



ECU Health Foundation

Financial Statements and
Reports and Schedules Required by
Government Auditing Standards and the
Uniform Guidance
Year Ended September 30, 2023

ECU Health Foundation

Financial Statements and Reports and Schedules Required by *Government*
Auditing Standards and the Uniform Guidance
Year Ended September 30, 2023

ECU Health Foundation

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of University Health Systems of Eastern Carolina Foundation, Inc. d/b/a ECU Health Foundation (the Foundation), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of September 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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 or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards 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 6, 2024 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 that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

BDO USA, P.C.

February 6, 2024

Financial Statements

ECU Health Foundation

Statement of Financial Position

<i>September 30,</i>	<i>2023</i>
Assets	
Cash and cash equivalents	\$ 4,568,187
Receivables	
Contributions, net of allowance	5,053,741
Grants and other	237,226
Cash surrender value of life insurance	48,470
Investments	41,800,526
Total Assets	\$ 51,708,150
Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 414,038
Agency funds payable	19,095,108
Endowment funds held as agent	1,563,888
Total Liabilities	21,073,034
Net Assets	
Without donor restrictions	10,219,286
With donor restrictions	20,415,830
Total Net Assets	30,635,116
Total Liabilities and Net Assets	\$ 51,708,150

See accompanying notes to financial statements.

ECU Health Foundation

Statement of Activities

<i>Year Ended September 30, 2023</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions	\$ 2,481,431	\$ 5,047,352	\$ 7,528,783
Less amounts received on behalf of others	(2,425,932)	-	(2,425,932)
Net contributions	55,499	5,047,352	5,102,851
Contributed goods and services	2,940,638	-	2,940,638
Federal and state grants	1,182,088	-	1,182,088
Less amounts received on behalf of others	(104,147)	-	(104,147)
Total revenue and support before releases	4,074,078	5,047,352	9,121,430
Net assets released from restrictions	1,679,496	(1,679,496)	-
Total Operating Revenue and Support	5,753,574	3,367,856	9,121,430
Expenses			
Grantmaking and program activities	5,480,311	-	5,480,311
Less grants made on behalf of others	(2,555,025)	-	(2,555,025)
Net grantmaking and program activities	2,925,286	-	2,925,286
Fundraising expenses	1,780,418	-	1,780,418
Less fundraising expenses incurred on behalf of others	(14,563)	-	(14,563)
Net fundraising expenses	1,765,855	-	1,765,855
Management and administrative expenses	1,090,206	-	1,090,206
Less administrative expenses incurred on behalf of others	(412)	-	(412)
Net management and administrative expenses	1,089,794	-	1,089,794
Total Expenses	5,780,935	-	5,780,935
Change in Net Assets from Operating Activities	(27,361)	3,367,856	3,340,495
Nonoperating Activities			
Interest and dividends	820,350	414,957	1,235,307
Realized gains, net	473,312	281,050	754,362
Unrealized gains, net	1,310,141	805,959	2,116,100
Less investment income received on behalf of others	(974,313)	-	(974,313)
Change in Net Assets from Nonoperating Activities	1,629,490	1,501,966	3,131,456
Change in Net Assets	1,602,129	4,869,822	6,471,951
Net Assets - Beginning of Year	8,617,157	15,546,008	24,163,165
Net Assets - End of Year	\$ 10,219,286	\$ 20,415,830	\$ 30,635,116

See accompanying notes to financial statements.

ECU Health Foundation

Statement of Functional Expenses

<i>Year Ended September 30, 2023</i>	Grant Making and Program Service	Fundraising	Management and Administrative	Total Expenses
Grants				
Grants awarded	\$ 4,152,594	\$ -	\$ -	\$ 4,152,594
Federal and state grant program expenses	1,182,088	-	-	1,182,088
Less grants made on behalf of others	(2,555,025)	-	-	(2,555,025)
Total Grants	2,779,657	-	-	2,779,657
Operating Expenses				
Salaries and benefits	121,146	868,066	601,471	1,590,683
Bank and merchant fees	-	-	27,185	27,185
Board and trustee expense	-	-	9,013	9,013
Computer software	7,235	49,367	1,380	57,982
Contract and outside services	-	443,289	326,185	769,474
Education	-	21,735	12,756	34,491
Legal and professional fees	-	314	-	314
Luncheons and refreshments	-	40,426	3,752	44,178
Marketing expense	-	9,965	7,199	17,164
Membership dues	-	5,529	4,673	10,202
Office and occupancy	17,248	115,238	80,696	213,182
Other expense	-	111,017	162	111,179
Printing and postage	-	82,748	-	82,748
Supplies	-	26,684	13,321	40,005
Travel	-	6,040	2,413	8,453
Less expenses incurred on behalf of others	-	(14,563)	(412)	(14,975)
Total Operating Expenses	145,629	1,765,855	1,089,794	3,001,278
Total Functional Expenses	\$ 2,925,286	\$ 1,765,855	\$ 1,089,794	\$ 5,780,935

See accompanying notes to financial statements.

ECU Health Foundation

Statement of Cash Flows

<i>Year Ended September 30,</i>	<i>2023</i>
Operating Activities	
Change in net assets	\$ 6,471,951
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Change in unrealized gains on investments, net	(2,116,100)
Contributions to endowment funds	(2,512,155)
Changes in operating assets and liabilities:	
Contributions receivable	881,238
Grants and other receivables	8,868
Accounts payable	53,420
Agency funds payable	1,556,718
Net Cash Provided by Operating Activities	4,343,940
Investing Activities	
Purchases of investments	(11,445,136)
Proceeds from sale of investments	3,714,229
Cash and investments acquired in merger	551,973
Change in cash surrender value of life insurance	(1,925)
Net Cash Used in Investing Activities	(7,180,859)
Financing Activities	
Contributions to endowment funds	2,512,155
Net Cash Provided by Financing Activities	2,512,155
Net Decrease in Cash and Cash Equivalents	(324,764)
Cash and Cash Equivalents - Beginning of Year	4,892,951
Cash and Cash Equivalents - End of Year	\$ 4,568,187

See accompanying notes to financial statements.

ECU Health Foundation

Notes to Financial Statements

1. Nature of Activities and Significant Accounting Policies

University Health Systems of Eastern Carolina Foundation, Inc. d/b/a ECU 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 is a perpetual fundraising organization. The Foundation fosters the improvement and development of Pitt County Memorial Hospital, Inc. d/b/a ECU Health Medical Center (the Hospital) and other health care organizations, as approved by the Board of Trustees (the Board). The Board is independent and self-perpetuating, consisting of up to 30 trustees each serving three-year staggered terms. The Foundation merged with the Marion L. Shepard Cancer Center Foundation effective October 1, 2022. The ECU Health Foundation is the surviving entity as a result of this merger.

The Foundation entered into a joint operating agreement with East Carolina University Medical & Health Sciences Foundation, Inc. on December 31, 2022. The foundations continue to operate as separate legal entities, but work in partnership under common management. Although continuing to operate separately, both foundations used the d/b/a ECU Health Foundation beginning April 11, 2023.

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 accompanying 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). Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Use of Estimates

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. 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. At September 30, 2023, the Foundation's uninsured cash balance totaled approximately \$484,000. Management believes it adequately mitigates this risk by only investing in major financial institutions. The Foundation has not experienced any losses in such

ECU Health Foundation

Notes to Financial Statements

account and management believes the Foundation is not exposed to any significant credit risk on cash and cash equivalents.

Contributions

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. 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. The Foundation provides an allowance for uncollectible contributions equal to the estimated uncollectible amounts. Management's estimate is based on historical charge-offs, factors related to specific donors' ability to pay, donor giving history, and current economic trends. If amounts become uncollectible, they will be charged to operations in the period in which that determination is made.

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

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.

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Notes to Financial Statements

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.

The Foundation contracts with Partners Group to participate in an equity investment fund Partners Group Private Equity Master Fund, LLC (Master Fund). To the extent available, investments are reported at fair value based on quoted prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 5. The fair value investment of Master Fund is based on amounts reported to the Foundation by Partners Group. The Foundation's management reviews and evaluates the values provided by Partners Group as well as the valuation methods and assumptions used in determining the fair values of such investments. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Long-Lived Assets and Assets Held for Sale

Donated property and other noncash donations are recorded at their fair values at the date of donation. Donated assets are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. The Foundation evaluates long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability of these assets is based on an estimate of the undiscounted future cash flows resulting from the use of the assets and their eventual disposition. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the useful lives of the assets are revised, or the assets are written down to their estimated fair values.

Agency Funds Payable

Agency funds payable and endowment funds held on behalf of others represent assets held by the Foundation for the benefit of other non-profit organizations. The agency relationship is established when the Foundation receives assets from a donor and agreed to transfer those assets, the return on investment of those assets, or both to another non-profit organization specified by the donor. In these arrangements, the Board does not have the unilateral power (i.e., variance power) to redirect the use of the transferred assets to another beneficiary. As the fiscal agent, the Foundation is the custodian of the funds and is responsible for the administration and disbursement of funds as directed by the donor agreements.

Endowment funds held on behalf of others 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.

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Notes to Financial Statements

Net Assets

The Foundation's net assets are classified and reported based on the existence or absence of donor-imposed restrictions 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 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 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 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 (agency funds) by the Foundation and are not recognized as contribution revenue.

Contributed Goods and Services

The Foundation receives various forms of contributed goods including medical supplies, meals for team members, toys and games for the children's hospital and resources for cancer patients. Contributed goods are reported as contributions at fair value based on the date of receipt and reported as expense when utilized. Contributed goods are recorded based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering the condition and utility for use at the time the goods are contributed by the donor. Contributed goods are primarily distributed for programmatic use with patients and employees, except for items contributed for special events. Items contributed for special events are primarily used for fundraising to further the mission of the Foundation. Contributed goods totaled approximately \$64,000 for the year ended September 30, 2023.

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 contributions of nonfinancial assets along with related offsetting general and administrative expenses. Contributions of nonfinancial assets from the Hospital totaled approximately \$2,877,000 for the year ended September 30, 2023.

ECU Health Foundation

Notes to Financial Statements

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 statement 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 on a reasonable basis that is consistently applied. Staff salaries and benefits have been allocated based on time and effort. Office rent is allocated on a pro rata basis based on full time equivalent head count for each function. Head count for each function is adjusted for individuals that hold cross functional roles. Most expenses are considered direct for one specific function. If an expense is indirect or cross-function, then management would determine the appropriate allocation on a case-by-case basis.

Income Taxes

The Foundation has a tax determination letter from the Internal Revenue Service stating that it qualifies under section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes; accordingly, the accompany financial statements do not reflect a provision or liability for federal and state income taxes. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2023.

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

Accounting Pronouncements Issued and Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* (ASU 2016-02). The amendments in ASU 2016-02 created FASB ASC Topic 842, *Leases* (ASC Topic 842), and superseded the requirements in ASC Topic 840, *Leases* (ASC Topic 840). ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the statement of financial position a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The Foundation adopted ASU 2016-02 for the annual period ending September 30, 2023, using the modified retrospective approach. Under this transition approach, results for reporting periods beginning on October 1, 2022, are presented under ASC Topic 842.

The adoption of the new lease standard did not impact the statement of financial position, statement of activities, nor the statement of cash flows.

ECU Health Foundation

Notes to Financial Statements

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:

<i>September 30,</i>	<i>2023</i>
Financial Assets	
Cash and cash equivalents	\$ 4,568,187
Grants and contributions receivable	5,290,967
Cash value of life insurance policies	48,470
Investments	41,800,526
Total financial assets	51,708,150
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions:	
Restricted by donor with purpose restrictions	(4,838,826)
Restricted by donor with purpose restrictions, held as agent for others	(20,765,251)
Restricted by donor with timing restrictions	(15,647,554)
Financial assets available to meet cash needs within one year	\$ 10,456,519

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

The Foundation's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

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 current liability. As such, the related agency fund investment assets are considered to be current assets as well. The Foundation invests all funds in high liquidity assets in the event that the Hospital, or other beneficiary, makes an unanticipated request that requires a distribution of funds.

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Notes to Financial Statements

3. Contributions Receivable

Contributions receivable consisted of the following at:

<i>September 30,</i>	<i>2023</i>
Due in:	
Less than one year	\$ 1,868,718
One to five years	3,245,323
More than five years	355,238
Contributions receivable, gross	5,469,279
Less allowance for uncollectible accounts	(75,623)
Discounts to net present value	(339,915)
Contributions receivable, net	\$ 5,053,741

The discount rate used in determining the net present value for the contributions receivable was approximately 4.19% for the year ended September 30, 2023.

4. Contributed Goods and Services

Contributed amounts from the Hospital consisted of the following amounts:

<i>Year ended September 30,</i>	<i>2023</i>
Contributed Goods and Services	
Salaries and benefits	\$ 1,590,685
Contract services	671,496
Rents and utilities	217,938
Computer software	57,982
Other fundraising and administrative costs	338,651
Total	\$ 2,876,752

Contributed amounts from others consisted of the following:

<i>Year ended September 30, 2023</i>	<i>2023</i>
Contributed Goods and Services	
Employee meals	\$ 125
Children's hospital gifts	35,336
Cancer patient supplies	16,624
Medical supplies	25
Special event donations	11,776
Total	\$ 63,886

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Notes to Financial Statements

5. Investments and Fair Value Measurements

Fair value as defined under U.S. GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs are other than quoted prices included in Level 1 that are observable for an asset or liability through corroboration with market data at the measurement date.

Level 3: Pricing inputs include those that are significant to the fair value of the financial asset or liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

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 U.S. GAAP. 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 for impairment assessment.

As described in Note 2, the Foundation contracted with Partners Group to participate in an equity investment fund, the Master Fund. The objective of the Master Fund is to diversify its exposure to all asset classes by utilizing multiple investment managers that use a variety of investment strategies. The Master Fund is an external investment pool that is registered with the Securities and Exchange Commission and is subject to regulatory oversight. Asset and ownership interest of the Master Fund are determined at net asset value each month and in accordance with the Master Fund's operating procedures. At September 30, 2023, the Hospital had approximately \$2,746,000 invested with the Master Fund. The Master Fund manages the assets, primarily in equity and equity-based securities in accordance with the investment policy approved by its board. The Master Fund services the securities and maintains all related accounting records. Deposit and investment risks associated with the Master Fund are included in audited financial statements of the Master Fund, which may be obtained from the SEC website.

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Notes to Financial Statements

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:

<i>September 30, 2023</i>	Level 1	Level 2	Level 3	NAV	Total
Cash equivalents	\$ 994,743	\$ -	\$ -	\$ -	\$ 994,743
Equity securities	273	-	-	-	273
Mutual funds—equities:					
Domestic	13,649,812	-	-	-	13,649,812
International	6,968,430	-	-	-	6,968,430
Mutual funds—fixed income	14,965,348	-	-	-	14,965,348
Mutual funds—other	2,475,912	-	-	-	2,475,912
Private equity / venture capital	-	-	-	2,746,008	2,746,008
Total	\$39,054,518	\$ -	\$ -	\$ 2,746,008	\$41,800,526

The fair values of certain investments in mutual funds are estimated using the net asset value (NAV) per share of the investments. As such, they are not included in Level 1, 2 or 3 in the above table. The Foundation may redeem its investments measured at NAV within a stated time period, subject to certain fund availability restrictions. These valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Redemptions are generally permitted quarterly, subject to certain restrictions, which include a notice period of 20 days.

Redemption Information for Assets Valued at NAV Fair Value as of September 30, 2023

Classification	NAV	Redemption Terms	Days' Notice
Private equity/venture capital	\$2,746,008	Quarterly	20 days
Total assets valued at NAV	\$2,746,008		

Private equity funds had no remaining unfunded commitments as of September 30, 2023.

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 statement of financial position.

ECU Health Foundation
Notes to Financial Statements

6. Agency Funds Payable

The agency funds payable consisted of the following:

<i>Year ended September 30,</i>	<i>2023</i>
Gifts received on behalf of others	\$ 2,530,079
Proceeds from merger	551,973
Interest and dividends (net of fees)	228,458
Net realized and unrealized gains	745,855
Change in net present value of contributions receivable	111,529
Total increases	4,167,894
Grant distributions	2,555,025
Fundraising expenditures	14,563
Administrative expenditures	412
Change in allowance for doubtful accounts	41,176
Total decreases	2,611,176
Change in agency funds payable	1,556,718
Agency Funds Payable - Beginning of Year	17,538,390
Agency Funds Payable - End of Year	\$ 19,095,108

At September 30, 2023, approximately \$3,062,000 of gross contributions receivable are for amounts due to designated beneficiaries.

ECU Health Foundation
Notes to Financial Statements

7. Net Assets Without and With Donor Restriction

Net assets with and without donor restrictions consist of the following:

September 30, **2023**

Net assets without restrictions	\$ 10,219,286
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Net assets with restrictions on purpose	
Children's programs	3,104,063
Community benefits and health initiatives	915,326
Patient assistance programs	331,247
Other programs	417,640
Total net assets with restrictions on purpose	4,768,276

September 30, **2023**

Endowment net assets with donor restrictions	
Academic scholarships	12,842,078
Advancement of nursing	192,767
Patient assistance programs	153,285
Community benefit endowment funds	623,862
Cancer care	1,835,562
Total endowment net assets with donor restrictions	15,647,554
Total net assets with donor restrictions	\$ 20,415,830

Net assets with donor restrictions were released from restriction in accordance with donor restrictions for the following purposes:

Year ended September 30, **2023**

Children's programs	\$ 626,418
Community benefits and health initiatives	849,250
Patient assistance programs	159,486
Other programs	44,342
Total net assets released from restrictions	\$ 1,679,496

ECU Health Foundation

Notes to Financial Statements

8. 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.

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, 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.

ECU Health Foundation

Notes to Financial Statements

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 Board 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 5-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, 2023, there was a deficiency of approximately \$11,000.

The following table summarizes endowment fund activity, including contributions, income earned, appropriations and deficiencies, if any:

<i>Year ended September 30, 2023</i>	Original Gift Amount	Accumulated Earnings and Other	Total With Donor Restriction
Endowment net assets, September 30, 2022	\$ 11,950,576	\$ 205,618	\$ 12,156,194
Contributions	2,512,155	-	2,512,155
Investment income, net	1,234,062	106,023	1,340,085
Net assets released from restrictions	(5,000)	(24,213)	(29,213)
Less: contributions receivable discount	(44,239)	-	(44,239)
Endowment net assets, September 30, 2023	\$ 15,647,554	\$ 287,428	\$ 15,934,982

ECU Health Foundation

Notes to Financial Statements

9. 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 \$20,800,000 at September 30, 2023. During the year ended September 30, 2023, the Foundation recorded contributions of financial assets of \$845,900 from the Hospital. In addition to the contributions, the Foundation also recorded contributed services of approximately \$2,877,000 for the year ended September 30, 2023; see Note 1 for the Foundation's accounting policy on recording contributed services and corresponding general and administrative expenses. During the year ended September 30, 2023, the Foundation distributed approximately \$3,555,000 to the Hospital and its affiliates for grants and other program activities.

10. Subsequent Events

The Foundation has evaluated subsequent events occurring after September 30, 2023, through February 6, 2024, which represents the date the financial statements were available to be issued.

Reports and Schedules Required by *Government Auditing Standards* and the Uniform Guidance



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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 ECU Health Foundation
Greenville, North Carolina

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 the University Health Systems of Eastern Carolina Foundation, Inc. d/b/a ECU Health Foundation (the Foundation), which comprise the Foundation's statement of financial position as of September 30, 2023, and 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 6, 2024.

Report on 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) as a basis for designing 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, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, P.C.

February 6, 2024



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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited University Health Systems of Eastern Carolina Foundation, Inc.'s d/b/a ECU Health Foundation (the Foundation) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended September 30, 2023. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Foundation's compliance with the compliance requirements referred to above.



Responsibilities of Management

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Foundation's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

BDO USA, P.C.

February 6, 2024

ECU Health Foundation

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

Federal Grantor/Pass-Through Agency/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided To Subrecipient	Total Federal Expenditures
Department of Health and Human Services				
Passed through awards from NC Department of Health and Human Services:				
National Bioterrorism Hospital Preparedness Program	93.889	42450/44023	\$ -	\$ 682,101
Maternal and Child Health Services	93.994	42946/44594	-	149,771
			-	831,872
Total Expenditures of Federal Awards			\$ -	\$ 831,872

ECU Health Foundation

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of University Health Systems of Eastern Carolina Foundation, Inc. d/b/a ECU Health Foundation (the Foundation) for the year ended September 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Foundation.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are recognized under the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rates

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

ECU Health Foundation

Schedule of Findings and Questioned Costs Year Ended September 30, 2023

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of federal major programs:

Assistance Listing Number(s)

93.889

Name of Federal Program or Cluster

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

ECU Health Foundation

Schedule of Findings and Questioned Costs Year Ended September 30, 2023

II. Financial Statement Findings

There are no audit findings that relate to the financial statements for which *Government Auditing Standards* requires reporting.

III. Federal Award Findings and Questioned Costs

There are no audit findings to be reported under 2 CFR 200.516(a).