

Vidant Health Foundation

Financial and Compliance Report
Years Ended September 30, 2018 and 2017

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RSM US LLP

Independent Auditor's Report

To the Board of Trustees
University Health Systems of Eastern Carolina Foundation, Inc.
d/b/a Vidant Health Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of University Health Systems of Eastern Carolina Foundation, Inc. d/b/a Vidant Health Foundation (the Foundation), which comprise the statements of financial position as of September 30, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Report on Schedule of Expenditures of Federal and State Awards***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards for the year ended September 30, 2018, as required by North Carolina General Statute 143C-6-23, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2019, on our consideration of the Foundation's 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 this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

RSM US LLP

Minneapolis, Minnesota
February 5, 2019

Vidant Health Foundation

**Statements of Financial Position
September 30, 2018 and 2017**

	2018	2017
Assets		
Cash and cash equivalents	\$ 1,756,899	\$ 1,366,331
Receivables:		
Contributions, net of allowance	12,920,957	6,895,716
Grants and other	176,866	152,653
Cash surrender value of life insurance	37,616	35,570
Investments	26,047,696	24,557,061
Property held for sale	-	150,000
	<u> </u>	<u> </u>
Total assets	<u>\$ 40,940,034</u>	<u>\$ 33,157,331</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 181,357	\$ 157,883
Due to designated beneficiaries	27,318,491	20,327,982
Endowment funds held for designated beneficiaries	1,563,888	1,563,888
Total liabilities	<u>29,063,736</u>	<u>22,049,753</u>
Net assets:		
Unrestricted	7,612,420	6,509,762
Temporarily restricted	3,430,347	3,731,939
Permanently restricted	833,531	865,877
Total net assets	<u>11,876,298</u>	<u>11,107,578</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 40,940,034</u>	<u>\$ 33,157,331</u>

See notes to financial statements.

Vidant Health Foundation

**Statement of Activities
Year Ended September 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	\$ 911,914	\$ 2,887,986	\$ 1,000	\$ 3,800,900
Federal and state grants	745,012	-	-	745,012
Other grants	3,573,533	-	-	3,573,533
Interest and dividends	292,272	61,429	4,226	357,927
Realized gains, net	545,052	72,479	8,967	626,498
Unrealized gains, net	254,978	9,255	4,873	269,106
Contributed services	2,582,297	-	-	2,582,297
Net assets released from restrictions	3,384,153	(3,332,741)	(51,412)	-
	<u>12,289,211</u>	<u>(301,592)</u>	<u>(32,346)</u>	<u>11,955,273</u>
Expenses:				
Grant and other program activities	7,851,510	-	-	7,851,510
Federal and state grant activities	745,012	-	-	745,012
General and administrative expenses	2,590,031	-	-	2,590,031
	<u>11,186,553</u>	<u>-</u>	<u>-</u>	<u>11,186,553</u>
Change in net assets	1,102,658	(301,592)	(32,346)	768,720
Net assets:				
Beginning	<u>6,509,762</u>	<u>3,731,939</u>	<u>865,877</u>	<u>11,107,578</u>
Ending	<u>\$ 7,612,420</u>	<u>\$ 3,430,347</u>	<u>\$ 833,531</u>	<u>\$ 11,876,298</u>

See notes to financial statements.

Vidant Health Foundation

**Statement of Activities
Year Ended September 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	\$ 9,716	\$ 2,815,520	\$ 1,500	\$ 2,826,736
Federal and state grants	544,709	-	-	544,709
Gifts-in-kind	-	8,450	-	8,450
Interest and dividends	288,986	54,114	4,704	347,804
Realized gains, net	461,619	105,688	7,269	574,576
Unrealized gains, net	1,011,309	36,049	16,368	1,063,726
Contributed services	2,527,566	-	-	2,527,566
Net assets released from restrictions	3,897,871	(3,897,871)	-	-
	<u>8,741,776</u>	<u>(878,050)</u>	<u>29,841</u>	<u>7,893,567</u>
Expenses:				
Grant and other program activities	3,754,232	-	-	3,754,232
Federal and state grant activities	544,709	-	-	544,709
General and administrative expenses	2,540,642	-	-	2,540,642
	<u>6,839,583</u>	<u>-</u>	<u>-</u>	<u>6,839,583</u>
Change in net assets	1,902,193	(878,050)	29,841	1,053,984
Net assets:				
Beginning	4,607,569	4,609,989	836,036	10,053,594
Ending	<u>\$ 6,509,762</u>	<u>\$ 3,731,939</u>	<u>\$ 865,877</u>	<u>\$ 11,107,578</u>

See notes to financial statements.

Vidant Health Foundation

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 768,720	\$ 1,053,984
Realized and unrealized gains, net	(895,604)	(1,638,302)
Impairment of property held for sale	-	150,000
Loss on transfer of property held for sale	-	61,919
Contributions to endowment funds	(1,000)	(1,500)
Changes in operating assets and liabilities:		
Contributions receivable	(6,025,241)	513,988
Grants and other receivables	(24,213)	(63,694)
Accounts payable	23,474	35,357
Net change in due to designated beneficiaries	6,774,157	(5,352,267)
Net cash provided by (used in) operating activities	620,293	(5,240,515)
Cash flows from investing activities:		
Purchases of investments	(9,086,078)	(10,524,974)
Sale of investments	8,707,399	13,598,055
Proceeds from sale of property held for sale	150,000	174,831
Change in cash surrender value of life insurance	(2,046)	(2,054)
Net cash (used in) provided by investing activities	(230,725)	3,245,858
Cash flows from financing activities:		
Contributions to endowment funds	1,000	1,500
Net cash provided by financing activities	1,000	1,500
Net increase (decrease) in cash and cash equivalents	390,568	(1,993,157)
Cash and cash equivalents:		
Beginning	1,366,331	3,359,488
Ending	\$ 1,756,899	\$ 1,366,331

See notes to financial statements.

Vidant Health Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: University Health Systems of Eastern Carolina Foundation, Inc. d/b/a Vidant Health Foundation (the Foundation) is a nonprofit corporation formed for the purpose of fostering the improvement and development of Pitt County Memorial Hospital, Inc. d/b/a Vidant Medical Center (the Hospital) and other health care organizations, as approved by the Board of Trustees. The Board is independent and self-perpetuating consisting of up to 27 trustees, each serving three-year staggered terms.

The Hospital provides accounting and administrative services, facilities and utilities to the Foundation, without charge. While the Foundation does provide support for the Hospital, it also provides support for other health care organizations and, therefore, is not considered a component unit of the Hospital.

A summary of the Foundation's significant accounting policies follows:

Basis for presentation: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Revenue, gains and other support are generally recognized when earned. Expenses are recorded when purchases of materials are made or services are rendered. Revenue earned and expenses incurred are accrued, while those applicable to future periods are deferred.

The Foundation follows reporting guidance for nonprofit organizations. Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions.

When a donor makes a contribution by transferring assets to a nonprofit organization (the recipient organization) that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to another entity (the beneficiary) that is specified by the donor, such funds are not considered to be contribution revenue to the recipient organization and instead are recognized as a liability at the fair value of assets donated. The Foundation and the Hospital are not considered to be financially interrelated organizations for accounting purposes. As a result, contributions received by the Foundation that are restricted for the benefit of the Hospital or other beneficiaries are recorded as a liability (due to designated beneficiaries) by the Foundation and are not recognized as contribution revenue.

Net assets: Net assets are presented using the following three classes: unrestricted, temporarily restricted and permanently restricted, depending on the presence and type of donor-imposed restrictions limiting the Foundation's ability to use or dispose of specific contributed assets or the economic benefits embodied in those assets.

Unrestricted net assets: Unrestricted net assets are net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by Board designation.

Temporarily restricted net assets: Temporarily restricted net assets are net assets whose use by the Foundation has been limited by donors (a) to later periods of time or after specified dates or (b) to specified purposes.

Permanently restricted net assets: Permanently restricted net assets must be maintained by the Foundation in perpetuity. Treatment of investment returns from such assets is dependent on donor stipulations to either: (1) add to the corpus of the endowment until a certain amount is obtained, (2) be transferred to temporarily restricted net assets to be expended in accordance with the donor's restrictions, or (3) be transferred to unrestricted net assets to be used for general purposes.

Vidant Health Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates in the preparation of financial statements: The preparation of the 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 the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Income taxes: The Foundation has a tax determination letter from the Internal Revenue Service stating that it qualifies under the applicable provisions of the Internal Revenue Code (the Code) and is exempt from federal income taxes. The Code provides for taxation of unrelated business income under certain circumstances. The Foundation has no unrelated business income. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Foundation has adopted the income tax standard regarding the recognition and measurement of uncertain tax positions, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

Contributed services: The funds raised by the Foundation are used to support health and wellness services, programs and projects of the Hospital and the communities and region it serves. The costs of raising these funds are paid by the Hospital. Financial reporting standards require amounts paid by the Hospital to be presented as in-kind contributed services revenues along with related offsetting general and administrative expenses. In-kind contributions totaled \$2,582,297 and \$2,527,566 for the years ended September 30, 2018 and 2017, respectively.

Cash and cash equivalents: Cash and cash equivalents include cash on hand, bank deposits, and other deposits with maturities of three months or less when purchased. Cash included with trustee-held investment funds are reported as investments. The Foundation maintains accounts at banks where the balance may exceed the federal insurance limit. The Foundation believes that such deposits pose no significant credit risk.

Contributions receivable and revenue: The Foundation records contributions receivable when an unconditional promise to give is made to the Foundation. Pledges collectible over more than one year are recorded after discounting to the present value of future cash flows using a risk-free rate at the time the pledge is made. Unless contributions are restricted by the donor for the Hospital or other beneficiaries, revenue is recognized when an unconditional promise to give is made. The Foundation generally reports contributions as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets.

Grants receivable and revenue: The Foundation recognizes revenue from grants when the expenses have been incurred for the purpose specified by the grantor or in accordance with the terms of the agreement. Payments received in advance are reported as deferred revenue. Grant amounts recognized as revenue, but not yet received, are reported as grant receivables. The Foundation is subject to examination by the funding sources of grants to determine its compliance with grant provisions. In the event that expenditures could be disallowed through such examination or review, repayment of such disallowances could be required.

Vidant Health Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: The Foundation reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value with realized and unrealized gains and losses included in the statements of activities. Realized gains and losses on disposal of marketable securities are determined on a specific-identification basis.

Long-lived assets and assets held for sale: The Foundation reviews its long-lived assets and assets held for sale for evidence of impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Donated property and other noncash donations are recorded at their fair values at the date of donation.

Amounts held for others: Amounts due to designated beneficiaries and endowment funds held for designated beneficiaries represent assets held by the Foundation for the benefit of other organizations. Endowment funds held for designated beneficiaries represent funds for which only the earnings are to be expended. The original principal amounts of such gifts are to be held in perpetuity. Such amounts are reflected in the financial statements as a liability until remitted to the other organizations.

Functional expenses: The Foundation raises and distributes funds to support health and wellness services, programs and projects of the Hospital and the communities and region it serves to further the purpose of improving health services in the community. Program expenses include grants, contributions and support for these purposes. The remaining expenses are primarily related to fundraising and other general and administrative purposes.

Concentration of credit risk and other risks and uncertainties: Financial instruments that potentially subject the Foundation to a concentration of credit risk consist primarily of investments held in trust. The Foundation has attempted to mitigate its exposure to market risk through the diversity of its investments.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry topics of the *FASB Accounting Standards Codification (ASC)*. The core principle of Topic 606 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. This ASU and the subsequent amendments to this update will be effective for the Foundation's fiscal year 2019 with early adoption permitted with certain restrictions. Management has not yet evaluated the impact of this update on the financial statements.

Vidant Health Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes Topic 840, *Leases*. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less for which there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize lease assets and lease liabilities and should recognize lease expense for such leases generally on a straight-line basis over the lease term. Certain qualitative disclosures along with specific quantitative disclosures will be required, so that users are able to understand more about the nature of an entity's leasing activities. ASU 2016-02 is effective for the Foundation's fiscal year 2021, with early adoption permitted. At transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients related to the identification and classification of leases that commenced before the effective date of ASU 2016-02. An entity that elects to use the practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with previous U.S. GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous U.S. GAAP. Management has not yet evaluated the impact of this ASU on the financial statements.

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 amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for the Foundation's fiscal year 2019. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year the ASU is first applied. Management has not yet evaluated the impact of this ASU on the financial statements.

Note 2. Contributions Receivable

Contributions receivable consisted of the following at September 30, 2018 and 2017:

	2018	2017
Due in:		
Less than one year	\$ 3,675,878	\$ 2,954,663
One to five years	9,209,392	3,174,517
More than five years	989,322	1,387,025
Total	<u>13,874,592</u>	<u>7,516,205</u>
Less allowance for uncollectible accounts	(214,181)	(234,769)
Discounts to net present value	(739,454)	(385,720)
Net contributions receivable	<u>\$ 12,920,957</u>	<u>\$ 6,895,716</u>

The discount rate used in determining the net present value for the contributions receivable was approximately 3.02 percent and 2.6 percent for the years ended September 30, 2018 and 2017, respectively.

Vidant Health Foundation

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Foundation emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value, as follows:

Level 1: Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2: Inputs include quoted prices for similar assets and liabilities in active markets or are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3: Inputs are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, the Foundation may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value, including for the Foundation the property held for sale measured at fair value for impairment assessment. For the year ended September 30, 2017, certain properties held for sale were recorded at fair value as a result of impairments recorded. The impairments recorded reduced the carrying value of the properties held for sale to their fair value. The properties held for sale were valued using Level 3 inputs. Note 4 also discloses the only activity in Level 3 during the years ended September 30, 2018 and 2017.

The following tables present the fair value hierarchy for the balances of the assets and liabilities of the Foundation measured at fair value on a recurring basis as of September 30, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash equivalents	\$ 2,894,603	\$ -	\$ -	\$ 2,894,603
Equity securities	131	-	-	131
Mutual funds—equities:				
Domestic	10,014,616	-	-	10,014,616
International	4,163,546	-	-	4,163,546
Mutual funds—fixed income	8,542,466	-	-	8,542,466
Mutual funds—other	432,334	-	-	432,334
Total	<u>\$ 26,047,696</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,047,696</u>

Vidant Health Foundation

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash equivalents	\$ 407,637	\$ -	\$ -	\$ 407,637
Equity securities	85	-	-	85
Mutual funds—equities:				
Domestic	10,520,182	-	-	10,520,182
International	4,399,758	-	-	4,399,758
Mutual funds—fixed income	8,290,863	-	-	8,290,863
Mutual funds—other	938,536	-	-	938,536
Total	<u>\$ 24,557,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,557,061</u>

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the Foundation's investment balances reported in the statements of financial position.

Note 4. Property Held for Sale

Property held for sale consists of donated land. All property is recorded at cost if purchased or estimated fair value when received if donated. The Foundation sold a property located in Greenville, North Carolina, during the year ended September 30, 2018, resulting in no land parcels held by the Foundation at September 30, 2018. The Foundation recorded no impairments during the year ended September 30, 2018. The Foundation recorded \$150,000 in impairments to properties during the year ended September 30, 2017, to recognize that the fair values of the properties were less than their carrying values, pursuant to guidelines provided in ASC Topic 360.

Note 5. Due to Designated Beneficiaries

The Foundation held funds payable to designated beneficiaries for the following programs at September 30, 2018 and 2017:

	2018	2017
Vidant Cancer Center and Cancer Care	\$ 13,834,991	\$ 6,561,846
Children's Hospital	9,670,744	9,977,045
Cardiovascular	405,609	404,319
Chapel Campaign	107,049	100,749
Other Hospital and health and wellness programs	3,300,098	3,284,023
Endowment	1,563,888	1,563,888
	<u>\$ 28,882,379</u>	<u>\$ 21,891,870</u>

At September 30, 2018 and 2017, approximately \$12,837,000 and \$6,745,000, respectively, of gross contributions receivable are for amounts due to designated beneficiaries.

Vidant Health Foundation

Notes to Financial Statements

Note 6. Restricted Net Assets

Temporarily restricted net assets at September 30, 2018 and 2017, are available for the following purposes:

	2018	2017
Children's programs	\$ 1,715,218	\$ 2,026,958
Community benefits and health initiatives	1,177,601	1,330,928
Other programs	537,528	374,053
	<u>\$ 3,430,347</u>	<u>\$ 3,731,939</u>

Permanently restricted net assets at September 30, 2018 and 2017, are as follows:

	2018	2017
Respiratory care scholarships	\$ 37,250	\$ 37,250
Advancement of nursing	157,005	153,309
Pediatric nursing scholarships	-	51,412
Community endowment funds	639,276	623,906
	<u>\$ 833,531</u>	<u>\$ 865,877</u>

Restricted net assets have been released from restriction in accordance with donor restrictions for the following purposes for the years ended September 30, 2018 and 2017:

	2018	2017
Children's programs	\$ 1,424,773	\$ 1,323,708
Community benefits and health initiatives	1,944,380	2,041,095
Other programs	15,000	533,068
	<u>\$ 3,384,153</u>	<u>\$ 3,897,871</u>

Note 7. Endowment Funds

Endowments are provided to the Foundation on a voluntary basis by individuals and other organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity.

Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), all unappropriated endowment funds are considered restricted. The Foundation has adopted the provisions of the financial accounting standard for endowments of nonprofit organizations (the UPMIFA Standard) with respect to the accounting for the corpus and income recognition on endowment funds.

Vidant Health Foundation

Notes to Financial Statements

Note 7. Endowment Funds (Continued)

The Foundation has several endowment funds, the income of which must be expended for specific purposes. The Foundation has adopted the provisions of the financial accounting standard for endowments of nonprofit organizations with respect to the accounting for the corpus and income recognition on endowment funds as follows:

Corpus: Endowment funds include (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. The Foundation consults with legal counsel on the interpretation of UPMIFA with regard to preserving the fair value of original gifts as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

Income: Income earned on endowment funds that is not required by the donor to be added to the corpus of the endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed in UPMIFA.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policy of the Foundation

Investment objectives and strategies: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve and grow capital; strive for consistent absolute returns; preserve purchasing power by striving for long-term returns that either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk; and diversify investments consistent with commonly accepted industry standards to minimize the risk of large losses.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management targets a diversified asset allocation that meets the Foundation's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Appropriation policy: The Foundation's appropriation or spending policy is consistent with its objective to preserve the fair value of the original gift of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Vidant Health Foundation

Notes to Financial Statements

Note 7. Endowment Funds (Continued)

Funds with deficiencies: From time to time, the fair value of assets in endowment funds may fall below the required level stipulated by the donor. In accordance with the UPMIFA Standard, deficiencies of this nature are reported in unrestricted net assets. If future investment returns do not alleviate the deficiency, the Foundation may be required to contribute additional amounts to the fund. At September 30, 2018 and 2017, there were no deficiencies.

The following table summarizes endowment fund activity, including contributions, income earned, appropriations and deficiencies, if any, for the years ended September 30, 2018 and 2017:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, September 30, 2016	\$ 159,243	\$ 836,036
Contributions	-	1,500
Investment income, net	75,620	28,341
Net assets released from restrictions	(54,500)	-
Endowment net assets, September 30, 2017	180,363	865,877
Contributions	-	1,000
Investment income, net	48,899	18,066
Net assets released from restrictions	(14,588)	(51,412)
Endowment net assets, September 30, 2018	<u>\$ 214,674</u>	<u>\$ 833,531</u>

Note 8. Related Parties

The Foundation holds assets on behalf of the Hospital and its affiliates. Assets restricted for use for the benefit of the Hospital and its affiliates were approximately \$28,900,000 and \$21,900,000 at September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, the Foundation had no contributions receivable for pledges made by the Hospital and its affiliates to the Foundation. During the years ended September 30, 2018 and 2017, the Foundation recorded contributions of \$1,730,000 and \$1,700,000 from the Hospital, respectively. In addition to the contributions, the Foundation also recorded contributed services of \$2,582,297 and \$2,527,566 at September 30, 2018 and 2017, respectively; see Note 1 for the Foundation's accounting policy on recording contributed services and a corresponding general and administrative expense. During the years ended September 30, 2018 and 2017, the Foundation paid approximately \$2,037,000 and \$1,213,000, respectively, to the Hospital and its affiliates for grants and other program activities.

Note 9. Subsequent Events

The Foundation has evaluated subsequent events occurring after September 30, 2018, through February 5, 2019, which represents the date the financial statements were available to be issued.

Compliance

**Independent Auditor's 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***

To the Board of Trustees
University Health Systems of Eastern Carolina Foundation, Inc.
d/b/a Vidant Health Foundation

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 financial statements of University Health Systems of Eastern Carolina Foundation, Inc. d/b/a Vidant Health Foundation (the Foundation), which comprise the statement of financial position as of September 30, 2018, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon, dated February 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Minneapolis, Minnesota
February 5, 2019

Vidant Health Foundation

**Schedule of Expenditures of Federal and State Awards
Year Ended September 30, 2018**

Grantor/Pass-Through Agency/Program Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Expenditures
Federal awards:			
Passed through North Carolina Department of Health and Human Services Division of Facility Services, Office of Emergency Medical Services:			
U.S. Department of Health and Human Services:			
Hospital Preparedness Program	93.074	00033594/00037318	\$ 247,125
Hospital Preparedness Program	93.074	00033594/00037318	314,976
Maternal and Child Health Services	93.994	36615/37238	<u>119,942</u>
Total expenditures of federal awards			<u><u>\$ 682,043</u></u>
State awards:			
North Carolina Department of Transportation			
Governor's Highway Safety Program		2000022437	<u>\$ 62,969</u>
Total expenditures of state awards			<u><u>\$ 62,969</u></u>

CFDA = Catalog of Federal Domestic Assistance

See notes to schedule of expenditures of federal and state awards.

Vidant Health Foundation

Notes to Schedule of Expenditures of Federal and State Awards

Note 1. Basis of Presentation

The schedule of expenditures of federal and state awards includes the federal and state grant activity of the Foundation and is presented on an accrual basis of accounting. The information in this schedule is presented in accordance with the applicable requirements of North Carolina General Statute 143C-6-23. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements of the Foundation.

Note 2. State Awards

The Hospital Preparedness Program is a federal award passed through the North Carolina Department of Health and Human Services Division of Facility Services, Office of Emergency Medical Services. This program is identified as having compliance requirements having a direct and material effect on the financial statements.

Note 3. Indirect Cost Rates

Indirect cost rates for Vidant Health Foundation were based on applicable U.S. Department of Health and Human Services negotiated rates or sponsor-specified (capped) rates. Vidant Health Foundation did not use the 10 percent de minimis indirect cost rate.

Note 4. Subrecipients

Vidant Health Foundation does not have any subrecipients.

Vidant Health Foundation

**Summary Schedule of Current-Year Audit Findings and Responses
Year Ended September 30, 2018**

I. FINANCIAL STATEMENT FINDINGS

None

II. STATE AWARD FINDINGS

None

Vidant Health Foundation

**Summary Schedule of Prior-Year Audit Findings and Responses
Year Ended September 30, 2018**

I. FINANCIAL STATEMENT FINDINGS

None

II. STATE AWARD FINDINGS

None

