



**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Consolidated Financial Statements and Uniform Guidance Reports

Year Ended June 30, 2019

(With Independent Auditors' Report Thereon)

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

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KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

## **Independent Auditors' Report**

The Board of Visitors  
Eastern Virginia Medical School:

### *Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of Eastern Virginia Medical School and Affiliated Organization (EVMS), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, 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, 2019, results of activities, and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



#### *Report on Summarized Comparative Information*

We have previously audited EVMS' 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

#### *Emphasis of Matter*

As discussed in note 2(t) to the consolidated financial statements, EVMS adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019 on our consideration of EVMS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of EVMS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EVMS' internal control over financial reporting and compliance.

*KPMG LLP*

Norfolk, Virginia  
October 31, 2019

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Consolidated Balance Sheet

June 30, 2019

(With summarized financial information as of June 30, 2018)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets:		
Cash and cash equivalents	\$ 77,945,889	43,444,317
Restricted cash and investments	6,780,183	7,027,241
Operating investments	21,113,202	16,577,386
Accounts receivable, net	24,539,434	23,611,418
Accounts receivable from affiliate	382,991	771,962
Current portion of notes receivable from students	730,800	847,800
Prepaid expenses and other current assets	2,504,232	2,482,065
Total current assets	133,996,731	94,762,189
Property, plant, and equipment, net	146,705,843	125,455,913
Other long-term assets:		
Operating investments	16,063,700	19,554,649
Notes receivable from students	3,746,182	4,373,064
Interest in net assets of affiliate	128,081,411	105,900,342
Other long-term assets	3,892,971	3,790,349
Total other long-term assets	151,784,264	133,618,404
Total assets	\$ 432,486,838	353,836,506
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current liabilities:		
Current portion of long-term debt	\$ 1,945,000	4,500,000
Accounts payable – trade	11,745,932	8,890,151
Accrued compensation	8,109,769	5,445,571
Deferred income	5,647,702	5,826,240
Accrued expenses and other current liabilities	11,017,911	8,988,158
Total current liabilities	38,466,314	33,650,120
Long-term debt, excluding current portion and net of bond issuance costs	34,364,036	33,536,921
Other long-term liabilities:		
Grant deposits	3,019,292	2,633,439
Refundable federal student loans	4,030,610	4,417,445
Assets held for affiliate	928,199	910,855
Other long-term liabilities	3,986,134	2,769,365
Total other long-term liabilities	11,964,235	10,731,104
Total liabilities	84,794,585	77,918,145
Net assets:		
Net assets without donor restrictions		
Operating	8,377,770	8,130,983
EVMS reserves	65,582,782	42,938,756
Department reserves	52,774,577	49,452,932
Net investment in plant	28,510,973	23,064,945
Parking facility reserves	301,413	163,210
Total net assets without donor restrictions	155,547,515	123,750,826
Net assets with donor restrictions		
Revolving student loans	1,686,376	1,715,685
Program restricted	718,497	686,970
Net investment in plant	61,658,454	43,864,538
Interest in net assets of affiliate	128,081,411	105,900,342
Total net assets with donor restrictions	192,144,738	152,167,535
Total net assets	347,692,253	275,918,361
Commitments and contingencies		
Total liabilities and net assets	\$ 432,486,838	353,836,506

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Consolidated Statement of Activities

Year ended June 30, 2019

(With summarized financial information for the year ended June 30, 2018)

	Net assets without donor restrictions	Net assets with donor restrictions	Total	2018 total
Operating revenues and support:				
Tuition and fees, net	\$ 46,379,664	—	46,379,664	44,317,668
State appropriations	29,277,322	20,559,541	49,836,863	25,787,561
Municipal subsidies	1,386,108	—	1,386,108	1,382,004
Federal grants and contracts	23,002,741	—	23,002,741	24,872,597
State grants and contracts	930,891	—	930,891	1,069,240
Private grants, contracts, and gifts	3,734,201	—	3,734,201	3,674,473
EVMS Foundation endowment income and gifts	6,843,199	—	6,843,199	6,581,038
Patient care services, net	57,064,595	—	57,064,595	55,749,885
Contractual services of graduate school residents	37,010,340	—	37,010,340	35,468,208
Contractual services	94,956,673	—	94,956,673	35,352,026
Sales and services of auxiliary enterprises	7,106,272	—	7,106,272	6,713,644
Other sources	6,278,265	706,158	6,984,423	5,842,573
Interest and investment income	1,221,794	12,657	1,234,451	1,256,712
Released from restriction	3,482,222	(3,482,222)	—	—
Total operating revenues and support	318,674,287	17,796,134	336,470,421	248,067,629
Operating expenses:				
Undergraduate instruction	99,198,688	—	99,198,688	49,955,215
Graduate instruction	29,338,809	—	29,338,809	28,139,580
Research	25,557,860	—	25,557,860	26,707,390
Patient services	70,730,340	—	70,730,340	67,474,080
Academic support	9,964,639	—	9,964,639	8,885,361
Institutional support	23,390,257	—	23,390,257	20,272,745
Auxiliary services	21,235,549	—	21,235,549	20,557,546
Patient services support	7,763,569	—	7,763,569	7,926,780
Total operating expenses	287,179,711	—	287,179,711	229,918,697
Changes in net assets from operations	31,494,576	17,796,134	49,290,710	18,148,932
Nonoperating items:				
Unrealized gains (losses) from investments, net	1,529,794	—	1,529,794	(919,578)
Change in interest of net assets of affiliate	—	22,181,069	22,181,069	7,305,013
Change in fair value of interest rate swaps	(1,227,681)	—	(1,227,681)	1,145,990
Changes in net assets	31,796,689	39,977,203	71,773,892	25,680,357
Net assets at beginning of year	123,750,826	152,167,535	275,918,361	250,238,004
Net assets at end of year	\$ 155,547,515	192,144,738	347,692,253	275,918,361

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Consolidated Statement of Cash Flows

Year ended June 30, 2019

(With summarized financial information for the year ended June 30, 2018)

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Changes in net assets	\$ 71,773,892	25,680,357
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,386,553	10,248,539
Change in fair value of interest rate swaps	1,227,681	(1,145,990)
Net realized and unrealized (gains) losses on investments	(1,564,627)	786,056
Change in interest of net assets of affiliate	(22,181,069)	(7,305,013)
Net (gain) loss on sale of property, plant, and equipment	23,474	(230,211)
Provision for bad debts	16,405,457	14,221,057
Amortization of bond issuance costs	22,102	26,369
State appropriation for property, plant, and equipment	(23,786,087)	(1,369,021)
Changes in:		
Accounts receivable, net	(17,149,309)	(13,089,928)
Accounts receivable from affiliate	388,971	862,635
Prepaid expenses and other current assets	(22,167)	(396,901)
Other long-term assets	(2,400)	(2,396)
Accounts payable – trade	2,855,781	1,176,574
Accrued compensation	2,664,198	(1,758,224)
Deferred income	(178,538)	989,587
Accrued expenses and other current liabilities	2,029,753	(226,311)
Grant deposits	385,853	(726,083)
Assets held for affiliate	17,344	19,449
Other long-term liabilities	1,216,769	559,120
Net cash provided by operating activities	<u>43,513,631</u>	<u>28,319,665</u>
Cash flows from investing activities:		
Purchases of restricted cash and investments	(7,992,211)	(7,846,004)
Proceeds from sales and maturities of restricted cash and investments	8,239,269	6,327,216
Purchases of operating investments	(22,672,422)	(1,125,678)
Proceeds from sales and maturities of operating investments	23,192,182	5,712,055
Purchases of property, plant, and equipment	(30,728,847)	(14,239,649)
Proceeds from sale of property, plant, and equipment	68,890	379,805
Disbursements for notes receivable from students	(429,133)	(310,600)
Collections of notes receivable from students	988,851	1,173,250
Change in cash surrender value of life insurance	(100,222)	(123,348)
Net cash used in investing activities	<u>(29,433,643)</u>	<u>(10,052,953)</u>
Cash flows from financing activities:		
State appropriation for property, plant, and equipment	23,786,087	1,369,021
Proceeds from long-term borrowings	2,340,582	—
Payments for bond issuance costs	(68,250)	—
Principal payments on bonds	(5,250,000)	(4,100,000)
Refundable federal student loans	(386,835)	(1,182,326)
Net cash provided by (used in) financing activities	<u>20,421,584</u>	<u>(3,913,305)</u>
Net increase in cash and cash equivalents	34,501,572	14,353,407
Cash and cash equivalents at beginning of year	43,444,317	29,090,910
Cash and cash equivalents at end of year	<u>\$ 77,945,889</u>	<u>43,444,317</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 1,161,668	1,325,134
Purchases of property, plant, and equipment included in accounts payable – trade	3,771,722	589,914

See accompanying notes to consolidated financial statements.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Notes to Consolidated Financial Statements

June 30, 2019

(With summarized financial information as of June 30, 2018)

**(1) EVMS and Affiliated Organization**

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

EVMS Medical Group (EVMS MG) is a nonmember organization incorporated under the Virginia 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 of \$128,081,411 and \$105,900,342 as of June 30, 2019 and 2018, respectively, is presented as interest in net assets of affiliate within net assets with donor restrictions. Once the funds have met their donor-imposed restrictions and are remitted to EVMS, they are reported as net assets without donor restrictions. Changes in the interest of the net assets of EVMS Foundation are included in nonoperating items on the accompanying consolidated statement of activities. During the years ended December 31, 2019 and 2018, income from the EVMS Foundation of \$6,843,199 and \$6,581,038, 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.



**EASTERN VIRGINIA MEDICAL SCHOOL  
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Notes to Consolidated Financial Statements

June 30, 2019

(With summarized financial information as of June 30, 2018)

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

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

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

**(b) Research**

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

**(c) Patient Care**

Clinical care is provided through the following affiliates:

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

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

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

**EASTERN VIRGINIA MEDICAL SCHOOL  
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Notes to Consolidated Financial Statements

June 30, 2019

(With summarized financial information as of June 30, 2018)

**(2) Summary of Significant Accounting Policies**

**(a) *Basis of Presentation and Consolidation***

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

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

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

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

**EASTERN VIRGINIA MEDICAL SCHOOL  
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Notes to Consolidated Financial Statements

June 30, 2019

(With summarized financial information as of June 30, 2018)

Designated net assets at June 30 are summarized as follows:

	<u>2019</u>	<u>2018</u>
EVMS reserves:		
President and institutional development	\$ 51,362,074	27,199,217
Faculty development	6,441,006	2,043,995
Internal research	958,332	901,243
Strategic planning	6,094,676	10,651,593
Academic student information	726,694	2,142,708
Total EVMS reserves	<u>65,582,782</u>	<u>42,938,756</u>
Department reserves:		
Insurance and legal reserves	11,446,929	11,489,752
Faculty development	9,350,538	10,145,552
Internal research	7,896,591	4,405,804
President and institutional development	4,686,495	2,352,075
Chairman's fund	3,748,526	4,196,602
Facilities and equipment	3,598,088	3,147,451
Strategic planning	1,549,778	1,241,829
Resident education	1,508,383	1,511,045
Student fees	1,497,054	1,301,320
Other	2,392,001	1,550,093
Physician supplemental payment program – EVMS MG	2,040,450	2,460,983
Unallocated nonsalary physician compensation – EVMS MG	1,656,657	4,249,953
Operating reserve – EVMS MG	1,403,087	1,400,474
Total department reserves	<u>52,774,577</u>	<u>49,452,933</u>
Total designated net assets without donor restrictions	<u>\$ 118,357,359</u>	<u>92,391,689</u>

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with EVMS' consolidated financial statements as of and for the year ended June 30, 2018, 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.

**EASTERN VIRGINIA MEDICAL SCHOOL  
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Notes to Consolidated Financial Statements

June 30, 2019

(With summarized financial information as of June 30, 2018)

**(b) Cash and Cash Equivalents**

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

**(c) Restricted Cash and Investments**

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

**(d) Investments**

Investments are classified as trading and are reported on the consolidated balance sheet at fair value. Net realized gains and losses on investments are reflected in operating revenues and support in the accompanying consolidated statement of activities. Net unrealized gains and losses on investments are reflected in nonoperating items in the accompanying consolidated statement of activities. The current year gains and losses on investments have been recognized in the accompanying consolidated statement of activities as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations.

**(e) Patient Accounts Receivable**

Patient receivables are recorded net of allowances for contractual adjustments and uncollectible receivables. The allowance for doubtful accounts is EVMS MG's best estimate of the amount of probable credit losses in its existing receivables. EVMS MG determines the allowance based on historical write-off experience and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, EVMS MG analyzes contractually due amounts and provides an allowance for doubtful accounts and provision for bad debts, if necessary. For receivables associated to self-pay patients, EVMS MG records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay a portion of their bill for which they are financially responsible. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. EVMS MG does not have any off-balance-sheet credit exposure related to its customers.

**(f) Property, Plant, and Equipment**

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

**EASTERN VIRGINIA MEDICAL SCHOOL  
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Notes to Consolidated Financial Statements

June 30, 2019

(With summarized financial information as of June 30, 2018)

The estimated useful lives are as follows:

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

**(g) Other Long-Term Assets**

Other long-term assets in the accompanying consolidated balance sheet are primarily comprised of cash surrender value of life insurance policies held by EVMS MG.

EVMS MG is the owner of two insurance policies for current and retired faculty of EVMS, where EVMS MG is the beneficiary. These policies are recorded at their net cash surrender values, as reported by the issuing insurance company, whose Standard & Poor's financial strength rating is AA+. The net cash surrender values totaled \$3,763,913 and \$3,663,691 as of June 30, 2019 and 2018, respectively.

The cash surrender value of life insurance is valued under Level 2 of the fair value hierarchy at June 30, 2019 and 2018. The cash surrender value of life insurance was determined by the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, cash values for paid-up additions, and dividend accumulations. The cash surrender value represents the guaranteed value EVMS MG would receive upon surrender of these policies held on key employees as of June 30, 2019.

**(h) Refundable Federal Student Loans**

Funds provided by the U.S. government under the Federal Perkins and Health Professions Student Loan Programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are reported as liabilities in the accompanying consolidated balance sheet. Due to the dissolution of the Perkins Loan program, no new Perkins Loans were disbursed during the year ended June 30, 2019.

**(i) Tuition and Fees, Net**

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

**(j) Patient Care Services, Net**

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

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

**(k) Charity Care**

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

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

	<u>2019</u>	<u>2018</u>
Charges foregone, based on established rates	\$ 1,041,775	1,371,152
Estimated costs incurred	566,755	791,149

**(l) 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.

**(m) Derivative Instruments**

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

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**(n) Concentration of Credit Risk**

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

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

**(o) Long-Lived Assets**

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, EVMS first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. There was no impairment recorded in fiscal year 2019 or 2018.

**(p) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful life of fixed assets, allowance for doubtful accounts, the valuation of derivatives, and investments.

**(q) Income Taxes**

EVMS is exempt from income taxes under Section 501(a) of the IRC as an organization described in Section 501(c)(3). Accordingly, no provision for income taxes is made in the consolidated financial statements. As of June 30, 2019 and 2018, there were no uncertain tax positions.

**(r) Release from Restriction**

EVMS receives restricted revenue from the Commonwealth of Virginia to fund the construction and purchase of certain real property during the years ended June 30, 2009–2019. As a part of the agreement, EVMS is required to fund a percentage of the cost of the projects. EVMS' share of the cost is funded through fundraising and the issuance of long-term debt. The restriction on the funds received from the Commonwealth of Virginia is being released over the life of the debt EVMS issued to fund the project, in accordance with the donor stipulations specified within the agreement.

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**(s) Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for EVMS as of July 1, 2019. Early adoption is permitted. EVMS is currently evaluating the impact on the consolidated financial statements and the options of adopting using either the retrospective or cumulative effect transition method.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, intended to improve financial reporting about leasing transactions. The new lease standard requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting. The guidance also eliminates today's real estate-specific provisions and changes the sale and leaseback accounting model for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The standard is effective for EVMS as of July 1, 2020. Early adoption is permitted. EVMS is currently evaluating the impact of adoption of the new lease standard on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies whether an entity should account for a grant, or similar transaction, as a contribution or as an exchange transaction. The standard is effective for EVMS as of July 1, 2019. Early adoption is permitted. EVMS is currently evaluating the impact of adoption on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, amends, and adds disclosure requirements for fair value measurements. The standard is effective for EVMS as of July 1, 2020. Early adoption is permitted. EVMS is currently evaluating the impact of adoption on the consolidated financial statements.

**(t) Recently Adopted Accounting Standard**

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; requires all not-for-profit entities (NFPs) to present expenses by their functional and natural classifications in one location in the financial statements; and requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash



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needs within one year of the balance sheet date. EVMS adopted the ASU effective July 1, 2018, and applied the changes retrospectively.

**(u) Prior Period Immaterial Correction of Errors**

EVMS did not record certain net assets when accounting for its interest in net assets of EVMS Foundation and EVMS did not eliminate certain interdepartmental operating revenues and support and operating expenses in the prior period. These immaterial errors were corrected retrospectively in the periods presented and resulted in an increase in interest in net assets of affiliate of \$29,572,264 in long-term assets and a corresponding increase in net assets with donor restrictions (previously temporarily restricted net assets) as presented on the consolidated balance sheet as of June 30, 2018. The change in interest in net assets of affiliate, which is presented within nonoperating items on the consolidated statement of activities, decreased by \$318,617 for the year ended June 30, 2018. The elimination of certain interdepartmental transfers resulted in a decrease of \$7,685,370 in total operating revenues and support and a corresponding decrease in total operating expenses for the year ended June 30, 2018.

**(v) Subsequent Events**

EVMS has evaluated subsequent events from the consolidated balance sheet date through October 31, 2019, the date at which the consolidated financial statements were available to be issued, and determined there are no items to disclose.

**(3) Cash and Cash Equivalents**

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

	<u>2019</u>	<u>2018</u>
EVMS	\$ 76,813,101	42,688,617
EVMS MG	1,132,788	755,700
	<u>\$ 77,945,889</u>	<u>43,444,317</u>

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

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

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 1,168,203	734,498
Equity securities	428,221	491,157
Certificates of deposit	4,808,603	4,513,081
Mutual fund – fixed income	4,239,413	4,121,280
Corporate debt	10,694,778	10,384,302
Asset-backed securities	326,579	346,717
U.S. government securities	13,674,468	14,295,432
Equity method investment	1,295,331	133,527
Cash reserve fund	<u>541,306</u>	<u>1,112,041</u>
Total operating investments	37,176,902	36,132,035
Less amounts available for current obligations	<u>(21,113,202)</u>	<u>(16,577,386)</u>
Long-term operating investments	<u>\$ 16,063,700</u>	<u>19,554,649</u>

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

	<u>2019</u>	<u>2018</u>
Restricted for parking garage operations – cash	\$ 1,835,445	675,772
Restricted for student loans – money market funds	2,111,541	2,895,847
Restricted for cash balance pension plan – mutual funds	1,021,160	725,060
Restricted for interest, debt retirement, and construction per trust indentures:		
General Revenue Refunding Bonds, Series 2001:		
Interest fund – money market funds	—	13,938
Principal fund – money market funds	—	702,741
Total Bonds, Series 2001	—	716,679
General Revenue Refunding Bonds, Series 2002:		
Interest fund – money market funds	—	4,936
Principal fund – money market funds	—	377,649
Total Bonds, Series 2002	—	382,585
General Revenue Bonds, Series 2006:		
Interest fund – money market funds	15,097	15,897
Principal fund – money market funds	294,728	278,097
Total Bonds, Series 2006	309,825	293,994
General Revenue Refunding Bonds, Series 2010:		
Interest fund – money market funds	50,180	26,113
Principal fund – money market funds	260,857	251,520
Total Bonds, Series 2010	311,037	277,633
General Revenue Bonds, Series 2010:		
Capitalized interest fund – money market funds	—	11
Interest fund – money market funds	30,187	19,865
Principal fund – money market funds	407,175	730,981
Total Bonds, Series 2010	437,362	750,857
General Revenue Bonds, Series 2011:		
Interest fund – money market funds	29,276	17,420
Principal fund – money market funds	293,107	292,393

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	<b>2019</b>	<b>2018</b>
Capitalized interest fund – money market funds	\$ —	1
Total Bonds, Series 2011	322,383	309,814
General Revenue Bonds, Series 2018:		
Interest fund – money market funds	2,714	—
Capitalized interest fund – money market funds	428,716	—
Total Bonds, Series 2018	431,430	—
Total restricted for interest, debt retirement, and construction per trust indentures	1,812,037	2,731,562
Total restricted cash and investments	\$ 6,780,183	7,028,241

**(5) Accounts Receivable, Net**

At June 30, accounts receivable comprised the following:

	<b>2019</b>	<b>2018</b>
Gross patient accounts receivable	\$ 20,577,219	22,059,942
Less contractual allowances	(6,282,511)	(6,504,146)
Less allowance for doubtful accounts	(5,469,662)	(5,618,249)
Patient accounts receivable, net	8,825,046	9,937,547
Sponsored programs receivables:		
Grants and contracts – federal	5,585,604	7,011,521
Grants and contracts – private	835,499	488,052
Grants and contracts – state	147,348	269,065
Total sponsored programs receivables	6,568,451	7,768,638
Local hospitals, net	5,113,807	3,252,807
Parking	90,914	99,205
U.S. Department of Education	843,563	1,002,587
Tuition receivable, net	2,205,241	818,194
Other, net	892,412	732,440
Total accounts receivable, net	\$ 24,539,434	23,611,418

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

	<u>2019</u>	<u>2018</u>
Beginning balance as of July 1	\$ 5,618,249	4,827,053
Provision for bad debts, net of recoveries	16,221,293	14,080,968
Less write-offs	<u>(16,369,880)</u>	<u>(13,289,772)</u>
Ending balance as of June 30	<u>\$ 5,469,662</u>	<u>5,618,249</u>

**(6) Accounts Receivable from Affiliate**

At June 30, 2019 and 2018, accounts receivable from affiliate were due from the EVMS Foundation in the amount of \$382,991 and \$771,962, respectively. This receivable is secured by the EVMS Foundation's investments.

**(7) Fair Value Measurements**

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

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

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

	<b>Total as of June 30, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 85,414,421	85,414,421	—	—
Mutual funds – fixed income	4,239,413	4,239,413	—	—
Mutual funds – large cap	1,021,160	1,021,160	—	—
Equity securities	428,221	428,221	—	—
U.S. government securities	13,674,468	—	13,674,468	—
Corporate debt	10,694,778	—	10,694,778	—
Asset-backed securities	326,579	—	326,579	—
Certificates of deposit	4,808,603	—	4,808,603	—
Beneficial interest in net assets of affiliate	128,081,411	—	—	128,081,411
Total	<u>\$ 248,689,054</u>	<u>91,103,215</u>	<u>29,504,428</u>	<u>128,081,411</u>
<b>Liability:</b>				
Interest rate swaps	\$ (1,591,672)	—	(1,591,672)	—
	<b>Total as of June 30, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 51,593,037	51,593,037	—	—
Mutual funds – fixed income	4,121,280	4,121,280	—	—
Mutual funds – large cap	725,060	725,060	—	—
Equity securities	491,157	491,157	—	—
U.S. government securities	14,295,432	—	14,295,432	—
Corporate debt	10,384,302	—	10,384,302	—
Asset-backed securities	346,717	—	346,717	—
Certificates of deposit	4,513,081	—	4,513,081	—
Beneficial interest in net assets of affiliate	105,900,342	—	—	105,900,342
Total	<u>\$ 192,370,408</u>	<u>56,930,534</u>	<u>29,539,532</u>	<u>105,900,342</u>
<b>Liability:</b>				
Interest rate swaps	\$ (363,991)	—	(363,991)	—

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

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

EVMS' accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the year ended June 30, 2019 or 2018.

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

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

	<u>2019</u>	<u>2018</u>
Land	\$ 2,969,342	2,992,314
Land improvements	9,320,940	9,320,940
Buildings and improvements	191,961,029	187,480,589
Equipment	78,003,220	75,299,117
Construction in progress	32,279,521	9,834,563
	<u>314,534,052</u>	<u>284,927,523</u>
Less accumulated depreciation and amortization	<u>(167,828,209)</u>	<u>(159,471,610)</u>
Total property, plant, and equipment, net	<u>\$ 146,705,843</u>	<u>125,455,913</u>

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Depreciation and amortization expenses related to property, plant, and equipment for the years ended June 30, 2019 and 2018 were \$9,386,553 and \$10,248,539, respectively.

**(9) Lines of Credit**

EVMS has a \$10,000,000 unsecured line of credit facility with a bank. Under the terms of the agreement, interest is payable at one-month LIBOR plus 1.50% (3.90% at June 30, 2019). The line of credit was not utilized during the year ended June 30, 2019 and expires on January 9, 2020. EVMS plans to renew the line of credit in fiscal year 2020.

EVMS MG has a \$3,000,000 line of credit facility with a bank, which is subject to semiannual review and expires on May 30, 2020. This facility is collateralized by certain accounts receivable. Interest is payable at the one-month LIBOR plus 1.50% (3.90% at June 30, 2019). No amounts were outstanding under the line of credit at June 30, 2019 or 2018.

**(10) Long-Term Debt**

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

	<u>2019</u>	<u>2018</u>	
Bonds (property and equipment fund):			
General Revenue Refunding Bonds, Series 2001	\$ —	1,200,000	
General Revenue Refunding Bonds, Series 2002	—	645,000	
General Revenue Bonds, Series 2006	5,975,000	6,450,000	(A)
General Revenue Bonds, Series 2010	10,000,000	12,000,000	(B)
General Revenue Refunding Bonds, Series 2010	8,425,000	8,855,000	(C)
General Revenue Bonds, Series 2011	8,300,000	8,800,000	(D)
General Revenue Bonds, Series 2018	2,340,582	—	(E)
	<u>35,040,582</u>	<u>37,950,000</u>	
Interest rate swaps	1,591,672	363,991	(F)
Less bond issuance costs	(323,218)	(277,070)	
Less current portion	<u>(1,945,000)</u>	<u>(4,500,000)</u>	
Noncurrent portion	<u>\$ 34,364,036</u>	<u>33,536,921</u>	

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



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the bonds are also subject to optional redemption, as described in the Indentures of Trust mentioned above.

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

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

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
2020	\$ 500,000	2024	\$ 580,000	2028	\$ 680,000
2021	520,000	2025	605,000	2029	710,000
2022	540,000	2026	630,000		
2023	560,000	2027	650,000		

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

On February 27, 2019, EVMS modified the Series 2010 Bonds, in accordance with the Seventeenth Supplemental Indenture of Trust, dated as of April 1, 2019, to delete the put date, remove the 2010 foundation guarantee, and to modify the floating interest rate from 67% of the sum of one-month LIBOR plus 184 basis points to 79% of the sum of one-month LIBOR plus 85 basis points (2.57% and 2.62% as of June 30, 2019 and 2018, respectively).

Interest is payable semi-annually on each November 15 and May 15. EVMS made early redemption payments of \$750,000 and \$90,000 on the Series 2010 Bonds during the years ended June 30, 2019

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and 2018, respectively, reducing the principal of the Series 2010 Bonds to \$10,000,000 as of June 30, 2019. Mandatory sinking fund payments will be due annually on November 15 as follows:

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
2020	\$ 500,000	2024	\$ 1,250,000	2028	\$ 750,000
2021	1,250,000	2025	1,250,000		
2022	1,250,000	2026	1,250,000		
2023	1,250,000	2027	1,250,000		

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

On February 27, 2019, EVMS modified the Series 2010 Refunding Bonds, in accordance with the Seventeenth Supplemental Indenture of Trust, dated as of April 1, 2019, to delete the put date, remove the 2010 foundation guarantee, and to modify the floating interest rate from 67% of the sum of one-month LIBOR plus 169 basis points to 79% of the sum of one-month LIBOR plus 95 basis points (2.65% and 2.52% as of June 30, 2019 and 2018, respectively).

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

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
2020	\$ 445,000	2025	\$ 555,000	2030	\$ 690,000
2021	465,000	2026	580,000	2031	720,000
2022	490,000	2027	605,000	2032	755,000
2023	510,000	2028	635,000	2033	785,000
2024	530,000	2029	660,000		

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

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

On February 27, 2019, EVMS modified the Series 2011 General Revenue Bonds, in accordance with the Seventeenth Supplemental Indenture of Trust, dated as of April 1, 2019, to delete the put date, remove the 2010 foundation guarantee, and to modify the floating interest rate from 65% of the sum of one-month LIBOR plus 170 basis points to 79% of the sum of one-month LIBOR plus 95 basis points (2.65% and 2.45% as of June 30, 2019 and 2018, respectively).

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

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
2020	\$ 500,000	2025	\$ 550,000	2030	\$ 650,000
2021	500,000	2026	550,000	2031	700,000
2022	500,000	2027	600,000	2032	700,000
2023	500,000	2028	600,000	2033	750,000
2024	550,000	2029	650,000		

- (E) On December 12, 2018, EVMS issued the Series 2018 General Revenue Bonds. The Series 2018 Bonds are secured by a Master Indenture of Trust dated November 15, 1991 between EVMS and U.S. Bank, as trustee, as amended, and supplemented by a Fourteenth Supplemental Indenture and Master Indenture dated November 1, 2018. The Series 2018 Bonds, maturing November 15, 2038, are subject to mandatory sinking fund redemption by lot at a redemption price of 100% of the principal amount redeemed, plus accrued interest on May 15, 2019 and each May 15 and November 15, thereafter through 2038.

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

<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>	<b>Fiscal year maturities</b>	<b>Principal amount</b>
2022	\$ 35,109	2028	\$ 98,304	2034	\$ 184,906
2023	47,982	2029	114,689	2035	190,757
2024	49,152	2030	138,094	2036	197,779
2025	63,196	2031	134,583	2037	204,801
2026	76,069	2032	141,605	2038	212,993
2027	79,580	2033	150,968	2039	220,015

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

The Series 2010 General Revenue Bonds bear interest at 79% of one-month LIBOR plus 85 basis points (2.57% and 2.62% as of June 30, 2019 and 2018, respectively). The related interest rate swap contract has a current notional principal amount of \$10,000,000, under which EVMS pays interest at 3.07% and receives interest at 79% of one-month LIBOR plus 85 basis points. The cumulative unrealized loss of \$466,416 and \$118,411 as of June 30, 2019 and 2018, respectively, from the changes in the swap contract's fair value is included in long-term debt. The swap will expire on November 15, 2027.

The Series 2010 General Revenue Refunding Bonds bear interest at 79% of one-month LIBOR plus 95 basis points (2.65% and 2.52% as of June 30, 2019 and 2018, respectively). The related interest rate swap contract has a current notional principal amount of \$8,425,000, under which EVMS pays interest at 3.28% and receives interest at 79% of one-month LIBOR plus 95 basis points. The cumulative unrealized loss of \$657,762 and \$200,735 as of June 30, 2019 and 2018, respectively, from the changes in the swap contract's fair value is included in long-term debt. The swap will expire on November 15, 2032.

The Series 2011 General Revenue Bonds bear interest at 79% of one-month LIBOR plus 95 basis points (2.65% and 2.45% as of June 30, 2019 and 2018, respectively). The related interest rate swap contract has a current notional principal amount of \$8,300,000, under which EVMS pays interest at 2.99% and receives interest at 79% of one-month LIBOR plus 95 basis points. The cumulative unrealized loss of \$467,494 and \$16,376 as of June 30, 2019 and 2018, respectively, from the changes in the swap contract's fair value are included in long-term debt. The swap will expire on November 15, 2032.

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

Pursuant to the terms of the Indentures of Trust, EVMS is required to comply with certain covenants regarding payment of bonds, pledging of revenues, the operations of EVMS, insurance, accounting and financial statements, limitations on liens and the incurrence of additional indebtedness, and the sale, lease, or other disposition of assets. EVMS was in compliance with its covenants for the fiscal years ended June 30, 2019 and 2018. The Series 2006 Bonds are equally and ratably secured by an unconditional guaranty of EVMS Foundation and by security interest in revenue granted by EVMS. The Series 2010, Series 2011, and Series 2018 Bonds are equally and ratably secured by security interest in revenue granted by EVMS.

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

2020	\$ 1,945,000
2021	2,735,000
2022	2,815,109
2023	2,867,982
2024	2,959,152
Thereafter	<u>21,718,339</u>
	<u>\$ 35,040,582</u>

**(11) Leases**

EVMS has several noncancelable operating leases, primarily for buildings and medical and office equipment, which expire over the next five years. These leases generally contain renewal options for periods ranging from one to five years. Rental expense for operating leases for the years ended June 30, 2019 and 2018 was \$2,647,546 and \$2,690,871, respectively.

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

Year ending June 30:	
2020	\$ 2,389,914
2021	2,293,004
2022	2,329,498
2023	2,012,054
2024	1,450,278
Thereafter	<u>946,255</u>
Total minimum operating lease payments	<u>\$ 11,421,003</u>

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**(12) Grant Deposits**

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

	<u>2019</u>	<u>2018</u>
Federal grants	\$ 421,029	624,045
State and local grants	352,003	281,597
Private gifts and grants	<u>2,246,260</u>	<u>1,727,797</u>
Total grant deposits	<u>\$ 3,019,292</u>	<u>2,633,439</u>

Grant deposits represent amounts received for various grants and contracts that have not been expended at June 30, 2019 and 2018. 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, 2019 and 2018 was \$928,199 and \$910,855, respectively.

**(14) State Appropriations**

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

	<u>2019</u>	<u>2018</u>
Education	\$ 18,708,617	17,024,048
Indigent care	6,158,108	6,158,108
Family medicine	658,597	665,164
Medical modeling and simulation	464,834	510,600
Higher education equipment trust fund	183,101	524,429
Capital maintenance reserve	146,538	317,353
Capital projects – renovations	2,896,907	527,239
Capital projects – new construction	20,559,541	—
Virginia Area Health Education Center	<u>60,620</u>	<u>60,620</u>
	<u>\$ 49,836,863</u>	<u>25,787,561</u>

**(15) Functional Expenses by Natural Classification**

EVMS allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated using cost allocation methods, including square footage, facility usage, and time and attendance. The expenses allocated include depreciation and

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amortization, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other.

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

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

  

For the year ended June 30, 2018								
	Undergraduate instruction	Graduate instruction	Research	Patient services	Academic support	Institutional support	Auxiliary services	Patient services support
								Totals
Operating expenses:								
Salaries and wages	\$ 32,679,176	20,671,478	10,953,676	44,104,474	5,586,682	10,892,123	4,781,900	3,213,084
Fringe benefits	6,065,208	5,421,596	2,050,452	6,944,263	1,163,590	2,861,200	553,672	884,732
Operating supplies	921,236	146,415	1,355,721	5,398,442	1,447,423	1,034,974	245,711	181,106
Contractual services	3,193,707	322,288	10,181,547	2,524,389	598,540	3,886,696	2,352,803	404,761
General expenses	5,180,198	1,559,998	1,868,321	7,551,437	89,126	1,405,856	5,803,709	3,188,448
Depreciation and amortization	1,915,690	17,805	297,673	951,075	—	191,896	6,819,751	54,649
Total operating expenses	\$ 49,955,215	28,139,580	26,707,390	67,474,080	8,885,361	20,272,745	20,557,546	7,926,780
								229,918,697

**(16) Retirement Plan**

Substantially all of the salaried personnel of EVMS are eligible after specified periods of employment to participate in qualified tax-deferred annuity plans under Sections 403(b) and 401(a) of the IRC. EVMS' contributions to the plans are based on percentages of qualified employee earnings. EVMS contributions to this program were \$5,298,952 and \$5,155,922 for the fiscal years ended June 30, 2019 and 2018, respectively.

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**(17) Commitments and Contingencies**

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

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

**(18) Concentrations of Credit Risk**

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

	<u>2019</u>	<u>2018</u>
Self-pay	32 %	35 %
Medicare	15	15
Medicaid	7	6
HMO (none more than 10%)	17	19
Commercial	12	10
Anthem	8	7
Other	9	8
	<u>100 %</u>	<u>100 %</u>



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

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

	<u>2019</u>	<u>2018</u>
Third-party payors	\$ 60,801,593	57,364,873
Self-pay	<u>12,484,295</u>	<u>12,465,980</u>
Total all payors	<u>\$ 73,285,888</u>	<u>69,830,853</u>

**(20) Liquidity and Availability**

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

Total assets	\$ 432,486,838
Less:	
Restricted cash and investments	6,780,183
Property, plant, and equipment, net	146,705,843
Noncurrent operating investments	16,063,700
Notes receivable from students	3,746,182
Interest in net assets of affiliate	128,081,411
Other long-term assets	<u>3,892,971</u>
Financial assets available within one year	<u>\$ 127,216,548</u>

EVMS manages its financial assets to be available as its operating expenditures, liabilities, and other obligations come due. Although the noncurrent investments disclosed in the table above are intended to be held long-term, EVMS could utilize those investments within the next year if deemed necessary. As described in note 9, EVMS has available lines of credit in the amounts of \$10 million and \$3 million, with no amounts outstanding at June 30, 2019. The lines of credit expire in January 2020 and May 2020, respectively. EVMS plans to renew in fiscal year 2020.

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Federal grantor agency/program title	Pass-through entity	Pass-through entity identifying number	CFDA/Grant number	Passed through to subrecipients	Total federal expenditures
Student financial assistance cluster:					
Department of Education:					
Cash assistance – Federal Perkins Loan Program (note 4)			84.038	\$ —	2,596,236
Noncash assistance – Federal Direct Student Loans Program (note 2)			84.268	—	49,296,100
Department of Health and Human Services:					
Health Professions Student Loans (note 4):					
Primary Care Loans			93.342	—	781,688
Loans for Disadvantaged Students			93.342	—	796,903
Subtotal 93.342				—	1,578,591
<b>Total student financial assistance cluster</b>				—	53,470,927
Research and development cluster:					
Department of Defense:					
Department of the Army – Military Medical Research and Development			12.420	2,871	210,480
Department of Housing and Urban Development:					
Office of Lead Hazard Control and Healthy Homes - Healthy Homes Technical Studies Grants			14.906	—	183,052
National Aeronautics and Space Administration:					
Exploration			43.003	—	373,292
Exploration	University of California Irvine	3210920618	43.003	—	257,836
Subtotal 43.003				—	631,128
National Science Foundation:					
Engineering Grants	Norfolk State University	F1040102	47.041	—	11,805
Department of Health and Human Services:					
National Institutes of Health – Family Smoking Prevention and Tobacco Control Act Regulatory Research			93.077	10,975	13,561
National Institutes of Health – Family Smoking Prevention and Tobacco Control Act Regulatory Research	Virginia Commonwealth University	FP00008477_SA007	93.077	—	2,316
Subtotal 93.077				10,975	15,877
National Institutes of Health – National Center on Sleep Disorders Research	Children's Hospital of Philadelphia	3210920618	93.233	—	73,511
National Institutes of Health – Mental Health Research Grants			93.242	650,930	1,081,319
National Institutes of Health – Drug Abuse and Addiction Research Programs			93.279	11,067	65,245
National Institutes of Health – Drug Abuse and Addiction Research Programs	Old Dominion Research Foundation	16-209-100581-010	93.279	—	28,298
National Institutes of Health – Drug Abuse and Addiction Research Programs	Washington University - St. Louis	WU-17-186	93.279	—	15,208
National Institutes of Health – Drug Abuse and Addiction Research Programs	The Regents of the University	A18-2681-S002	93.279	—	11,846
Subtotal 93.279				11,067	120,597
National Institutes of Health – Minority Health and Health Disparities Research	American College of Surgeons	24292GP001EVMS	93.307	—	35,029
National Institutes of Health – Minority Health and Health Disparities Research	The Brigham & Women's Hospital	119569	93.307	—	9,138
Subtotal 93.307				—	44,167
National Institutes of Health – Cancer Detection and Diagnosis Research			93.394	172,194	455,710
National Institutes of Health – Cancer Treatment Research			93.395	—	24,536
National Institutes of Health – Cardiovascular Diseases Research			93.837	134,769	764,368
National Institutes of Health – Cardiovascular Diseases Research	University of Arizona	493168	93.837	—	94,372
National Institutes of Health – Cardiovascular Diseases Research	Rutgers University	8253	93.837	—	170,577
Subtotal 93.837				134,769	1,029,317
National Institutes of Health – Lung Diseases Research			93.838	—	214,096
National Institutes of Health – Blood Diseases and Resources Research			93.839	—	169,681
National Institutes of Health – Arthritis, Musculoskeletal and Skin Diseases Research			93.846	—	152,672
National Institutes of Health – Diabetes, Digestive, and Kidney Diseases Extramural Research	Indiana University	IN4689693-EVMS	93.847	—	110,603
National Institutes of Health – Extramural Research Programs in the:					
Neurosciences and Neurological Disorders	Massachusetts General Hospital	PS#230754	93.853	—	57,907
Neurosciences and Neurological Disorders	Albert Einstein College of Medicine	311302	93.853	—	31,162
Neurosciences and Neurological Disorders	Virginia Commonwealth University	FP00007840_SA002	93.853	—	51,164
Subtotal 93.853				—	140,233

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National Institutes of Health – Allergy, Immunology and Transplantation Research			93.855	\$ 83,529	742,690
National Institutes of Health – Allergy, Immunology and Transplantation Research	Johns Hopkins University	2003925392	93.855	—	24,873
National Institutes of Health – Allergy, Immunology and Transplantation Research	Johns Hopkins University	2002351791/AI13127-01	93.855	—	37,034
National Institutes of Health – Allergy, Immunology and Transplantation Research	Northwestern University	60040631EVMS	93.855	—	104,787
National Institutes of Health – Allergy, Immunology and Transplantation Research	Northwestern University	60040628EVMS	93.855	—	220,820
National Institutes of Health – Allergy, Immunology and Transplantation Research	Childrens Specialty Group	270781	93.855	—	11,436
Subtotal 93.855				<u>83,529</u>	<u>1,141,640</u>
National Institutes of Health – Biomedical Research and Research Training	The University of Richmond	27442S	93.859	—	28,572
National Institutes of Health – Child Health and Human Development Extramural Research			93.865	356,643	701,796
National Institutes of Health – Child Health and Human Development Extramural Research	University of Kentucky	3260000306-16-106	93.865	—	434,274
National Institutes of Health – Child Health and Human Development Extramural Research	University of Pennsylvania	564595	93.865	—	73,070
National Institutes of Health – Child Health and Human Development Extramural Research	University of Maryland	1302 /1903086 / SR00004938	93.865	—	192,564
National Institutes of Health – Child Health and Human Development Extramural Research	Family Health International	104083/0910.0001/100293.001003	93.865	—	11,911
National Institutes of Health – Child Health and Human Development Extramural Research	Social & Scientific Systems	PHR-SSS-S-16-005289	93.865	—	54,799
National Institutes of Health – Child Health and Human Development Extramural Research	Oregon Health & Science University	1009136_EVMS	93.865	—	25,491
Subtotal 93.865				<u>356,643</u>	<u>1,493,905</u>
National Institutes of Health – Aging Research	Artann Laboratories, Inc.	VTI09	93.866	—	21,803
National Institutes of Health – Medical Library Assistance	University of Maryland	5UG4LM012340-03	93.879	—	7,916
Centers for Disease Control and Prevention – Human Immunodeficiency Virus (HIV) Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Commonwealth of Virginia, Department of Health	EVMSSUR611GY18	93.944	—	244,872
Centers for Disease Control and Prevention – Assistance Programs for Chronic Disease Prevention and Control	Commonwealth of Virginia, Department of Health	709P632494-1	93.945	—	347
Centers for Disease Control and Prevention – ESB - Monitoring Juvenile Onset Recurrent Respiratory Papillomatosis			200-2014-59074	—	219,335
Centers for Disease Control and Prevention – PPF 2016 Immunization Grants - JORRP - Financed Solely by 2016 Prevention and Public Health Funds (PPHF)			200-2016-91449	75,575	76,881
Centers for Disease Control and Prevention – PPF 2016 Immunization Grants - JORRP - Financed Solely by 2016 Prevention and Public Health Funds (PPHF)			200-2016-91451	20,381	47,217
National Institute of Child Health and Human Development – Contraceptive Clinical Trials			93.HHSN2752013000191	93,446	578,953
U.S. Agency for International Development:					
Foreign Assistance for Programs Overseas – Prh/Rtu-Silcs & Trv/Conrad AID-OAA-A-10-00068			98.001	321,381	2,133,358
Foreign Assistance for Programs Overseas – App for Aad 936-3090 AID-OAA-A-14-00010			98.001	375,574	3,256,779
Foreign Assistance for Programs Overseas – App for Aad 936-3090 AID-OAA-A-14-00011			98.001	1,136,683	3,266,395
Foreign Assistance for Programs Overseas – App for Aad 936-8900-M AID-OAA-A-15-00033			98.001	(11,016)	693,791
Foreign Assistance for Programs Overseas – App for Aad 936-3090-M AID-OAA-A-17-00014			98.001	360,444	1,430,227
Subtotal 98.001				<u>2,183,066</u>	<u>10,780,550</u>
<b>Total research and development cluster</b>				<u>3,795,446</u>	<u>19,310,775</u>
Highway safety cluster:					
Department of Transportation:					
National Highway Traffic Safety Administration – State and Community Highway Safety	Commonwealth of Virginia, DMV	FOP-2019-59102-9102	20.600	—	79,984
National Highway Traffic Safety Administration – National Priority Safety Programs	Commonwealth of Virginia, DMV	FM2PE-2018-58059-8059	20.616	—	54,883
<b>Total highway safety cluster</b>				<u>—</u>	<u>134,867</u>

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Federal grantor agency/program title	Pass-through entity	Pass-through entity identifying number	CFDA/Grant number	Passed through to subrecipients	Total federal expenditures
Other grant programs:					
Department of Defense:					
U.S. Army Medical Command – Telemedicine and Advanced Technology Research Center			5056215365	\$ —	22,566
U.S. Army Medical Command – Telemedicine and Advanced Technology Research Center			5063266200	—	80,980
Department of Health and Human Services:					
Health Resources and Services Administration – Area Health Education Centers Point of Service Maintenance and Enhancement Awards	Virginia Health Workforce Development Authority	U77HP26289-05-01 & U77HP26289-06-00	93.107	—	72,016
Health Resources and Services Administration – Advanced Education Nursing Grant Program	Old Dominion University Research Foundation	18-141-100670-010 & 18-313-10067-020	93.247	—	32,789
Health Resources and Services Administration – Grants for Primary Care Training and Enhancement			93.884	70,830	446,302
Centers for Disease Control and Prevention – Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	Commonwealth of Virginia Department of Health	709L332203 & 709SA832719	93.898	—	382,978
Health Resources and Services Administration – HIV Emergency Relief Project Grants	City of Norfolk	26462-A-G	93.914	688,537	1,183,383
Health Resources and Services Administration – HIV Care Formula Grants	Commonwealth of Virginia Department of Health	EVMC31ID811GY18 & EVMC31ID811GY19	93.917	335,144	438,343
Health Resources and Services Administration – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease			93.918	326,679	361,368
Health Resources and Services Administration – Healthy Start Initiative	Commonwealth of Virginia Department of Health	705V0532406	93.926	—	318,405
Centers for Disease Control and Prevention – CDC's Collaboration with Academia to Strengthen Public Health	Association of American Medical College	GT-32016-01-18	93.967	—	1,150
Health Resources and Services Administration – Geriatric Education Centers	Virginia Commonwealth University	PT111971-SC106960	93.969	—	93,638
<b>Total other grant programs</b>				<u>1,421,190</u>	<u>3,433,918</u>
<b>Total federal awards, including noncash programs</b>				<u>\$ 5,216,636</u>	<u>76,350,487</u>

See accompanying notes to schedule of expenditures of federal awards.

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AND AFFILIATED ORGANIZATION**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

**(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) for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, the amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. All federal awards received directly and indirectly from federal agencies are included in the Schedule. Although EVMS is required to match certain grants, as defined in the grants, no such matching has been included in the Schedule.

**(b) Basis of Accounting**

The accompanying Schedule is presented using the accrual basis of accounting and is based on EVMS' 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. Negative amounts may also represent adjustments or credits to amounts reported as expenditures in prior years. Expenditures for federal student financial assistance programs are recognized as incurred.

Expenditures for other federal awards are recognized as incurred using cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**(c) Indirect Cost Rate**

EVMS has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**(2) Federal Direct Student Loans Program**

During the year ended June 30, 2019, EVMS processed \$49,296,100 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, 2019.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

**(3) Relationship to the Consolidated Financial Statements**

The 2019 federal award expenditures and disbursements are reported in the consolidated financial statements of EVMS as of and for the year ended June 30, 2019 as follows:

	<b>Net assets without donor restrictions</b>	<b>Net assets with donor restrictions (loans disbursed)</b>
Student financial assistance programs	\$ —	194,608
Research and development programs	19,310,775	—
Highway safety programs	134,867	—
Other grants and contracts	3,433,918	—
	<u>\$ 22,879,560</u>	<u>194,608</u>

**(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. Loans outstanding at the beginning of the year, loans made during the year, and program administration costs are included in the federal expenditures presented in the Schedule. The balances of loans outstanding under these programs at June 30, 2019 were:

FPL	\$ 1,922,669
HPSL:	
Primary care loans	550,145
Loans for disadvantaged students	727,465
	<u>\$ 3,200,279</u>

Under the FPL program, EVMS made no loans and received no federal capital contributions during the year ended June 30, 2019.

Loans of \$0 and \$194,608 were made by EVMS during the year ended June 30, 2019 for primary care loans and loans for disadvantaged students, respectively. Federal capital contributions of \$175,147 were received in HPSL programs during the year ended June 30, 2019.



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, 2019, 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, 2019, which included an emphasis of matter paragraph indicating EVMS adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

*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 consolidated 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 and therefore, material weaknesses or significant deficiencies may not have been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below as items 2019-01 and 2019-02, that we consider to be significant deficiencies.



#### *2019-01 – Beneficial Interest in Net Assets of Affiliate*

During our audit procedures performed over EVMS' beneficial interest in the net assets of its affiliate, we noted that EVMS excluded certain net assets of its affiliate from its recorded interest which resulted in an understatement of the net assets. We recommend that EVMS implement internal controls to regularly review its accounting policies and procedures related to its beneficial interest in net assets of affiliate to ensure that amounts are properly recorded.

##### *Management Response*

Management has reviewed the accounting standards related to beneficial interest in net assets of affiliates and the treatment recommended compared to the method and assumptions previously applied. EVMS has implemented the new methodology and will continue to monitor going forward.

#### *2019-02 – Interdepartmental Eliminations*

During our audit procedures performed over financial reporting, we identified certain interdepartmental transactions that were not eliminated in the consolidated financial statements. We recommend that EVMS implement internal controls to ensure that all interdepartmental transactions are eliminated as part of the year-end financial reporting process.

##### *Management Response*

Management agrees with the recommendation to improve the process over eliminating certain interdivisional transactions. Not eliminating the interdepartmental transactions did not impact the operating results of EVMS but did overstate revenue and expenses and therefore this will be adjusted going forward.

EVMS' responses to the findings identified in our audit are described previously. EVMS' responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

#### *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, 2019





KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

**Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Visitors  
Eastern Virginia Medical School:

**Report on Compliance for Each 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 Compliance Supplement* that could have a direct and material effect on each of EVMS' major federal programs for the year ended June 30, 2019. EVMS' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of EVMS' major federal programs 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 each major federal program. However, our audit does not provide a legal determination of EVMS' compliance.

*Opinion on Each Major Federal Program*

In our opinion, Eastern Virginia Medical School and Affiliated Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

*Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-03. Our opinion on each major federal program is not modified with respect to this matter.



EVMS' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. EVMS is also responsible for preparing a corrective action plan to address the audit finding included in our auditors' report. EVMS' response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

### **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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-03, that we consider to be a significant deficiency.

EVMS' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. EVMS is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. EVMS' response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated financial statements of EVMS as of and for the year ended June 30, 2019, and have issued our report thereon dated October 31, 2019, which contained an unmodified opinion on those consolidated 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 the Uniform Guidance 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*

Norfolk, Virginia  
March 11, 2020

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

**(1) Summary of Auditors' Results**

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **Yes – 2019-01: *Beneficial Interest in Net Assets of Affiliate* and 2019-02: *Interdepartmental Eliminations***
- (c) Noncompliance material to the consolidated financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **No**
  - Significant deficiencies: **Yes – 2019-03: *Enrollment Reporting***
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes – 2019-03: *Enrollment Reporting***
- (g) Major program: **Student Financial Assistance Program Cluster**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,290,515**
- (i) Auditee qualified as a low-risk auditee: **Yes**

**(2) Findings Relating to the Consolidated Financial Statements Reported in Accordance with  
Government Auditing Standards**

**2019-01: *Beneficial Interest in Net Assets of Affiliate***

**Criteria or Requirement**

In accordance with FASB ASC Subtopic 958-20, *Financially Interrelated Entities*, if a beneficiary and a recipient entity are financially interrelated entities, the beneficiary shall recognize its interest in the net assets of the recipient entity.

**Condition Found**

During our audit procedures performed over EVMS' beneficial interest in the net assets of its affiliate, we noted that EVMS excluded certain net assets of its affiliate from its recorded interest which resulted in an understatement of the net assets in the amount of \$9,137,652 as of June 30, 2019.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

**Possible Cause and Effect**

EVMS did not have an internal control process appropriately designed to monitor the recording of its beneficial interest against existing authoritative guidance.

**Questioned Costs**

There are no questioned costs associated with this finding.

**Sampling**

The sample was not intended to be, and was not, a statistically valid sample.

**Identification of Repeat Finding**

The finding was not reported in the prior year's audit.

**Recommendation**

We recommend that EVMS implement internal controls to regularly review its accounting policies and procedures related to its beneficial interest in net assets of affiliate to ensure that amounts are properly recorded.

**Views of Responsible Officials**

Management has reviewed the accounting standards related to beneficial interest in net assets of affiliates and the treatment recommended compared to the method and assumptions previously applied. EVMS has implemented the new methodology and will continue to monitor going forward.

**2019-02: Interdepartmental Eliminations**

**Criteria or Requirement**

In accordance with FASB ASC Topic 810, *Consolidation*, intra-entity balances and transactions shall be eliminated. This includes intra-entity open account balances, security holdings, sales and purchases, interest, dividends, and so forth. As consolidated financial statements are based on the assumption that they represent the financial position and operating results of a single economic entity, such statements shall not include gain or loss transactions among the entities in the consolidated group. Accordingly, any intra-entity profit or loss on assets remaining within the consolidated group shall be eliminated; the concept usually applied for this purpose is gross profit or loss.

**Condition Found**

During our audit procedures performed over financial reporting, we identified certain interdepartmental transactions that were not eliminated in the consolidated financial statements. The factual misstatement aggregated to an overstatement of operating revenues and corresponding overstatement of operating expenses in the amounts of \$8,060,454 for the year ended June 30, 2019.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

**Schedule of Findings and Questioned Costs**

Year ended June 30, 2019

**Possible Cause and Effect**

EVMS had processes in place to track, record, and monitor interdepartmental activity. Management did not have internal controls implemented to ensure interdepartmental transactions were eliminated during the preparation of the consolidated financial statements as part of the year-end financial reporting process.

**Questioned Costs**

There are no questioned costs associated with this finding.

**Sampling**

The sample was not intended to be, and was not, a statistically valid sample.

**Identification of Repeat Finding**

The finding was not reported in the prior year's audit.

**Recommendation**

We recommend that EVMS implement internal controls to ensure that all interdepartmental transactions are eliminated as part of the year-end financial reporting process.

**Views of Responsible Officials**

Management agrees with the recommendation to improve the process over eliminating certain interdivisional transactions. Not eliminating the interdepartmental transactions did not impact the operating results of EVMS but did overstate revenue and expenses and therefore this will be adjusted going forward.

**(3) Findings and Questioned Costs Related to Federal Awards**

**2019-03: Enrollment Reporting**

*Federal Program – Student Financial Assistance Cluster (CFDA No. 84.268)*

*Federal Agency – U.S. Department of Education*

*Federal Award Number – P268K196216*

*Federal Award Year – July 1, 2018 to June 30, 2019*

**Criteria or Requirement**

In accordance with 34 CFR 685.309, enrollment information must be reported to the Secretary within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

**EASTERN VIRGINIA MEDICAL SCHOOL  
AND AFFILIATED ORGANIZATION**

**Schedule of Findings and Questioned Costs**

Year ended June 30, 2019

**Condition Found**

Enrollment information was not reported to the National Student Loan Data System (NSLDS) within 60 days after the effective date of the change in status for 10 students out of a sample of 25 students.

**Possible Cause and Effect**

EVMS' system of internal controls over the review of the enrollment status changes and the method for which the changes are submitted to the NSLDS did not operate at a level of precision that would prevent or detect untimely reporting.

**Questioned Costs**

There are no questioned costs associated with this finding.

**Sampling**

The sample was not intended to be, and was not, a statistically valid sample.

**Identification of Repeat Finding**

The finding was not reported in the prior year's audit.

**Recommendation**

We recommend that EVMS strengthen its processes and controls around enrollment reporting to ensure timely submission of enrollment information.

**Views of Responsible Officials**

EVMS agrees with this finding and recommendation. EVMS has developed controls around the timeliness of enrollment reporting as indicated in our Corrective Action Plan. EVMS utilizes the National Student Clearinghouse (the Clearinghouse) to submit information to the National Student Loan Database System (NSLDS).

Nine of the instances related to timeliness were due to turnover in the position responsible for enrollment reporting. EVMS submitted the Degree Verification to the Clearinghouse to separate students that had graduated in May 2019 but did not submit a final roster in June 2019. The employee thought the Degree Verification satisfied the NSLDS enrollment reporting requirements. Degree Verification is a separate process from enrollment reporting and therefore it did not initiate a status change in NSLDS.

One of the instances related to timeliness was due to an error in the data share download between the registration system, Vizual Zen, and Oracle, the system of record. The student's registration details did not properly loan into Oracle and were therefore left off of the roster report submitted to the NSLDS.

**Eastern Virginia Medical School**  
**Finding, Response & Corrective Action Plan**  
**Year ended June 30, 2019**

**Finding 2019-01: Beneficial Interest in Net Assets of Affiliate**

During our audit procedures performed over EVMS' beneficial interest in the net assets of its affiliate, we noted that EVMS excluded certain net assets of its affiliate from its recorded interest which resulted in an understatement of the net assets.

**Recommendation**

We recommend that EVMS implement internal controls to regularly review its accounting policies and procedures related to its beneficial interest in net assets of affiliate to ensure that amounts are properly recorded.

**Views of Responsible Officials**

Management has reviewed the accounting standards related to beneficial interest in net assets of affiliates and the treatment recommended compared to the method and assumptions previously applied. EVMS has implemented the new methodology and will continue to monitor going forward.

**Finding 2019-02: Interdivisional Eliminations**

During our audit procedures performed over financial reporting, we identified certain interdepartmental transactions that were not eliminated in the consolidated financial statements.

**Recommendation**

We recommend that EVMS implement internal controls to ensure that all interdepartmental transactions are eliminated as part of the year-end financial reporting process.

**Views of Responsible Officials**

Management agrees with the recommendation to improve the process over eliminating certain interdivisional transactions. Not eliminating the interdepartmental transactions did not impact the operating results of EVMS but did overstate revenue and expenses and therefore this will be adjusted going forward.

**Finding 2019-03: Special Tests and Provisions: Enrollment Reporting**

**Criteria or Requirement**

In accordance with 34 CFR 685.309, enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days.

**Financial Services**

P.O. BOX 1980  
NORFOLK, VA 23501-1980  
TEL 757.446.6094  
FAX 757.446.6150  
[www.evms.edu](http://www.evms.edu)



These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

#### **Condition Found**

Enrollment information was not reported to the National Student Loan Data System (NSLDS) within 60 days after the effective date of the change in status for ten students out of a sample of 25 students.

#### **Possible Cause and Effect**

EVMS' system of internal controls over the review of the enrollment status changes and the method for which the changes are submitted to the NSLDS did not operate at a level of precision that would prevent or detect untimely reporting.

#### **Recommendations**

We recommend that EVMS strengthen its processes and controls around enrollment reporting to ensure timely submission of enrollment information.

#### **Views of Responsible Officials**

EVMS agrees with this finding and recommendation. EVMS has developed controls around the timeliness of enrollment reporting as indicated in our Corrective Action Plan. EVMS utilizes the National Student Clearinghouse (the Clearinghouse) to submit information to the National Student Loan Database System (NSLDS).

Nine of the instances related to timeliness were due to turnover in the position responsible for enrollment reporting. EVMS submitted the Degree Verification to the Clearinghouse to separate students that had graduated in May 2019 but did not submit a final roster in June 2019. The employee thought the Degree Verification satisfied the NSLDS enrollment reporting requirements. Degree Verification is a separate process from enrollment reporting and therefore it did not initiate a status change in NSLDS.

One of the instances related to timeliness was due to an error in the data share download between the registration system, Vizual Zen, and Oracle, the system of record. The student's registration details did not properly load into Oracle and were therefore left off of the roster report submitted to the NSLDS.

#### **Corrective Action Plan**

##### *Beneficial Interest in Net Assets of Affiliate*

EVMS will apply the new methodology to analyze all net assets of affiliate organizations when recording EVMS' interest in that organization on the financial statements. EVMS will examine any changes in the reporting requirements each fiscal year and will update our processes when applicable. The anticipated completion date of this procedure is June 30, 2020.

The contact person for this finding is Victoria Dean, Controller

#### *Interdivisional Eliminations*

EVMS has implemented a new process to review and reconcile interdivisional revenues and expenses each month. Most interdivisional revenues and expenses will be eliminated on a monthly basis with a final adjustment at fiscal year-end. The anticipated completion date of this procedure is February 7, 2020.

The contact person for this finding is Victoria Dean, Controller.

#### *Timely Submission of Enrollment Data*

EVMS will continue to send the Degree Verification to the Clearinghouse and will implement a process to send a final roster of graduates only enrollment file within a month following graduation to properly separate graduated students in NSLDS. The anticipated completion date of this procedure is July 29, 2019.

EVMS is implementing a new student information system which will eliminate the issue between the Vizual Zen and Oracle because both functions will take place in the same system. Until this system is fully implemented, EVMS has created a reconciliation process to compare the registration in Vizual Zen to the registration in Oracle each term. The Registrar will correct any discrepancies in Oracle to ensure all students are included in the roster reporting. The anticipated completion date of this procedure January 28, 2020.

The contact person for this finding is David Golay, Registrar.

Eastern Virginia Medical School

Fiscal Year 2019

Prior Audit Findings

*Finding 2018-001: Subrecipient Monitoring*

**Corrective action was taken and findings #2018-001 was corrected in fiscal year 2019.**

EVMS updated its standard subaward agreement template to include the required information for subrecipients receiving an award after December 26, 2014, when 2 CFR 200 went into effect. EVMS has not, however, updated the subaward agreements utilized for U.S. Agency for International Development (USAID) subawards because those agreements contained USAID specific terms and conditions. EVMS has since standardized all of its USAID subaward agreements to clearly identify the award as a subaward and provide all of the required award information to the subrecipients as required under 2 CFR 200.331. Additionally, EVMS has emailed this information to all existing subaward recipients.