

Vidant Health Foundation

Financial and Compliance Report
Years Ended September 30, 2021 and 2020

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RSM US LLP

Independent Auditor's Report

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, which comprise the statements of financial position as of September 30, 2021 and 2020, the related statements of activities, functional expenses 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 Vidant Health Foundation as of September 30, 2021 and 2020, 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 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 awards for the year ended September 30, 2021, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 15, 2022, on our consideration of Vidant Health 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 Vidant Health 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 Vidant Health Foundation's internal control over financial reporting and compliance.

RSM US LLP

Minneapolis, Minnesota
February 15, 2022

Vidant Health Foundation

**Statements of Financial Position
September 30, 2021 and 2020**

	2021	2020
Assets		
Cash and cash equivalents	\$ 1,731,782	\$ 1,899,566
Receivables:		
Contributions, net of allowance	5,699,850	6,476,003
Grants and other	202,615	224,873
Endowment receivable from Vidant Health	10,000,000	-
Cash surrender value of life insurance	45,810	42,272
Investments	30,816,861	26,008,924
	<u>30,816,861</u>	<u>26,008,924</u>
Total assets	\$ 48,496,918	\$ 34,651,638
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 661,984	\$ 1,866,981
Agency funds payable	17,771,325	18,090,648
Endowment funds held as agent	1,563,888	1,563,888
Total liabilities	19,997,197	21,521,517
Net assets:		
Without donor restrictions	11,631,940	9,493,113
With donor restrictions	16,867,781	3,637,008
Total net assets	28,499,721	13,130,121
	<u>28,499,721</u>	<u>13,130,121</u>
Total liabilities and net assets	\$ 48,496,918	\$ 34,651,638
	<u>\$ 48,496,918</u>	<u>\$ 34,651,638</u>

See notes to financial statements.

Vidant Health Foundation

**Statement of Activities
Year Ended September 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support:			
Contributions	\$ 48,728	\$ 16,735,937	\$ 16,784,665
Less: Amounts received on behalf of others	-	(2,707,499)	(2,707,499)
Net contributions	48,728	14,028,438	14,077,166
Gifts-in-kind	-	188,193	188,193
Contributed services	2,515,774	-	2,515,774
Federal and state grants	967,079	-	967,079
Less: Amounts received on behalf of others	-	(174,987)	(174,987)
Total revenue and support before releases	3,531,581	14,041,644	17,573,225
Net assets released from restrictions	1,371,692	(1,371,692)	-
Total revenue and support	4,903,273	12,669,952	17,573,225
Expenses:			
Grantmaking and program activities	2,605,135	6,604,047	9,209,182
Less: Grants made on behalf of others	-	(6,604,047)	(6,604,047)
Net grantmaking and program activities	2,605,135	-	2,605,135
Fundraising expenses	1,506,760	-	1,506,760
Management and administrative expenses	1,119,658	-	1,119,658
Total expenses	5,231,553	-	5,231,553
Change in net assets from operating activities	(328,280)	12,669,952	12,341,672
Nonoperating activities:			
Interest and dividends	313,409	156,437	469,846
Realized gains, net	810,148	661,876	1,472,024
Unrealized gains, net	1,343,550	831,458	2,175,008
Less: Investment income earned on behalf of others	-	(1,088,950)	(1,088,950)
Change in net assets from nonoperating activities	2,467,107	560,821	3,027,928
Change in net assets	2,138,827	13,230,773	15,369,600
Net assets:			
Beginning of the year	9,493,113	3,637,008	13,130,121
End of the year	\$ 11,631,940	\$ 16,867,781	\$ 28,499,721

See notes to financial statements.

Vidant Health Foundation

**Statement of Activities
Year Ended September 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support:			
Contributions	\$ 43,608	\$ 3,609,491	\$ 3,653,099
Less: Amounts received on behalf of others	-	(1,418,890)	(1,418,890)
Net contributions	43,608	2,190,601	2,234,209
Gifts-in-kind	-	165,318	165,318
Contributed services	2,061,690	-	2,061,690
Federal and state grants	1,325,591	-	1,325,591
Other grant revenue	5,591,327	-	5,591,327
Total revenue and support before releases	9,022,216	2,355,919	11,378,135
Net assets released from restrictions	3,251,145	(3,251,145)	-
Total revenue and support	12,273,361	(895,226)	11,378,135
Expenses:			
Grantmaking and program activities	10,165,658	4,774,879	14,940,537
Less: Grants made on behalf of others	-	(4,774,879)	(4,774,879)
Net grantmaking and program activities	10,165,658	-	10,165,658
Fundraising expenses	1,246,353	-	1,246,353
Management and administrative expenses	832,259	-	832,259
Total expenses	12,244,270	-	12,244,270
Change in net assets from operating activities	29,091	(895,226)	(866,135)
Nonoperating activities:			
Interest and dividends	334,083	165,989	500,072
Realized gains, net	1,326,862	711,180	2,038,042
Unrealized (losses) gains, net	(542,156)	(239,610)	(781,766)
Less: Investment income earned on behalf of others	-	(412,124)	(412,124)
Change in net assets from nonoperating activities	1,118,789	225,435	1,344,224
Change in net assets	1,147,880	(669,791)	478,089
Net assets:			
Beginning of the year	8,345,233	4,306,799	12,652,032
End of the year	\$ 9,493,113	\$ 3,637,008	\$ 13,130,121

See notes to financial statements.

Vidant Health Foundation

**Statement of Functional Expenses
Year Ended September 30, 2021**

	Grant Making & Program Service	Fundraising	Management & Administrative	Total Expenses
Grants:				
Grants awarded	\$ 8,147,008	\$ -	\$ -	\$ 8,147,008
Federal and state grant program expenses	967,079	-	-	967,079
Less: Grants made on behalf of others	(6,604,047)	-	-	(6,604,047)
Net grants awarded	2,510,040	-	-	2,510,040
Operating expenses:				
Salaries and benefits	84,899	860,211	671,078	1,616,188
Bank and merchant fees	-	-	13,062	13,062
Board and trustee expense	-	-	484	484
Computer software	-	63,735	17,177	80,912
Contract and outside services	-	309,345	323,377	632,722
Education	-	2,518	1,103	3,621
Legal and professional fees	-	27	-	27
Luncheons and refreshments	-	3,107	1,147	4,254
Marketing expense	-	26,252	1,660	27,912
Membership dues	-	5,110	3,550	8,660
Office and occupancy	10,196	61,349	81,406	152,951
Other expense	-	112,817	364	113,181
Printing and postage	-	51,291	-	51,291
Supplies	-	8,610	4,576	13,186
Travel	-	2,388	674	3,062
Total operating expenses	95,095	1,506,760	1,119,658	2,721,513
Total functional expenses	\$ 2,605,135	\$ 1,506,760	\$ 1,119,658	\$ 5,231,553

See notes to financial statements.

Vidant Health Foundation

**Statement of Functional Expenses
Year Ended September 30, 2020**

	Grant Making & Program Service	Fundraising	Management & Administrative	Total Expenses
Grants:				
Grants awarded	\$13,520,112	\$ -	\$ -	\$ 13,520,112
Federal and state grant program expenses	1,325,591	-	-	1,325,591
Less: Grants made on behalf of others	(4,774,879)	-	-	(4,774,879)
Net grants awarded	10,070,824	-	-	10,070,824
Operating expenses:				
Salaries and benefits	84,638	695,825	646,028	1,426,491
Bank and merchant fees	-	-	10,076	10,076
Board and trustee expense	-	79	3,322	3,401
Computer software	-	79,644	14,081	93,725
Contract and outside services	-	221,441	21,612	243,053
Education	-	7,606	8,755	16,361
Legal and professional fees	-	1,605	11,208	12,813
Luncheons and refreshments	-	14,365	2,241	16,606
Marketing expense	-	50,371	4,396	54,767
Membership dues	-	5,455	4,114	9,569
Office and occupancy	10,196	61,358	87,129	158,683
Other expense	-	36,203	9,752	45,955
Printing and postage	-	62,641	-	62,641
Supplies	-	3,944	5,865	9,809
Travel	-	5,816	3,680	9,496
Total operating expenses	94,834	1,246,353	832,259	2,173,446
Total functional expenses	\$ 10,165,658	\$ 1,246,353	\$ 832,259	\$ 12,244,270

Vidant Health Foundation

Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 15,369,600	\$ 478,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrealized gains and losses, net	(2,175,008)	781,766
Contributions to endowment funds	(12,004,900)	(1,000)
Changes in operating assets and liabilities:		
Contributions receivable	776,153	2,859,188
Grants and other receivables	22,258	166,499
Accounts payable	(1,204,997)	935,947
Net cash provided by operating activities	783,106	5,220,489
Cash flows from investing activities:		
Purchases of investments	(11,695,302)	(25,782,756)
Sale of investments	6,659,383	21,861,489
Cash and investments acquired in mergers	2,402,990	700,006
Change in cash surrender value of life insurance	(3,538)	(2,049)
Net cash used in investing activities	(2,636,467)	(3,223,310)
Cash flows from financing activities:		
Contributions to endowment funds	2,004,900	1,000
Net change in agency funds payable	(319,323)	(2,034,093)
Net cash provided by (used) financing activities	1,685,577	(2,033,093)
Net decrease in cash and cash equivalents	(167,784)	(35,914)
Cash and cash equivalents:		
Beginning	1,899,566	1,935,480
Ending	\$ 1,731,782	\$ 1,899,566

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 non-profit corporation formed for the primary purpose of improving the health and well-being of eastern North Carolina through advocacy and securing philanthropic resources. The Foundation fosters 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 Vidant Health Foundation merged with Chowan Regional Health Care Foundation (Chowan) effective April 1, 2020. This merger was not material to the Foundation's financial statements. Additionally, the Foundation merged with the Halifax Regional Medical Center Foundation (Halifax) effective April 1, 2021. The Vidant Health Foundation is the surviving entity as a result of both of these mergers. All assets and liabilities were transferred to the Foundation at fair value. The Chowan and Halifax transactions are further described in Note 10.

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). The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the Guide). ASC 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

When a donor makes a contribution by transferring assets to a nonprofit foundation (the recipient foundation) 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 foundation 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 foundations 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 (agency funds) by the Foundation and are not recognized as contribution revenue.

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.

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. Management believes it adequately mitigates this risk by only investing in major financial institutions. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk on cash and cash equivalents.

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. Unconditional contributions are recognized when pledged and recorded as net assets without donor restriction or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Management evaluates contributions receivable for collectability on an annual basis and estimates an allowance for uncollectible contributions based on historical charge-offs, factors related to specific donors' ability to pay, donor giving history, and current economic trends.

Conditional promises to give are not recognized as revenue until the donors' conditions are substantially met. From time to time, the Foundation may become aware of certain donors having named the Foundation in their wills. These testamentary gifts are treated as conditional promises to give and not recognized as revenue until a probate court finalizes a decedent's will, declares the will valid, and authorizes distribution of assets to the Foundation. If the value of the bequest is not known, or cannot be reasonably estimated, the contribution receivable is not recorded until amounts can be estimated with reasonable accuracy.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

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. There were none reported as of September 30, 2021 and 2020. 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 statement of activities. Realized gains and losses on disposal of marketable securities are determined on a specific-identification basis. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is presented in the statement of activities in accordance with donor restrictions as investment return. Investment return is presented net of investment fees. The average cost method is primarily used to determine the basis for computing realized gains or losses.

Agency funds payable: Agency funds payable and endowment funds held as agent represent assets held by the Foundation for the benefit of other non-profit foundations. The agency relationship is established when the Foundation receives assets from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another non-profit foundations specified by the donor. In these arrangements, the Foundation's Board does not have the unilateral power (i.e., variance power) to redirect the use of the transferred assets to another beneficiary.

Endowment funds held as agent 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.

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 \$2,515,774 and \$2,061,690 for the years ended September 30, 2021 and 2020, respectively.

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. The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Costs are accumulated into separate groupings as either direct or indirect. During the year, these costs have been allocated among grant making and program support, fundraising and administrative services. Allocations are determined by management by the relative degree of benefit provided by each expense. Staff salaries and benefits have been allocated based on time and effort.

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.

Vidant Health Foundation

Notes to Financial Statements

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

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 a foundation'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.

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 receivables and investments. The Foundation has attempted to mitigate its exposure to market risk through the diversity of its investments.

Recently adopted accounting standard: On October 1, 2020, the Foundation adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU are intended to clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. An exchange transaction will be considered by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The adoption of this standard did not have a material effect on the financial statements.

Accounting standard not yet adopted: 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 are required, so that users are able to understand more about the nature of an entity's leasing activities. The Foundation is currently assessing the impact ASU 2016-02 will have on its financial statements.

Reclassification: Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation, with no impact on net assets or changes in net assets.

Vidant Health Foundation

Notes to Financial Statements

Note 2. Liquidity and Availability

The Foundation's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 1,731,782	\$ 1,899,566
Grants and pledges receivable	1,630,577	1,876,186
Cash value of life insurance policies	45,810	42,272
Endowment receivable from Vidant Health	10,000,000	-
Investments, at fair value	30,816,861	26,008,924
Financial assets, at year-end	<u>44,225,030</u>	<u>29,826,948</u>
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	(3,658,316)	(2,506,392)
Restricted by donor with purpose restrictions, held as agent for others:	(19,335,214)	(19,654,536)
Restricted by donor with timing restrictions	<u>(13,209,465)</u>	<u>(1,130,616)</u>
Financial assets available to meet cash needs within one year	<u>\$ 8,022,036</u>	<u>\$ 6,535,405</u>

The Foundation's financial assets have been reduced by amounts that are not available for general use within one year of the statement of financial position date, amounts due to donor imposed restrictions and amounts set aside for long-term investing in endowments.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets availability based on the time horizons that its general expenditures, liabilities, and other obligations come due. Agency funds held on behalf of the Hospital are invested based on the estimated time horizon of their distribution. However, they are available upon demand by the Hospital and are considered a liability. As such, the related agency fund investment assets are considered to be assets as well. The Foundation invests all funds in high liquidity assets in the event that the Hospital makes an unanticipated request that requires a distribution of funds.

Vidant Health Foundation

Notes to Financial Statements

Note 3. Contributions Receivable

Contributions receivable consisted of the following at September 30, 2021 and 2020:

	2021	2020
Due in:		
Less than one year	\$ 11,633,571	\$ 1,876,186
One to five years	3,538,746	4,500,146
More than five years	811,869	340,833
Total	<u>15,984,186</u>	<u>6,717,165</u>
Less allowance for uncollectible accounts	(84,633)	(154,236)
Discounts to net present value	(199,703)	(86,926)
Net contributions receivable	<u>\$ 15,699,850</u>	<u>\$ 6,476,003</u>

The discount rate used in determining the net present value for the contributions receivable was approximately 1.73% and 1.00% for the years ended September 30, 2021 and 2020, respectively.

Note 4. 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.

Vidant Health Foundation

Notes to Financial Statements

Note 4. Investments and Fair Value Measurements (Continued)

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, 2021 and 2020:

	2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash equivalents	\$ 394,400	\$ -	\$ -	\$ 394,400
Equity securities	232	-	-	232
Mutual funds—equities:				
Domestic	12,915,726	-	-	12,915,726
International	5,468,747	-	-	5,468,747
Mutual funds—fixed income	12,016,941	-	-	12,016,941
Mutual funds—other	20,815	-	-	20,815
Total	<u>\$ 30,816,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,816,861</u>
	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash equivalents	\$ 218,641	\$ -	\$ -	\$ 218,641
Equity securities	5,575	-	-	5,575
Mutual funds—equities:				
Domestic	10,334,565	-	-	10,334,565
International	4,464,248	-	-	4,464,248
Mutual funds—fixed income	10,828,454	-	-	10,828,454
Mutual funds—other	157,441	-	-	157,441
Total	<u>\$ 26,008,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,008,924</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.

Vidant Health Foundation

Notes to Financial Statements

Note 5. Agency Funds Payable

The agency funds payable activity for the years ended September 30, 2021 and 2020 is as follows:

	2021	2020
Gifts received on behalf of others	\$ 2,882,486	\$ 1,418,890
Proceeds from merger (Note 10)	2,402,990	700,006
Interest and dividends (net of fees)	83,809	80,907
Net realized and unrealized gains	1,005,140	331,217
Total increases	<u>6,374,426</u>	<u>2,531,020</u>
Grant distributions	6,604,047	4,774,879
Change in net present value of pledges receivable	112,880	(252,946)
Change in allowance for doubtful accounts	(23,178)	43,180
Total decreases	<u>6,693,748</u>	<u>4,565,113</u>
Change in agency funds payable	(319,323)	(2,034,093)
Agency funds payable:		
Beginning	18,090,648	20,124,741
Ending	<u>\$ 17,771,325</u>	<u>\$ 18,090,648</u>

At September 30, 2021 and 2020, approximately \$3,752,000 and \$6,393,000, respectively, of gross contributions receivable are for amounts due to designated beneficiaries.

Note 6. Net Assets Without and With Donor Restriction

Net assets without and with donor restrictions consist of the following at September 30, 2021 and 2020:

	2021	2020
Net assets without restrictions	<u>\$ 11,631,940</u>	<u>\$ 9,493,113</u>
Net assets with donor restrictions on purpose		
Children's programs	\$ 1,673,038	\$ 663,860
Community benefits and health initiatives	1,133,632	1,166,201
Patient assistance programs	280,806	279,147
Other programs	570,840	397,184
Total net assets with restrictions on purpose	<u>\$ 3,658,317</u>	<u>\$ 2,506,392</u>
Endowment net assets with donor restrictions on timing		
Academic scholarships	\$ 10,162,793	\$ 146,826
Advancement of nursing	180,802	163,694
Patient assistance programs	153,285	153,285
Community benefit endowment funds	712,585	666,811
Cancer care	2,000,000	-
Total endowment net assets with donor restrictions	<u>\$ 13,209,465</u>	<u>\$ 1,130,616</u>

Vidant Health Foundation

Notes to Financial Statements

Note 6. Net Assets Without and With Donor Restriction (Continued)

Net assets with donor restrictions have been released from restriction in accordance with donor restrictions for the following purposes for the years ended September 30, 2021 and 2020:

	2021	2020
Children's programs	\$ 117,511	\$ 1,849,242
Community benefits and health initiatives	1,088,750	1,029,800
Patient assistance programs	112,068	129,458
Other programs	53,364	242,645
	<u>\$ 1,371,692</u>	<u>\$ 3,251,145</u>

Note 7. Endowment Funds

Endowments are provided to the Foundation on a voluntary basis by individuals and other foundations. 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 foundations (the UPMIFA Standard) with respect to the accounting for the corpus and income recognition on endowment funds.

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 foundations 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

Vidant Health Foundation

Notes to Financial Statements

Note 7. Endowment Funds (Continued)

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. Appropriations from endowment funds are approved by the Foundation's Board of Directors each year. The Board's current general spending policy is to calculate an Available to Distribute (ATD) as an amount equal to 5% of a rolling five-year average fund balance.

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 ASU 2016-14, deficiencies of this nature are reported as net assets with donor restrictions in the related endowment fund. When this occurs in any given year, the endowment is said to be "underwater," and the Board's general spending policy is to make the ATD available as follows:

Fund principal balance \geq 90% of original donated value: 100% ATD
Fund principal balance < 90% of original donated value: 50% ATD
Fund principal balance < 75% of original donated value: 0% ATD

If future investment returns do not alleviate the deficiency, the Foundation may be required to contribute additional amounts to the fund. At September 30, 2021 and 2020, there were no such deficiencies.

Vidant Health Foundation

Notes to Financial Statements

Note 7. Endowment Funds (Continued)

The following table summarizes endowment fund activity, including contributions, income earned, appropriations and deficiencies, if any, for the years ended September 30, 2021 and 2020:

	Amount	Earnings and	Restriction
Endowment net assets, September 30, 2019	\$ 1,106,582	\$ 266,336	\$ 1,372,918
Contributions	1,000	-	1,000
Investment income, net	28,034	70,642	98,676
Net assets released from restrictions	(5,000)	(17,694)	(22,694)
Endowment net assets, September 30, 2020	1,130,616	319,284	1,449,900
Contributions	12,004,900	-	12,004,900
Investment income, net	78,949	196,518	275,467
Net assets released from restrictions	(5,000)	(94,584)	(99,584)
Endowment net assets, September 30, 2021	<u>\$ 13,209,465</u>	<u>\$ 421,218</u>	<u>\$ 13,630,683</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 \$19,500,000 and \$19,700,000 at September 30, 2021 and 2020, respectively. At September 30, 2021, the Foundation had a contribution receivable in the amount of \$10,000,000 from Vidant Health to establish an endowment fund. The Foundation had no contributions receivable for pledges made by the Hospital and its affiliates to the Foundation for the fiscal year ended September 30, 2020. During the years ended September 30, 2021 and 2020, the Foundation recorded contributions of \$10,750,000 (which includes the \$10,000,000 for the endowment fund) and \$1,000,000 from the Hospital, respectively. In addition to the contributions, the Foundation also recorded contributed services of \$2,515,774 and \$2,061,690 at September 30, 2021 and 2020, respectively; see Note 1 for the Foundation's accounting policy on recording contributed services and corresponding general and administrative expenses. During the years ended September 30, 2021 and 2020, the Foundation paid approximately \$7,254,000 and \$11,752,000, 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, 2021, through February 15, 2022, which represents the date the financial statements were available to be issued.

Vidant Health Foundation

Notes to Financial Statements

Note 10. Mergers

As discussed in Note 1, The Foundation merged with Chowan Regional Healthcare Foundation on April 1, 2020, and Halifax Regional Medical Center Foundation, Inc. on April 1, 2021. The Foundation did not pay any consideration (purchase price) in these mergers and recorded the excess of the fair value of the assets acquired over liabilities assumed, under the business combination accounting guidance. All of the assets acquired were restricted for the benefit of other organizations and the Foundation does not have variance power over these assets and have been reported as an increase in agency funds payable by the Foundation at the date of the merger. The determination of fair value of the assets was based on the fair value of the investments and cash balances on the dates of the mergers. Fair value of assets acquired and liabilities assumed were as follows:

	<u>2021 (Halifax)</u>	<u>2020 (Chowan)</u>
Cash and cash equivalents	\$ 225,646	\$ 78,594
Pledge receivables	-	12,382
Investments	2,177,344	609,030
Agency funds payable	<u>(2,402,990)</u>	<u>(700,006)</u>
Net financial assets	<u>\$ -</u>	<u>\$ -</u>

Supplementary Information

**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***

Independent Auditor's Report

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, 2021, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon, dated February 15, 2022.

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 15, 2022

**Report on Compliance for the Major Federal Program and Report on
Internal Control Over Compliance Required by Uniform Guidance**

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited University Health Systems of Eastern Carolina Foundation, Inc. d/b/a Vidant Health Foundation's (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended September 30, 2021. The Foundation's major federal program is identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Vidant Health Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Vidant Health Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, Vidant Health Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of Vidant Health Foundation 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 Vidant Health Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 Vidant Health Foundation's internal control over compliance.

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

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

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

RSM US LLP

Minneapolis, Minnesota
February 15, 2022

Vidant Health Foundation

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

Grantor/Pass-Through Agency/Program Title	Federal Assistance Listing Number	Agency or Pass-Through Grantor's Number	Subrecipient	Expenditures
Federal awards:				
U.S. Department of Health and Human Services:				
Passed through North Carolina Department of Health and Human Services:				
National Bioterrorism Hospital Preparedness Program	93.889	39209/42450	\$ -	\$ 634,550
Maternal and Child Health Services	93.994	38654/41051	-	149,896
Total U.S. Department of Health and Human Services			-	784,446
Total expenditures of federal awards			\$ -	\$ 784,446

See notes to schedule of expenditures of federal awards.

Vidant Health Foundation

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Vidant Health Foundation (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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the Foundation's financial statements.

Note 2. 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% de minimis indirect cost rate.

Vidant Health Foundation

**Summary Schedule of Current Year Audit Findings and Responses
Year Ended September 30, 2021**

SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported
3. Noncompliance material to financial statements noted? Yes No

B. Federal Awards

1. Internal control over major programs:
 - Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported
2. Type of auditor's report issued on compliance for major program: Unmodified
 - Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? Yes No

3. Identification of major program:

CFDA Number	Name of Federal Program
93.889	National Bioterrorism Hospital Preparedness Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: Yes No

FINANCIAL STATEMENT FINDINGS

None reported

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported

Vidant Health Foundation

**Summary Schedule of Prior Year Audit Findings and Responses
Year Ended September 30, 2021**

The prior year audit in accordance with the applicable requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Guidance Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), disclosed no findings in the schedule of findings and questioned costs and no uncorrected or unresolved findings exist from the prior audit's summary schedule of prior audit findings.