2014	\$ 800,000	2016	\$ 1,870,000	2018	\$ 1,200,000
2015	1,665,000	2017	2,065,000		

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

Interest is payable semiannually at a floating rate per annum equal to 64% of 30-day LIBOR plus 50 basis points (0.60% and 0.62% as of June 30, 2014 and 2013, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2018. Mandatory sinking fund payments will be due annually on November 15 as follows:

<u>Maturity dates</u>	<u>Principal amount</u>	<u>Maturity dates</u>	<u>Principal amount</u>	<u>Maturity dates</u>	<u>Principal amount</u>
2014	\$ 180,000	2016	\$ 930,000	2018	\$ 645,000
2015	835,000	2017	735,000		

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

On October 17, 2011, EVMS modified the Series 2006 General Revenue Bonds, in accordance with the Twelfth Supplemental Indenture of Trust, effective November 1, 2011, to reduce the current

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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 semiannually on each May 15 and November 15 at a rate of 2.95% per annum until the reset date of November 15, 2021. Effective November 15, 2021, the interest rate per annum will reset based on the 10-year average of the 7-year U.S. Treasury bond plus 30 basis points (2.83% and 3.48% as of June 30, 2014 and 2013, respectively). The entire principal balance is due on November 15, 2028. Mandatory sinking fund payments will be due annually on November 15 as follows:

<u>Maturity dates</u>	<u>Principal amount</u>	<u>Maturity dates</u>	<u>Principal amount</u>	<u>Maturity dates</u>	<u>Principal amount</u>
2014	\$ 410,000	2019	500,000	2024	\$ 605,000
2015	425,000	2020	520,000	2025	630,000
2016	440,000	2021	540,000	2026	650,000
2017	460,000	2022	560,000	2027	680,000
2018	475,000	2023	580,000	2028	710,000

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

Interest is payable semiannually at a floating rate per annum equal to 67% of 30-day LIBOR plus 184 basis points (1.94% and 1.97% as of June 30, 2014 and 2013, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2032.

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EVMS made early redemption payments of \$1.3 million and \$2.8 million on the Series 2010B Bonds during the year ended June 30, 2014 and 2013, respectively, reducing the total principal to \$14.9 million as of June 30, 2014. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates	Principal amount	Maturity dates	Principal amount	Maturity dates	Principal amount
2014	\$ 150,000	2020	\$ 1,250,000	2026	\$ 1,250,000
2015	250,000	2021	1,250,000	2027	1,250,000
2016	250,000	2022	1,250,000	2028	1,250,000
2017	250,000	2023	1,250,000	2029	210,000
2018	1,250,000	2024	1,250,000		
2019	1,250,000	2025	1,250,000		

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

Interest is payable semiannually at a floating rate per annum equal to 67% of 30-day LIBOR plus 169 basis points (1.79% and 1.85% as of June 30, 2014 and 2013, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2032. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates	Principal amount	Maturity dates	Principal amount	Maturity dates	Principal amount
2014	\$ 100,000	2021	\$ 490,000	2028	\$ 660,000
2015	315,000	2022	510,000	2029	690,000
2016	230,000	2023	530,000	2030	720,000
2017	400,000	2024	555,000	2031	755,000
2018	430,000	2025	580,000	2032	785,000
2019	445,000	2026	605,000		
2020	465,000	2027	635,000		

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

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redeemed plus accrued interest on May 15, 2012, and each May 15 and November 15 thereafter through 2032.

Interest is payable semiannually at a floating rate per annum equal to 65% of 30-day LIBOR plus 170 basis points (1.80% and 1.83% as of June 30, 2014 and 2013, respectively) on each November 15 and May 15, and the entire principal balance is due on November 15, 2032. Mandatory sinking fund payments will be due annually on November 15 as follows:

Maturity dates	Principal amount	Maturity dates	Principal amount	Maturity dates	Principal amount
2014	\$ 100,000	2021	\$ 500,000	2028	\$ 650,000
2015	100,000	2022	500,000	2029	650,000
2016	100,000	2023	550,000	2030	700,000
2017	100,000	2024	550,000	2031	700,000
2018	500,000	2025	550,000	2032	750,000
2019	500,000	2026	600,000		
2020	500,000	2027	600,000		

- (I) The Series 2001 and 2002 General Revenue Refunding Bonds bear interest at 64% of 30-day LIBOR plus 50 basis points (0.60% and 0.62% as of June 30, 2014 and 2013, respectively). To minimize the effect of changes in LIBOR, EVMS entered into an interest swap contract with a current notional principal amount of \$11,102,100 under which it pays interest at 5.635% and receives interest at 64% of 30-day LIBOR plus 50 basis points. The swap will expire on November 15, 2018. The cumulative unrealized loss of \$1,234,315 and \$1,760,937 as of June 30, 2014 and 2013, respectively, from the changes in the swap contract's fair value is included in long-term debt.

The Series 2010 General Revenue Refunding Bonds bear interest at 67% of 30-day LIBOR plus 169 basis points (1.79% and 1.82% as of June 30, 2014 and 2013, respectively). To minimize the effect of changes in LIBOR, EVMS entered into an interest swap contract with a current notional principal amount of \$9,900,000 under which it pays interest at 3.31% and receives interest at 67% of 30-day LIBOR plus 169 basis points. The swap will expire on November 15, 2032. The cumulative unrealized loss of \$398,958 and \$307,127 as of June 30, 2014 and 2013, respectively, from the changes in the swap contract's fair value is included in long-term debt.

The Series 2010 General Revenue Bonds bear interest at 67% of 30-day LIBOR plus 184 basis points (1.94% and 1.97% as of June 30, 2014 and 2013, respectively). To minimize the effect of changes in LIBOR, EVMS entered into an interest swap contract with a current notional principal amount of \$12,900,000 under which it pays interest at 3.28% and receives interest at 67% of 30-day LIBOR plus 184 basis points. The swap will expire on November 15, 2027. The cumulative unrealized loss of \$503,300 and \$421,748 as of June 30, 2014 and 2013, respectively, from the changes in the swap contracts' fair value is included in long-term debt.

The Series 2011 General Revenue Bonds bear interest at 65% of 30-day LIBOR plus 170 basis points (1.80% and 1.83% as of June 30, 2014 and 2013, respectively). To minimize the effect of

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changes in LIBOR, EVMS entered into an interest swap contract with a current notional principal amount of \$9,200,000 under which it pays interest at 2.94% and receives interest at 65% of 30-day LIBOR plus 170 basis points. The swap will expire on November 15, 2032. The cumulative unrealized loss of \$106,080 and the cumulative unrealized gain of \$7,052 as of June 20, 2014 and 2013, respectively, from the changes in the swap contract's fair value are included in long-term debt.

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

- (J) Pursuant to the terms of the Indenture of Trust, Series 1998, Series 1999, Series 2001, Series 2002, Series 2006 Bonds and Series 2010 (described above) are equally and ratably secured by an unconditional guaranty of EVMS Foundation and by security interest in revenues granted by EVMS.

Pursuant to the terms of the Indentures of Trust, EVMS is required to comply with certain covenants regarding payment of bonds, pledging of revenues, the operations of EVMS, insurance, accounting and financial statements, limitations on liens and the incurrence of additional indebtedness, and the sale, lease, or other disposition of assets. It is management's opinion that these requirements have been met for the fiscal years ended June 30, 2014 and 2013.

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

2015	\$ 3,740,000
2016	3,590,000
2017	3,820,000
2018	4,010,000
2019	4,500,000
Thereafter	<u>35,410,000</u>
	<u>\$ 55,070,000</u>

(11) Leases

EVMS has several noncancelable operating leases, primarily for buildings and medical and office equipment, which expire over the next six years. These leases generally contain renewal options for periods ranging from one to five years. Total rental expense for operating leases for the years ended June 30, 2014 and 2013 amounted to \$2,294,021 and \$2,426,160, respectively.

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Notes to Consolidated Financial Statements

June 30, 2014

(with summarized financial information as of June 30, 2013)

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2014 were as follows:

Year ending June 30:		
2015	\$	1,998,583
2016		1,720,169
2017		1,619,282
2018		1,476,326
2019		783,166
Thereafter		<u>1,204,591</u>
Total minimum operating lease payments	\$	<u><u>8,802,117</u></u>

(12) Grant Deposits

At June 30, 2014 and 2013, grant deposits for sponsored research consisted of the following:

	2014	2013
Federal grants	\$ —	140,676
State and local grants	336,023	139,572
Private gifts and grants:		
Bill and Melinda Gates Foundation	4,901,200	3,988,254
Consortium for Industrial Collaboration in Contraceptive Research (CICCR)	38,731	181,171
Others	<u>1,481,697</u>	<u>1,765,725</u>
Total private gifts and grants	<u>6,421,628</u>	<u>5,935,150</u>
Total grant deposits	<u>\$ 6,757,651</u>	<u>6,215,398</u>

Grant deposits represent amounts received for various grants and contracts that have not been expended at June 30, 2014 and 2013. 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, 2014 and 2013 was \$825,463 and \$806,702, respectively.

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Notes to Consolidated Financial Statements

June 30, 2014

(with summarized financial information as of June 30, 2013)

(14) State Appropriations

EVMS receives state appropriations funds annually. A summary of the programs supported for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Contribution for capital projects	\$ 711,899	3,730,116
Education	16,795,854	16,795,854
Indigent care	6,158,108	6,158,108
Family medicine	722,146	722,146
Medical modeling and simulation	544,036	418,399
Virginia Area Health Education Center	63,146	63,146
	<u>\$ 24,995,189</u>	<u>27,887,769</u>

(15) Expenses by Object Class

Expenses by object class for the years ended June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 118,460,018	111,671,126
Contractual services	36,823,543	38,200,883
General expenses	25,514,041	25,519,855
Fringe benefits	21,977,300	20,227,152
Operating supplies and minor equipment	9,352,451	8,952,180
Depreciation and amortization	9,989,779	9,822,708
Interest expense	2,131,343	2,248,322
Indigent care – institutional component	80,000	80,000
Total expenses	<u>\$ 224,328,475</u>	<u>216,722,226</u>

(16) Retirement Plan

Substantially all of the salaried personnel of EVMS are eligible after specified periods of employment to participate in qualified tax-deferred annuity plans under Section 403(b) and Section 401(a) of the IRC. EVMS' policy is to fund the pension cost accrued. EVMS contributions to this program were \$4,693,839 and \$4,489,658 for the fiscal years ended June 30, 2014 and 2013, 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.

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Notes to Consolidated Financial Statements

June 30, 2014

(with summarized financial information as of June 30, 2013)

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

(18) FICA Taxes

In March 2010, the Internal Revenue Service (IRS) announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act (FICA) taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college, or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for the employer portion of the FICA taxes paid, plus statutory interest, and the employees' portion, filed on behalf of the employees.

EVMS filed and received a FICA claim for calendar years 1996 - 2003 on behalf of local healthcare providers that participated in EVMS' GME program during those years and former medical residents that elected for EVMS to file a claim on their behalf. As of June 30, 2014 and 2013, there is \$438,669 and \$9,831,752, respectively, reported as accrued expenses and other liabilities related to this claim in the accompanying consolidated balance sheet.

(19) Subsequent Events

EVMS has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2014 consolidated financial statements through October 31, 2014, the date the consolidated financial statements were issued.



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

The Board of Visitors
Eastern Virginia Medical School:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Eastern Virginia Medical School and Affiliated Organization (EVMS), which comprise the consolidated balance sheet as of June 30, 2014, 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 31, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EVMS' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an



opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 31, 2014



**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Audit of Federal Awards Performed in
Accordance with U.S. Office of Management
and Budget Circular A-133

June 30, 2014

(With Independent Auditors' Reports Thereon)

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

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**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor agency/program title	Pass-through agency	Pass-through entity identifying number	CFDA/Grant number	Grant expenditures	ARRA	Loan disbursements
Student financial assistance programs:						
Department of Education:						
Cash assistance – Federal Perkins Loan Program (note 4)				84,033	\$	731,998
Noncash assistance – Federal Direct Student Loans Program (note 2)				84,268	—	37,759,251
Department of Health and Human Services:						
Health Professions Student Loans (note 4):						
Primary Care Loans				93,342	—	136,980
Loans for Disadvantaged Students				93,342	—	198,700
Subtotal 93.342				—	—	335,680
Total student financial assistance programs				36,600	—	38,826,929
Research and development programs:						
Department of Commerce:						
Economic Development Administration – Economic Adjustment Assistance	University of Virginia	GG11598-142515	11.307	63,816	—	—
Economic Development Administration – Economic Adjustment Assistance	University of Virginia	GG11598-144968	11.307	15,266	—	—
Subtotal 11.307				79,082	—	—
Department of Defense:						
U.S. Army Medical Command – Military Medical Research and Development						
U.S. Army Medical Command – Military Medical Research and Development	Hampton University	W81XWH-09-1-0111	12.420	134,978	—	—
Subtotal 12.420				9,542	—	—
				144,520	—	—
Department of Health and Human Services:						
Centers for Disease Control and Prevention – Project Grants and Cooperative Agreements for Tuberculosis Control Programs						
National Institutes of Health – Mental Health Research Grants	Commonwealth of Virginia	EVM-TB611BH93117-5	93.116	18,377	—	—
Centers for Disease Control and Prevention – Immunization Grants	Commonwealth of Virginia	DOJ-607-43269-EVMS-09/10	93.242	204,349	—	—
National Institutes of Health – Research Infrastructure Programs			93.268	297	—	—
National Institutes of Health – Cancer Cause and Prevention Research			93.351	12,346	—	—
			93.393	262,593	—	—
National Institutes of Health – Cancer Treatment Research	American College of Radiology	U10 CA21661	93.395	35,485	—	—
National Institutes of Health – Cancer Treatment Research	National Childhood Cancer Foundation	U10CA98543-02	93.395	29,842	—	—
Subtotal 93.395				65,327	—	—
National Institutes of Health – Cancer Biology Research			93.396	356,230	—	—
National Institutes of Health – Cancer Biology Research	Georgetown University	RX-4444-022-EVMS	93.396	51,516	—	—
National Institutes of Health – Cancer Biology Research	Incogen, Inc.	2R44CA125807-02	93.396	4,563	—	—
Subtotal 93.396				412,309	—	—
National Institutes of Health – Trans NIH Recovery Act Research Support			93.701	—	745	—
National Institutes of Health – Cardiovascular Diseases Research			93.837	1,110,078	—	—
National Institutes of Health – Cardiovascular Diseases Research	Duke University	1U01HL69015-01	93.837	1,326	—	—
National Institutes of Health – Cardiovascular Diseases Research	Old Dominion University Research Foundation	13-159-311871	93.837	8,999	—	—
Subtotal 93.837				1,120,403	—	—
National Institutes of Health – Blood Diseases and Resources Research	Virginia Commonwealth University	PD301964-SC102849	93.839	274,314	—	—
National Institutes of Health – Diabetes, Digestive, and Kidney Diseases Extramural Research			93.847	478,470	—	—
National Institutes of Health – Diabetes, Digestive, and Kidney Diseases Extramural Research			93.847	1,772	—	—
National Institutes of Health – Diabetes, Digestive, and Kidney Diseases Extramural Research	Louisiana State University	1R01DK081147-01A1S02	93.847	1,772	—	—
National Institutes of Health – Diabetes, Digestive, and Kidney Diseases Extramural Research	University of Iowa	W000514975	93.847	117,290	—	—
National Institutes of Health – Diabetes, Digestive, and Kidney Diseases Extramural Research	University of Maryland	5R01DK093950	93.847	229,157	—	—
National Institutes of Health – Diabetes, Digestive, and Kidney Diseases Extramural Research	University of South Florida	HHSN267200800019C	93.847	9	—	—
Subtotal 93.847				826,698	—	—
National Institutes of Health – Extramural Research Programs in the Neurosciences and Neurological Disorders			93.853	48,623	—	—
National Institutes of Health – Extramural Research Programs in the Neurosciences and Neurological Disorders	Albert Einstein College of Medicine	310723	93.853	52,716	—	—
National Institutes of Health – Extramural Research Programs in the Neurosciences and Neurological Disorders	Children’s Hospital Medical Center, Cincinnati, Ohio	5U01NS045911	93.853	33,107	—	—
National Institutes of Health – Extramural Research Programs in the Neurosciences and Neurological Disorders	Children’s Hospital Medical Center, Cincinnati, Ohio	5U01NS076788-02	93.853	34,207	—	—

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor agency/program title	Pass-through agency	Pass-through entity identifying number	CFDA/Grant number	Grant expenditures	ARRA	Loan disbursements
National Institutes of Health – Extramural Research Programs in the Neurosciences and Neurological Disorders	Montefiore Medical Center	2R01 NS043209	93.853	\$ 7,373	—	—
Subtotal 93.853				176,026	—	—
National Institutes of Health – Allergy, Immunology and Transplantation Research			93.855	214,146	—	—
National Institutes of Health – Allergy, Immunology and Transplantation Research	Magee – Women’s Health Corporation	1112	93.855	62,378	—	—
National Institutes of Health – Allergy, Immunology and Transplantation Research	Magee – Women’s Health Corporation	4476	93.855	3,426	—	—
National Institutes of Health – Allergy, Immunology and Transplantation Research	Magee – Women’s Health Corporation	5586	93.855	15,852	—	—
National Institutes of Health – Allergy, Immunology and Transplantation Research	Magee – Women’s Health Corporation	7279	93.855	9,130	—	—
National Institutes of Health – Allergy, Immunology and Transplantation Research	Magee – Women’s Health Corporation	7284	93.855	48,894	—	—
National Institutes of Health – Allergy, Immunology and Transplantation Research	Magee – Women’s Health Corporation	7292	93.855	54,654	—	—
National Institutes of Health – Allergy, Immunology and Transplantation Research	Magee – Women’s Health Corporation	CORE C U19	93.855	70,069	—	—
Subtotal 93.855				478,549	—	—
National Institutes of Health – Child Health and Human Development Extramural Research			93.865	587,475	—	—
National Institutes of Health – Child Health and Human Development Extramural Research	Family Health International	HD077888	93.865	29,786	—	—
Subtotal 93.865				617,261	—	—
National Institutes of Health – Aging Research			93.866	42,571	—	—
National Institutes of Health – Vision Research	Eyerx Research	10-LAC-03	93.867	3,203	—	—
National Institute of Child Health and Human Development – Contraceptive Clinical Trials			93.HHSN2750040382I	73,875	—	—
National Institute of Child Health and Human Development – Contraceptive Clinical Trials			93.HHSN275201300019I	180,751	—	—
National Institutes of Health – National Heart, Lung, and Blood Institute NHLBI/UMI-Randomized Eval of VAD Intervention (Revive-it)	University of Michigan	3002747537	93.HHSN268201100026C	2,948	—	—
Department of Transportation – National Highway Traffic Safety Administration	Transanalytics, LLC	DTNH22-09-D-00135	20.DTNH22-09-D-00135	32,857	—	—
Library of Congress – Vessel Hull Design Protection Service	Norfolk State University	F1040045	42.009	3,845	—	—
National Aeronautics and Space Administration – Exploration			43.003	470,699	—	—
Cross Agency Support	Norfolk State University	F1040053	43.009	5,582	—	—
National Science Foundation – Biological Sciences			47.074	14,975	—	—
US Agency for International Development: Foreign Assistance for Programs Overseas – Prh/Rtu-Conrad Proprietary Products Research & Development GPO-A-00-08-00005-00			98.001	20,925,643	—	—
Foreign Assistance for Programs Overseas – Prh/Rtu-Silcs & Tiv/Conrad AID-OAA-A-10-00068			98.001	941,644	—	—
Foreign Assistance for Programs Overseas – Prh/Rtu-Silcs & Tiv/Conrad AID-OAA-A-11-00064			98.001	94,917	—	—
Foreign Assistance for Programs Overseas – App for Aad 936-3090 AID-OAA-A-14-00010			98.001	207,033	—	—
Foreign Assistance for Programs Overseas – App for Aad 936-3090 AID-OAA-A-14-00011			98.001	814,540	—	—
Foreign Assistance for Programs Overseas – App for Aad 936-3090 AID-OAA-A-14-00005			98.001	54,073	—	—
Subtotal 98.001				23,037,850	—	—
Pharma Cokinetics of Depo-Subq Injections	Family Health International	FCO#890071.0344.0084	98.GPO-A-00-08-00001-00	7,867	—	—
Pharma Cokinetics of Depo-Subq Injections	Family Health International	0344.0102.890088	98.GPO-A-00-08-00001-00	2,533	—	—
Subtotal 98.GPO-A-00-08-00001-00				10,400	—	—
Tenofovir Research	Magee-Women’s Health Corporation	CMA08-304A	98.GPOA0050004100	24,256	—	—
Program for Appropriate Technology 06384 – CTA – PCT Off Campus	Program for Appropriate Technology in Health	AID.1659-11-00374953-CTA	98.AID-OAA-A-11-0051	200	—	—
Total research and development programs				28,596,463	745	—
Other grant programs:						
Department of Defense: Office of Economic Adjustment – Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	Commonwealth of Virginia MYMIC	VDEM-127-12-22-2011 W31P4Q-12-C-0037	12.607 12.910	83,499 2,179	—	—
Advanced Research Projects Agency – Research and Technology Development					—	—
Department of Education: Office of Innovation and Improvement – Fund for the Improvement of Education	Portsmouth Public Schools	O215S060117-07	84.215	—	804	—
Office of Postsecondary Education – Higher Education Institutional Aid	Hampton University	P031B100033-12A/T3-0005	84.031	2,719	—	—
Office of Postsecondary Education – Higher Education Institutional Aid	Hampton University	T30006/P031B100033-13	84.031	14,815	—	—
Subtotal 84.031				17,534	—	—

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor agency/program title	Pass-through agency	Pass-through entity identifying number	CFDA/Grant number	Grant expenditures	ARRA	Loan disbursements
Department of Health and Human Services:						
Centers For Medicare and Medicaid Services – Medical Assistance Program	Commonwealth of Virginia	705123249	93.778	\$ 41,733	—	—
National Institutes of Health – Research on Healthcare Costs, Quality and Outcomes	Old Dominion University Research Foundation	93.226	12-138-304941/1R18HS020386	56,504	—	—
National Institutes of Health – U.S. National Library of Medicine	University of Maryland	E8189 SR00002769	93.E819SR00002769	666	—	—
Health Resources and Services Administration Model State-Supported Area Health Education Centers	Virginia Commonwealth University	U77HP03047	93.107	59,169	—	—
Centers for Disease Control and Prevention – Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Commonwealth of Virginia	EVMTB611GY14	93.116	19,286	—	—
Centers for Disease Control and Prevention – Injury Prevention and Control Research and State and Community Based Programs			93.136	4,255	—	—
Health Resources and Services Administration – Advanced Education Nursing Grant Program	Old Dominion University Research Foundation	13-226-325631	93.247	12,051	—	—
Centers for Disease Control and Prevention – Centers for Disease Control and Prevention Investigations and Technical Assistance	Portsmouth Health District	7031332238	93.283	15,160	—	—
Centers for Disease Control and Prevention – Centers for Disease Control and Prevention Investigations and Technical Assistance	Commonwealth of Virginia	705092899	93.283	51,283	—	—
Centers for Disease Control and Prevention – Centers for Disease Control and Prevention Investigations and Technical Assistance	Commonwealth of Virginia	705DD82646	93.283	212,019	—	—
Subtotal 93.283				278,462	—	—
Office of the Secretary – National Community Centers of Excellence in Women’s Health	John Snow, Inc.	HHSP233201000669G	93.290	2,086	—	—
Health Resources and Services Administration – ARRA – Training in Primary Care Medicine and Dentistry Training and Enhancement			93.403	—	145,405	—
Health Resources and Services Administration – Affordable Care Act Public Health Training Centers Program			93.516	252,093	—	—
Centers for Disease Control and Prevention – Racial and Ethnic Approaches to Community Health Program	University of California	1916GRA234	93.738	91,048	—	—
National Institutes of Health – Child Health and Human Development Extramural Research			93.865	21,647	—	—
National Institutes of Health – Aging Research	University of Pittsburgh	002882 (123225)	93.866	2,593	—	—
Health Resources and Services Administration – Grants for Primary Care Training and Enhancement			93.884	748,305	—	—
Health Resources and Services Administration – HIV Emergency Relief Project Grants	City of Norfolk	Part A 11967	93.914	4,672	—	—
Health Resources and Services Administration – HIV Emergency Relief Project Grants	City of Norfolk	Part A 13800	93.914	1,495,325	—	—
Subtotal 93.914				1,499,997	—	—
Health Resources and Services Administration – HIV Care Formula Grants	Commonwealth of Virginia	C3ID DDP-611AU-45416-2013-EVMS	93.917	114,581	—	—
Health Resources and Services Administration – HIV Care Formula Grants	Commonwealth of Virginia	EVM-ARC611AU45416-1	93.917	84,322	—	—
Health Resources and Services Administration – HIV Care Formula Grants	Commonwealth of Virginia	VDH-433-CH-ARC-2014	93.917	1,246	—	—
Subtotal 93.917				3,195,471	—	—
Health Resources and Services Administration – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease			93.918	293,882	—	—
Health Resources and Services Administration – Healthy Start Initiative	Commonwealth of Virginia	705V02984	93.926	289,295	—	—
Centers for Disease Control and Prevention – HIV Prevention Activities Health Department Based	Commonwealth of Virginia	EVMCAPS611GY	93.940	50,781	—	—
Centers for Disease Control and Prevention – Assistance Programs for Chronic Disease Prevention and Control	National Association of Chronic Disease Directors	200811-4250 070 m011	93.945	4,478	—	—
Health Resources and Services Administration – Geriatric Education Centers	Virginia Commonwealth University	PT105864-SC102274	93.969	37,145	—	—
Centers for Disease Control and Prevention – Preventive Health and Health Services Block Grant	Commonwealth of Virginia	7038AA332123	93.991	1,036	—	—
Health Resources and Services Administration – Maternal and Child Health Services Block Grant to the States	Commonwealth of Virginia	4102	93.994	17,579	—	—
Department of Housing and Urban Development:						
Office of Healthy Homes and Lead Hazard Control Healthy Homes Demonstration Grants			14.901	14,762	—	—
Office of Healthy Homes and Lead Hazard Control – Asthma Interventions in Public and Assisted Multifamily Housing			14.914	121,032	—	—
Total other grant programs				4,223,246	146,209	—
Total federal awards, including noncash programs				\$ 32,856,309	146,954	38,826,929

See accompanying notes to schedule of expenditures of federal awards.

See accompanying Independent Auditors’ Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) Summary of Significant Accounting Policies

(a) Federal Awards

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal awards programs of Eastern Virginia Medical School and Affiliated Organization (EVMS or the School) for the year ended June 30, 2014. All federal awards received directly and indirectly from federal agencies are included in this Schedule. Although EVMS is required to match certain grants, as defined in the grants, no such matching has been included in this Schedule. Because the Schedule presents only a selected portion of the operations of EVMS, it is not intended to, and does not, present the consolidated financial position of EVMS as of June 30, 2014 or the changes in its net assets for the year then ended.

(b) Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting and is based on the School's policy of recording expenditures for a grant in the year incurred. In certain instances, refunds may be received by EVMS, which are not anticipated. Any refunds in excess of current year expenditures result in negative expenditures in the current year and are returned to the federal government. Expenditures for federal student financial assistance programs are recognized as incurred.

Expenditures for other federal awards are recognized as incurred using the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

(c) Subrecipients

Certain funds received under federal awards are paid to subrecipient organizations by EVMS and are included in the Schedule as follows:

Affordable Care Act Public Health Training Centers Program
(CFDA No. 93.516):

George Mason University	\$	33,562
Norfolk State University		15,284
Old Dominion University		4,648
University of Virginia		20,630
Virginia Polytechnic Institute		58,912
Virginia Public Health Association		43,120
		<hr/>
		176,156
		<hr/>

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Aging Research (CFDA No. 93.866) – ODU Research Foundation	\$	30,828
Blood Diseases and Resources Research (CFDA No. 93.839) – Children’s Hospital of the King’s Daughters		38,087
Training in Primary Care Medicine and Dentistry – ARRA (CFDA No. 93.403) – Children’s Hospital of the King’s Daughters		84,855
Child Health and Human Development Extramural Research (CFDA No. 93.865):		
Albert Einstein College of Medicine		18,577
UNC Lineberger		2,200
UNC Chapel Hill		17,400
Veterans Education and Research Association		85,570
		123,747
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation (CFDA No. 12.607) – ODU Research Foundation		15,055
Conrad (CFDA No. 98.001):		
Advances in Health		17,484
AIDS Vaccine Advocacy Coalition		79,848
Albert Einstein College of Medicine		119,661
Association Dominica Pro-Bienes		71,600
Brigham and Women’s Research Institute Foundation		26,908
California Family Health Council		36,454
Caprisa Doris Duke Medical Research		3,414,859
Columbia University		112,445
Indian Council of Medical Research		66,395
Magee Women’s Research Institute		200,231
Northwestern University		3,010
Trustees of Columbia University		28,094
Trustees of the University of Pennsylvania		46,538
Universitat Greifswald		25,000
University of Utah		88,161
University of North Carolina Chapel Hill		6,709
Veterans Education and Research Association		78,719
Wits Health Consortium (Pty) Limited		6,894,139
		11,316,255
Grants to Provide Outpatient Early Intervention Services with Respect to HIV (CFDA No. 93.918) Disease – EVMS Medical Group		293,882
HIV Emergency Relief Project Grants (CFDA No. 93.914) – EVMS Medical Group		1,324,531
	\$	13,403,396

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(2) Federal Direct Student Loans Program

During the year ended June 30, 2014, EVMS processed \$37,759,251 of new loans under the Federal Direct Student Loans Program (CFDA No. 84,268), which includes the Federal Unsubsidized Stafford Loan Program and the Federal Direct PLUS Loan Program.

EVMS is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loans Program; accordingly, these loans are not included in its consolidated financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of EVMS under the programs as of June 30, 2014.

(3) Relationship to the Consolidated Financial Statements

The 2014 federal award expenditures and disbursements are reported in the consolidated financial statements of EVMS as of and for the year ended June 30, 2014 as follows:

	Unrestricted net assets	Unrestricted net assets (loans disbursed)
Student financial assistance programs	\$ 36,600	1,067,678
Research and development programs	28,597,208	—
Other grants and contracts	4,369,455	—
	\$ 33,003,263	1,067,678

(4) Federal Perkins Loan Program and Health Professions Student Loans

The Federal Perkins Loan Program (FPL) and Health Professions Student Loans (HPSL) are administered directly by EVMS, and the balances and transactions relating to these programs are included in EVMS' consolidated financial statements. The balances of loans outstanding under these programs at June 30, 2014 were:

FPL	\$ 3,983,589
HPSL: Primary Care Loans	1,335,607
HPSL: Loans for Disadvantaged Students	528,394
	\$ 5,847,590

EVMS made loans under FPL of \$731,998 and under HPSL of \$136,980 and \$198,700 for Primary Care Loans and Loans for Disadvantaged Students, respectively, during the year ended June 30, 2014. No federal capital contributions to the FPL or HPSL programs were received during 2014.



KPMG LLP
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Norfolk, VA 23510

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

The Board of Visitors
Eastern Virginia Medical School:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Eastern Virginia Medical School and Affiliated Organization (EVMS), which comprise the consolidated balance sheet as of June 30, 2014, 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 31, 2014.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

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 31, 2014



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Independent Auditors' Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Visitors
Eastern Virginia Medical School:

Report on Compliance for the Major Federal Program

We have audited Eastern Virginia Medical School and Affiliated Organization's (EVMS') compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on EVMS' major federal program for the year ended June 30, 2014. EVMS' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

EVMS' consolidated financial statements include the operations of EVMS Medical Group, which received \$1,618,413 in federal awards. Our audit, described below, did not include the operations of EVMS Medical Group because those operations received a separate audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for EVMS' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about EVMS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of EVMS' compliance.

Opinion on the Major Federal Program

In our opinion, EVMS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.



Report on Internal Control over Compliance

Management of EVMS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered EVMS' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of EVMS' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of EVMS as of and for the year ended June 30, 2014, and have issued our report thereon dated October 31, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 31, 2014

**EASTERN VIRGINIA MEDICAL SCHOOL
AND AFFILIATED ORGANIZATION**

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

- (a) The type of report issued on the consolidated financial statements: **Unmodified opinion**

Significant deficiencies in internal control were disclosed by the audit of the consolidated financial statements: **None reported**

Material weaknesses: **None**

- (b) Noncompliance, which is material to the consolidated financial statements: **None**

- (c) Significant deficiencies in internal control over major programs: **None reported**

Material weaknesses: **None**

- (d) The type of report issued on compliance for major programs: **Unmodified opinion**

- (e) Any audit findings that are required to be reported under Section 0.510(a) of OMB Circular A-133: **None**

- (f) Major program: **Student Financial Assistance – various CFDA Nos.**

- (g) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,154,906**

- (h) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the consolidated Financial Statements Reported in Accordance with Government Auditing Standards: None

(3) Findings and Questioned Costs Related to Federal Awards: None