

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

Dogwood Health Trust

December 31, 2020 and 2019



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Dogwood Health Trust

We have audited the accompanying consolidated financial statements of Dogwood Health Trust and subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dogwood Health Trust and subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Charlotte, North Carolina
June 7, 2021

Dogwood Health Trust
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31,

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 34,852,791	\$ 6,722,180
Sales tax receivables	266,802	69,652
Investments, at fair value (Note N)	1,652,927,563	1,092,619,441
Program related investments, net	1,400,000	-
Fixed assets, net	8,760,102	181,356
Other assets	1,852,130	277,643
	-	-
Total assets	\$ 1,700,059,388	\$ 1,099,870,272
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	\$ -	\$ 365,000
Accounts payable	1,030,855	1,107,682
Notes payable	14,750,539	-
Other liabilities	-	179,414
Total liabilities	15,781,394	1,652,096
Net assets without donor restrictions	1,684,277,994	1,098,218,176
Total liabilities and net assets	\$ 1,700,059,388	\$ 1,099,870,272

The accompanying notes are an integral part of these consolidated financial statements.

Dogwood Health Trust
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended December 31,

	2020	2019
Revenues		
Contributions received	\$ 379,827,326	\$ 1,053,052,882
Investment returns, net	247,837,655	50,851,894
Total revenues	627,664,981	1,103,904,776
Expenses		
Compensation and benefits	5,821,466	2,377,394
Professional fees	3,124,125	2,084,772
Other expenses	3,049,181	859,434
Total expenses	11,994,772	5,321,600
Grants approved		
Grants approved	29,610,391	365,000
Total grants approved	29,610,391	365,000
Change in net assets	586,059,818	1,098,218,176
Net assets at beginning of year	1,098,218,176	-
Net assets at end of year	\$ 1,684,277,994	\$ 1,098,218,176

The accompanying notes are an integral part of these consolidated financial statements.

Dogwood Health Trust
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31,

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 586,059,818	\$ 1,098,218,176
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution revenue - investments	(258,118,350)	(938,277,461)
Contribution revenue - furniture, fixtures and equipment	-	(207,750)
Depreciation expense	60,310	30,198
Amortization and writeoff of ROU asset	177,866	143,113
Unrealized appreciation on assets	(250,529,277)	(51,577,444)
Allowance for bad debt	700,000	-
Changes in operating assets and liabilities:		
Sales tax receivables	(197,150)	(69,652)
Other assets	(1,752,353)	(420,756)
Grants payable	(365,000)	365,000
Accounts payable	(76,827)	1,107,682
Other liabilities	(179,414)	179,414
	75,779,623	109,490,520
Cash flows from investing activities:		
Purchases of furniture, fixtures, and equipment	(11,895)	(3,804)
Purchases of Land and buildings	(8,627,161)	-
Sales of program related investments	10,100,000	-
Purchases of program related investments	(12,200,000)	-
Sales of investments	410,370,884	193,494,920
Purchases of investments	(462,031,379)	(296,259,456)
	(62,399,551)	(102,768,340)
Cash flows from financing activities:		
Proceeds from notes payable	15,000,000	-
Payments on notes payable	(249,461)	-
	14,750,539	-
NET INCREASE IN CASH	28,130,611	6,722,180
Cash, beginning of year	6,722,180	-
Cash, end of year	\$ 34,852,791	\$ 6,722,180

The accompanying notes are an integral part of these consolidated financial statements.

Dogwood Health Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - ORGANIZATION

Dogwood Health Trust (the "Trust") was established in May 2018 in anticipation of the sale of Mission Health System, Inc., and its affiliates, which occurred on January 31, 2019. The Trust is to have a perpetual existence to achieve its purpose, which is to dramatically improve the health and well-being of all people and communities of Western North Carolina. The Trust has been classified as a private non-operating foundation and, accordingly, is subject to federal excise taxes imposed on net investment income, including realized capital gains. The Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

NOTE B - METHOD OF ACCOUNTING

The Trust presents its financial statements on an accrual basis in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

NOTE C - BASIS OF PRESENTATION

The net assets of the Trust and changes therein are classified and reported as follows:

- a. *Net assets without donor restrictions* - These amounts are free from donor restrictions and are available for appropriation to the beneficiaries of the Trust and for necessary costs to administer the funds.
- b. *Net assets with donor restrictions* - These amounts are subject to donor restrictions that will be met by the actions of the board of directors ("Board"). As of December 31, 2020 and 2019, there were \$0 held as Net assets with donor restrictions.

Interest and dividends are reported as increases in net assets without donor restrictions. Realized and unrealized gains and losses are reported as increases or decreases in net assets without donor restrictions. Expenses and appropriations are recorded as decreases in net assets without donor restrictions.

The Trust has elected to implement the requirements of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). As a result of this implementation and if the Trust receives donor restricted funds, the Trust will classify donor restricted net assets maintained in perpetuity at the original value of original corpus less distributions specified by the donor.

NOTE D - CASH AND CASH EQUIVALENTS

Consist primarily of cash deposits held at the Trust's banking institution. The Trust maintains cash balances that may be in excess of FDIC insured limits. Cash equivalents are investments with a duration of 3 months or less.

NOTE E - INVESTMENTS

The Trust accounts for investments under Accounting Standards Codification (ASC 958), Not-for-Profit Entities, through which the Trust has elected to record investments at estimated fair market value with gains and losses included in the statements of activities. Realized gains and losses are recognized when securities are sold based on the average cost method. Unrealized gains and losses are recognized as the value of the underlying investments fluctuate, but not distributed to the Trust.

Dogwood Health Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE F - PROPERTY, PLANT, AND EQUIPMENT

Furniture and equipment owned by the Trust are stated at cost at the date of acquisition. Useful lives range from 7 years for furniture and 5 years for technological equipment. Depreciation is calculated on the straight-line basis over the assets' estimated useful lives.

In 2020, the Trust purchased 2 buildings and the surrounding land. Useful lives of the buildings are 39 years. Depreciation is calculated on the straight-line basis over the assets' estimated useful lives.

NOTE G - GRANTS PAYABLE

The Trust records grants payable once the Grants Committee recommends to the Board and they approve the recommendation. Once approved, each grantee receives and is required to sign a grant agreement stipulating the requirements of the grant. Grants are not paid until the signed grant agreement is received by the Trust. For the years ended December 31, 2020 and 2019, the Trust had grants payable totaling and \$0 and \$365,000, respectively.

NOTE H - TAX PROVISIONS

The Trust is exempt from federal and state income taxes on related income under Section 501(c)(3) of the IRC and is classified as a private foundation. Therefore, the Trust is subject to federal excise taxes imposed on net investment income, including realized gains. The annual federal excise tax is 1.39 percent of net investment income provided certain distribution requirements are met. In addition to excise taxes, the Trust may be required to pay unrelated business income tax on some of its private investments. As of December 31, 2020, the Trust does not expect these amounts to be material.

NOTE I - FAIR VALUE MEASUREMENTS

The Trust considers various factors in determining fair value of its investments, including cost, investment type, additional purchases of similar investments, the financial position of the underlying investments and other relevant factors.

The Trust, in accordance with ASC 820, discloses its assets and liabilities, recorded at fair value into the "fair value hierarchy." Fair value is defined, by US GAAP, as 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. Certain Trust assets are held in various alternative investments, including limited partnerships that invest in the securities of companies, hedge funds and other investments, may not be immediately liquid and do not have a readily determinable fair value. The partnerships' general partners, who must follow the valuation guidelines stipulated in their respective limited partnership agreements, determine the fair value of such partnership investments. For its alternative investments, the Trust is eligible and has utilized the practical expedient method to measure fair value under generally accepted accounting principles. In accordance with the practical expedient method, the net asset value ("NAV") reported by the underlying alternative investment is concluded to represent the fair value.

Level 1 - Quoted prices in active markets for identical assets or liabilities.;

Level 2 - Valuation based on market observables. An identical asset may not exist, or the market may be less active, or a quote price is unavailable; and

Level 3 - Unobservable valuation used when Level 1 and Level 2 inputs are not available.

Dogwood Health Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE J - RISKS AND UNCERTAINTIES

A significant amount of the Trust's assets are held in multiple types of investment vehicles and strategies. These investments are subject to various risks, including changes in interest rates, underlying asset credit risks, liquidity risks, foreign exchange risks and general market volatility. In addition to these risks, a portion of the Trust's investments are in alternative investments which contain redemption limitations. Generally, alternative investment transactions are completed through secondary markets and therefore inherently are subject to the risks associated with these markets. This has the potential to affect the estimated fair value of these alternative investments.

In March 2020, the United States government declared COVID-19 outbreak a national emergency. While the national emergency could adversely affect the Trust's future financial condition and results of operations, the impact remains uncertain at this time.

NOTE K - USE OF ESTIMATES

The Trust has made certain estimates and assumptions relating to the reporting of its assets, liabilities, revenues and expenses in conformity with US GAAP. Actual results could differ from these estimates. Assets without readily determinable fair values contain such risks.

NOTE L - LIQUIDITY

The Trust manages its financial assets to be available as its operating expenditures, and obligations are due. The Trust invests excess cash in short-duration fixed income vehicles to maximize returns. Currently, the Trust does not use any debt instruments to supplement its cash reserves.

	<u>2020</u>	<u>2019</u>
Total assets	\$ 1,700,059,388	\$ 1,099,870,272
Less:		
Illiquid investments	273,481,757	5,821,304
Property, plant, and equipment	8,760,102	181,356
Other assets	<u>1,852,130</u>	<u>211,683</u>
Financial assets available within one year	<u>\$ 1,415,965,399</u>	<u>\$ 1,093,655,929</u>

NOTE M - PROVISION FOR TAX LIABILITY

During 2020 and 2019, the Trust recorded a provision for estimated excise taxes in the amount of \$503,696 and \$235,288, respectively. These expenses are recorded in Other Expenses on the statement of activities.

Dogwood Health Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE N - INVESTMENTS

The table below shows investments by class.

	2020		2019	
	Cost Value	Market Value	Cost Value	Market Value
Fixed income	145,768,719	144,410,495	383,950,027	389,600,003
Equities	595,458,287	729,468,114	392,864,023	425,692,897
Hedged strategies	384,145,432	500,779,005	215,406,643	228,505,237
Private investments	207,870,573	272,269,949	5,821,304	5,821,304
Cash in transit	6,000,000	6,000,000	43,000,000	43,000,000
	<u>1,339,243,011</u>	<u>1,652,927,563</u>	<u>1,041,041,997</u>	<u>1,092,619,441</u>

Fixed Income - includes corporate debt securities and funds holding similar investments as well as debt-based derivatives.

Equities - include domestic and non-domestic stocks as well as long-only stock funds.

Hedged Strategies - include interest in partnerships which invest in multiple strategies, including long and short domestic and international equities, credit and event-arbitrage strategies.

Private Investments - Include interests in partnerships that hold illiquid investments which include venture capital and private equity strategies.

As of December 31, 2020, redemption frequency and the corresponding notice period for all investments are presented in the table below. Unfunded commitments listed in the following table are as of December 31, 2020. The Trust measures fair value at the amount anticipated to be received to sell a particular asset at the date of measurement. Guidance lists the assumptions that market participants would use in pricing the asset into a three-tier fair value hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs would include, for example, quoted prices for similar assets or liabilities. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of a market participant that holds the asset or owes the liability.

Dogwood Health Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

	2020			2019		
	Unfunded Commitments	Liquidity (Days)	Notice (Days)	Unfunded Commitments	Liquidity (Days)	Notice (Days)
Fixed income	\$ -	1 to 7	1	\$ -	1 to 7	1
Equities	-	1 to 30	1 to 30	-	1 to 30	1 to 30
Hedged strategies	6,152,100	1 to 365	1 to 180	-	1 to 365	1 to 180
Private investments	134,191,916	Illiquid	N/A	13,090,746	Illiquid	N/A
Cash in transit	-	N/A	N/A	-	N/A	N/A
December 31, 2020	Market	Level 1	Level 2	Level 3	NAV	
Fixed income	\$ 144,410,495	\$ 31,491,437	\$ 43,509,619	\$ -	\$ 69,409,439	
Equities	729,468,114	384,272,446	-	-	345,195,668	
Hedged	500,779,005	-	-	-	500,779,005	
Private investments	272,269,949	-	-	-	272,269,949	
Cash in transit	6,000,000	6,000,000	-	-	-	
Total	\$ 1,652,927,563	\$ 421,763,883	\$ 43,509,619	\$ -	\$ 1,187,654,061	
December 31, 2019	Market	Level 1	Level 2	Level 3	NAV	
Fixed income	\$ 389,600,003	\$ 50,438,819	\$ 339,161,184	\$ -	\$ -	
Equities	425,692,897	239,010,284	-	-	186,682,613	
Hedged	228,505,237	-	-	-	228,505,237	
Private investments	5,821,304	-	-	2,430,238	3,391,066	
Cash in transit	43,000,000	43,000,000	-	-	-	
Total	\$ 1,092,619,441	\$ 332,449,103	\$ 339,161,184	\$ 2,430,238	\$ 418,578,916	

Level 3 investments totaling \$2,430,238 from 2019 were reclassified to NAV for 2020.

Dogwood Health Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE O - FIXED ASSETS

Property and equipment, net is summarized as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Buildings	\$ 5,184,471	\$ -
Land	3,286,835	-
Furniture and fixtures	167,250	167,250
Equipment	56,198	44,304
Other	155,856	-
	<u>8,850,610</u>	<u>211,554</u>
Gross		
	8,850,610	211,554
Accumulated depreciation	<u>(90,508)</u>	<u>(30,198)</u>
Net fixed assets	<u>\$ 8,760,102</u>	<u>\$ 181,356</u>

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable in the future. The test to determine this possible impairment is based on the future cash flows, undiscounted, expected to result from the remaining useful life of the asset. Recognition of this impairment and measurement thereof, occurs when the asset's carrying value exceeds its fair value. As of December 31, 2020 and 2019, no impairment was identified or recognized.

NOTE P - CONTRIBUTIONS RECEIVED

During 2020, the Trust received \$379,827,327 in cash and investments. The majority of these contributions were made pursuant the Agreement for Assignment and Transfer of Rights and Assets made between Mission Health System, Inc., ANC Healthcare, Inc., and the Trust. The majority of the remaining assets from ANC Healthcare, Inc. are expected to be received during 2021.

NOTE Q - LEASES

In February 2016, the FASB issued a new standard related to leases to increase their transparency and comparability among organizations. The new standard requires the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet for leases classified as operating leases. The Trust elected to early adopt the standard effective February 1, 2019. The balance sheet recognition of the operating lease related to the office space did not have a material impact on the financial statements. Operating leases are included in the Other Assets and Other Liabilities on the balance sheet.

ROU assets represent the Trust's right to use an underlying asset for the lease term and the lease liabilities represent the Trust's obligation to make payments related to the lease. The asset and liability are recognized at the commencement date based on the present value of lease payments over the term of the lease. The Trust uses an estimated borrowing rate as its discount rate to determine the present value of the lease payments. Since the Trust did not have outstanding debt when the lease commenced, an estimate was used based upon available borrowing rates given comparable terms.

Dogwood Health Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

In 2019, the interest on the lease liability was \$11,787 and the amortization of the ROU asset was \$143,113.

	2019
Total lease cost:	
Right of use asset	\$ 320,979
Amortization	143,113
Right of use asset - year end	\$ 177,866
Operating lease liability	\$ 179,414
Supplemental lease information:	
Cash paid (lease expense)	\$ 153,352
Interest expense	11,787

In 2020, the Trust terminated the lease contract in order to purchase the property. At the time of the termination, the right of use asset was \$137,697 and the lease liability was \$139,104 which resulted in a gain of \$1,407. As of December 31, 2020, the asset and liability were each \$0. The interest on the lease liability and amortization of the right of use asset is included in Other Expenses on the statement of activities.

NOTE R - FUNCTIONAL EXPENSES

The cost of program activities and administrative needs have been summarized on a functional basis on the statement of activities. The statement of functional expenses presents expenditures by function and classification. Expenses directly attributable to a specific functional area are reported within that functional area.

Expenses are reported on the statement of activities in natural categories. Functional expenses were categorized as follows:

December 31, 2020

Type	Administrative Services	Legacy Support	Total
Compensation and benefits	\$ 5,666,014	\$ 155,452	\$ 5,821,466
Professional fees	3,095,412	28,713	3,124,125
Lease expense	234,353	-	234,353
Insurance	190,017	-	190,017
Depreciation	60,310	-	60,310
Travel and education	36,195	-	36,195
Other expenses	2,268,206	-	2,268,206
Technology	110,340	149,760	260,100
	\$ 11,660,847	\$ 333,925	\$ 11,994,772

Dogwood Health Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

December 31, 2019

<u>Type</u>	<u>Administrative Services</u>	<u>Legacy Support</u>	<u>Total</u>
Compensation and benefits	\$ 2,020,334	\$ 357,060	\$ 2,377,394
Professional fees	2,050,034	34,738	2,084,772
Lease expense	155,429	-	155,429
Insurance	82,013	-	82,013
Depreciation	27,101	3,098	30,199
Travel and education	46,672	3,083	49,755
Other expenses	298,722	1,244	299,966
Technology	64,203	177,869	242,072
	<u>\$ 4,744,508</u>	<u>\$ 577,092</u>	<u>\$ 5,321,600</u>

NOTE S - NOTES PAYABLE

On July 31, 2020, the Trust entered into a term loan in the amount of \$15,000,000. The loan bears an interest rate of 2.16% and is secured by a portion of equities. The loan proceeds were used to buy land and buildings which will serve as the Trust's headquarters. As of December 31, 2020 and 2019, the principal balance of the note payable was \$14,750,539 and \$0, respectively, which approximates fair value.

NOTE T - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through June 7, 2021 the date the financial statements were available to be issued. All subsequent events requiring recognition or disclosure have been incorporated into these notes.

In March 2021, the Trust received \$146,175,325 from ANC Healthcare. This was a hold back from the sale proceeds of Mission Health System.