UNC HEALTH®

Improving Health, Changing Lives

2022 Annual Report

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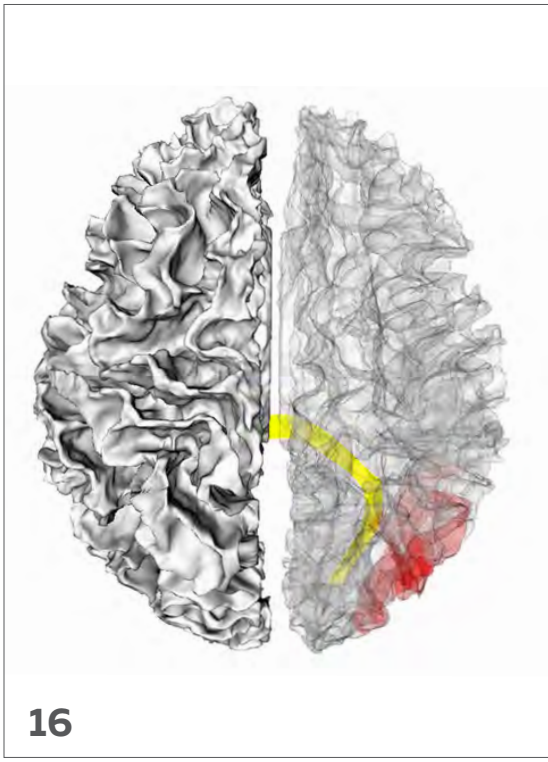
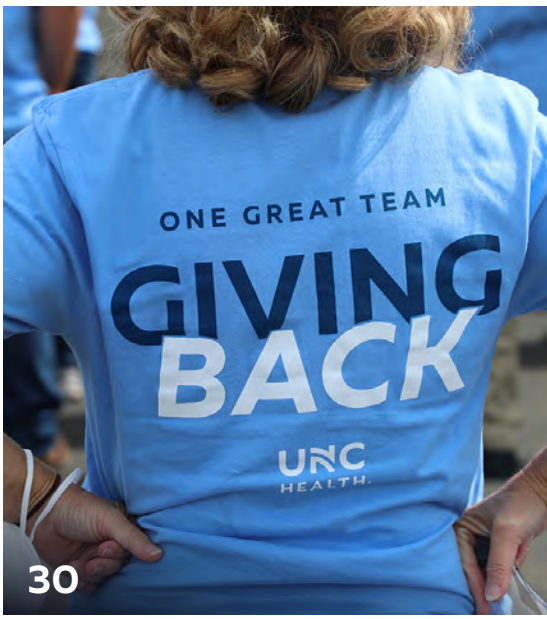




Proudly Serving...

as North Carolina's Health System

Many will remember 2022 as the year that we slowly resumed a more familiar way of life. While COVID seems to have finally settled us into the long promised "new normal," and left us with a myriad of challenges, we are encouraged by the opportunities in front of us to impact North Carolinians through our ground-breaking research and clinical care.

As we look forward, the crisis our state faces in pediatric and adolescent behavioral health demands our immediate action. As you will read in this report, UNC Health is proud to have made advancements in this area over the last year and hopes to make an even greater impact in the years ahead.

You also will read about an exciting visit to UNC Lineberger from Arati Prabhakar, Science Advisor to President Biden, to discuss our work in the fight against cancer. The White House's visit to UNC Lineberger, which received Cancer Moonshot funding in 2017 and 2020, happened because of our leadership and depth of translational research, and as a model of progress in several key areas, including cancer prevention and early detection.

We are also committed to supporting our teammates from recruitment through retirement, ensuring that they are able to provide the very best care to our patients while also achieving their own professional goals. We are doing that through a comprehensive initiative called UNC Health for Me, which you can read more about in this annual report.

UNC Health is proud to be North Carolina's health system and we are grateful for the trust that our patients place in us to help them stay or become healthy. We work each day to earn that trust and meet our mission to promote the health and well-being of all North Carolinians.

Sincerely,

Wesley Burks, M.D.
CEO, UNC Health

Greg J. Wessling
Chair, UNC Health Board of Directors

UNC Health System Update 2022

While 2022 was the year that most aspects of our lives began to feel more familiar, healthcare has been forever changed by the COVID-19 pandemic. UNC Health's commitment to the people of North Carolina remains unwavering, but the ways that we meet that mission are changing.

Care is being delivered in new ways and in new spaces. This year, we expanded our footprint across the state and we brought high-quality care into patients' homes. We made important progress in expanding access to behavioral healthcare, which is desperately needed across our state.

At the same time, we continued to invest in our One Great Team, ensuring that UNC Health can support our teammates from recruitment through retirement.

Right Care, Right Place, Right Time

UNC Health expanded its network across the state over the last year, adding two new health systems in Western North Carolina. Blue Ridge Health Care – with campuses in Morganton and Valdese – officially joined UNC Health in

Blue Ridge Health Care

October of 2021. Together, UNC Health and Blue Ridge are working to build a leading healthcare option for UNC Health's Mountain Region and form a high-performing network of facilities and clinicians focused on providing the best patient care, increasing affordability and efficiency, engaging with patients and local communities to elevate public health while keeping more care local by increasing access to primary and higher-level specialty services.

That Mountain Region network became even stronger in May of 2022 when Appalachian Regional Healthcare System became a part of the UNC Health system. Appalachian Regional is the leading healthcare organization serving the High Country of North Carolina with facilities in Boone and Linville. Consistently recognized for their quality, Appalachian's Watauga Medical Center is one of Leapfrog's Top Hospitals.

Partnering with UNC Health will allow Appalachian Regional to invest in the tools necessary to continue providing the highest level of care while also expanding access.
In addition, UNC Health updated and expanded facilities meant to serve the rapidly growing population of the Triangle. After experiencing delays due to COVID, Rex Holly Springs opened in November of 2021, and in April of 2022, a new Cancer Center opened on the campus of UNC Rex. The new Rex Cancer Center consolidates services that had previously been spread across the hospital campus into one location and also offers a number of holistic services, all designed to create the most healing environment for patients.

Rex Cancer Center

At the UNC Hospitals Hillsborough Campus, a second patient tower opened this year. The 107,000 square foot facility doubled the number of licensed patient beds at Hillsborough and also serves as the inpatient home of UNC Family Medicine. While we work to expand our network, delivering the highest quality care to patients remains our primary focus. This year, CMS' star ratings recognized more than half of UNC Health facilities with either four or five stars. This is the broadest measure of hospital performance.

Advanced Care at Home

In addition to these new facilities, UNC Health has also achieved great success caring for patients in a much more familiar setting–their homes.

The Advanced Care at Home program quickly achieved high marks in both quality and patient satisfaction. As a part of the program, patients who would otherwise require hospitalization are offered the chance to receive care in their home, surrounded by their family and loved ones. Monitoring equipment is delivered to the patient and providers are able to care for the patient remotely. In its first year of operation, the program provided care to almost 500 patients ranging from age 19 to 103 across 46 zip codes in the state. In addition to an enthusiastic response from patients, the program was recognized by the North Carolina Healthcare Association with the 2022 Highsmith Award for Innovation.

Expanding Access to Behavioral Health

The COVID-19 pandemic has taken behavioral health from a pressing need to a true crisis. As the state's health system, UNC Health is committed to expanding access to these desperately needed services. One way that was accomplished in 2022 was through the use of telehealth. UNC Health has recently launched a service that connects providers in the emergency departments of entity hospitals with dedicated psychiatrists in Chapel Hill. The program launched at UNC Health Blue Ridge and is quickly expanding across the system.

As an academic health system, UNC Health is also working to learn more about how to best care for children and adolescents experiencing behavioral health challenges. This year, the Child and Adolescent Anxiety and Mood Disorders Program – a first of its kind program in North Carolina – was launched at the UNC School of Medicine. The program was made possible thanks to a $1 million donation from the Foundation of Hope. It will focus on cutting-edge translational research to advance understanding and treatment of child and adolescent anxiety and mood disorders, lead outcome improvements, and revolutionize care delivery for vulnerable children.

UNC HEALTH *for Me*

From Recruitment to Retirement

The highest priority of UNC Health is supporting the outstanding people who make up our One Great Team. Over the last few years, UNC Health has faced the same staffing and workforce challenges as many employers across the nation. We have responded by increasing investments in our teammates' well-being and professional development – an initiative we call UNC Health for Me.

Enhancements to our recruitment practices have dramatically reduced the vacancy rate across the organization. At the same time, we have invested heavily in compensation and benefits. One effort was a salary equity initiative to ensure that compensation matched each teammates' skills and experience, as well as the market.

Pay and benefits, however, are only one component of job satisfaction. In order to promote the well-being and resilience of our teammates, we have hosted numerous webinars and virtual forums where teammates are able to connect and share their personal experiences. Our teammates also receive access to UNC Campus Wellness Centers at discounted rates. We are also creating new opportunities for professional development with the goal of developing UNC Health's next generation of leaders from within the organization. There are targeted leadership development programs available for new and emerging leaders as well as those who are well established in their roles. The New Leader Academy is available to all teammates hired or promoted into a leadership role and nearly 150 leaders were active in the Emerging and Advanced Leader Academies.

UNC Health Charity Care

UNC Health treats and cares for every patient that comes through our doors, regardless of their ability to pay.

UNC Health provided more than $141 million in Charity Care in Fiscal Year '22 and more than $522 million over the past five years. *(Source: UNC Health Finance)*

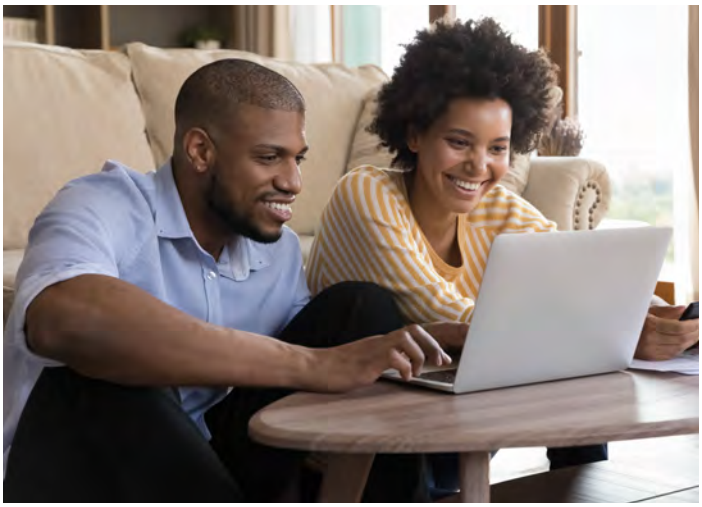
UNC Health provided more than $583 million in total Community Benefits in FY 22 and has provided more than $2.3 BILLION in Community Benefits over the past four years. *(Source: UNC Health Finance)*

Financial Assistance

Our Financial Assistance Program helps relieve the financial burden of medically necessary healthcare services at participating UNC Health entities. This program is available to all North Carolina residents with a household income at or below 250% of the Federal Poverty Guideline for their family size.

Additional Options

UNC Health partners with AccessOne to help with zero-interest payment plans and self-directed financing options for patients. Each patient's hospital bill includes information on the very first page with specific directions on how to seek financial assistance. Assistance is offered through financial navigators, a customer service center, and UNC MyChart.



Patient Financial Assistance

James Johnson had to travel for two hours from his home in Laurinburg, NC, to see a UNC Health urologist in Chapel Hill. He traveled even farther to see a physical therapist in Hillsborough, NC.

"It was a lot of driving back and forth, but it was worth it," he says.

Mr. Johnson also is on a fixed income, making it difficult to pay for his medical care.

But a UNC Health financial navigator worked with him to set up a payment plan that fit his budget.

"When I came in to sign the papers, they knew me personally," he says. "They were very nice and very helpful. I didn't have to wait or anything."

Mr. Johnson says his medical team was also attentive to his wishes and needs.

"They were very caring and very informative," he says. "They explained everything as we went along and listened to what I wanted."

He says he's very pleased with his experiences at UNC Health.

"At the time, I needed help," he says. "And they fixed me up."

Mr. Johnson encourages other people to talk to a UNC financial advisor if payments are an obstacle to getting the medical care they need.

The Year in Research

> Despite the ongoing COVID-19 pandemic, research teams across the school of medicine have continued their determined pursuit of knowledge across nearly every field of inquiry in the biomedical sciences."
>
> -Blossom Damania, PhD,
> Vice Dean for Research
> at the UNC School of Medicine

In fiscal year 2022, the research mission at the UNC School of Medicine once again achieved great heights, with its total research funding portfolio reaching $623.8 million through June 2022, a growth of nearly $39.8 million from fiscal year 2021. The UNC School of Medicine surpassed the $500 million milestone in fiscal year 2019.

"Despite the ongoing COVID-19 pandemic, research teams across the school of medicine have continued their determined pursuit of knowledge across nearly every field of inquiry in the biomedical sciences," said Blossom Damania, PhD, Vice Dean for Research at the UNC School of Medicine. "And many of our researchers –both basic science and clinical- – remain committed to many facets of scientific discovery related to SARS-CoV-2, the virus that causes COVID-19. Approximately $100 million of our total funding this past year was COVID-19 related research."

Research funding for the School of Medicine has grown steadily over the last several years, increasing by more than $175.9 million over the past five years since fiscal year 2017. The UNC School of Medicine accounts for more than half of all research funding at UNC-Chapel Hill, which surpassed the billion-dollar milestone in 2020.

Although the National Institutes of Health funds more than half of UNC School of Medicine, the school of medicine also receives research funding from the State of North Carolina, for example through the NC Collaborative, which most recently funded the $6-million NC VISION study launched in fall 2022 to learn as much as possible about all things COVID, including lingering and sometimes debilitating symptoms commonly called "long COVID."

Our researchers also receive funding from other government agencies, such as the Department of Defense, National Science Foundation, DARPA, and others. Furthermore, many private foundations and non-profit organizations fund research at the School of Medicine and across UNC-Chapel Hill.

Anonymous $25 million Gift for UNC Lineberger Establishing Center for Triple Negative Breast Cancer

One such private gift was made anonymously to the UNC Lineberger Comprehensive Cancer Center housed in the UNC School of Medicine. The donor family gave $25 million to establish the UNC Lineberger Center for Triple Negative Breast Cancer and to support other key UNC Lineberger initiatives.

This is the largest donation in UNC Lineberger's history, and it enables the cancer center to advance its groundbreaking research on diagnosing and treating a highly aggressive breast cancer that disproportionately affects Black, Latina and young women and historically has received limited research funding.

The gift was made in gratitude for the care a family member received while being treated for cancer at UNC, and to help expand and expedite the cutting-edge cancer research being conducted at UNC Lineberger. Specifically, the donor designated their investment to help women and men with all types of breast cancer, especially triple negative breast cancer because of its poor prognosis. In addition, the gift will support research directed toward developing more effective treatments for metastatic disease, improving pediatric cancer care, and eliminating racial disparities in cancer treatment outcomes.

Lisa A. Carey, MD, MSc, FASCO, will serve as the inaugural director of the UNC Triple Negative Breast Cancer Center. Carey, the Richardson and **Marilyn Jacobs Preyer** Distinguished Professor in Breast Cancer Research and a medical oncologist who specializes in treating breast cancer patients, said it is hard to overestimate the gift's potential impact on advancing triple negative breast cancer research and care.

"While research advances the past 30 years have led to new and more effective treatments for many types of breast cancer, this isn't the case with triple negative breast cancer," said Carey, who, in addition to her clinical responsibilities, is the deputy director of clinical sciences and co-leader of the breast cancer research program at UNC Lineberger. "The good news is this gift will be a game changer. It provides the cancer center with the resources to expand and speed the pace of our research focused on generating insights that lead to better treatments and outcomes for women with triple negative breast cancer."

Clinical Discoveries

Lineberger researchers made several important scientific and clinical discoveries in the past year, including pre-clinical experiments that showed how adding the experimental drug entinostat to an immunotherapy-like treatment substantially boosted remission in bladder cancer. This approach was led by William Kim, MD, professor of medicine in the division of oncology was published in the top-tier *Journal of Clinical Investigation* early in the fiscal year. It is now being tested in cancer patients.

Lineberger researchers also made great headway in the use of CAR-T immunotherapy for various cancers and were poised to begin CAR-T clinical trials for glioblastoma and other cancers heading into fiscal year 2023.

Autism Researchers Make Key Discoveries

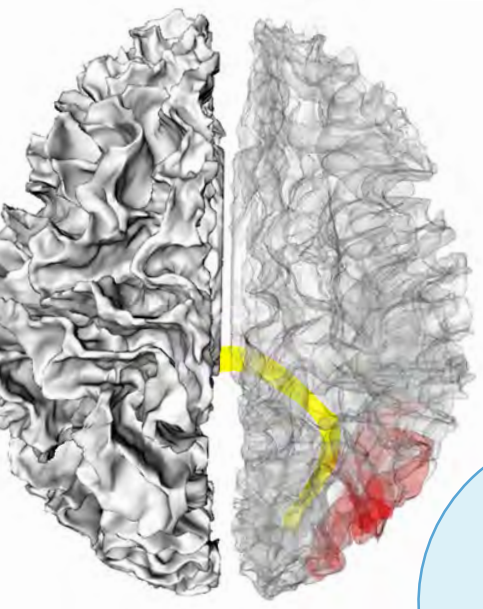
For the past several years, researchers at the Carolina Institute for Developmental Disabilities (CIDD) led by **Joe Piven, MD**, have been studying the brains of babies with magnetic resonance imaging (MRI) to discover physical brain differences between babies at high risk of developing autism and then do as toddlers and babies at high risk who do not develop the condition as toddlers.

As part of the NIH-funded Infant Brain Imaging Study (IBIS) Network, which used MRI to document crucial differences in the visual processing system in the brains of infants who went on to develop autism, CIDD researchers led by **Jessical Girault, PhD**, assistant professor of psychiatry, found that differences in the visual brain systems of infants who later develop autism are associated with inherited genetic factors.

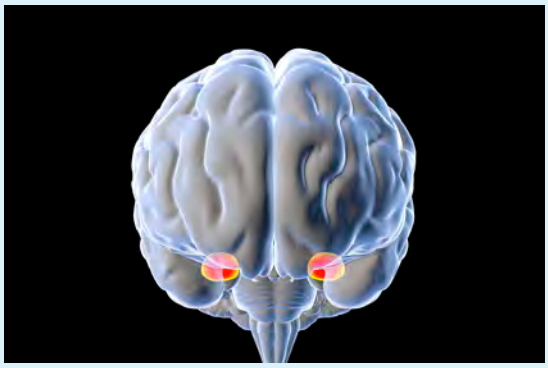
Published in the *American Journal of Psychiatry*, this research shows that brain changes in the size, white matter integrity and functional connectivity of the visual processing systems of six-month olds are evident well before these children show symptoms of autism as toddlers. Also, brain changes in the visual system of these babies were associated with the severity of autism traits in their older siblings.

In a separate first-of-its-kind study led by **Mark Shen, PhD**, **Heather Hazlett, PhD**, and Piven, IBIS researchers studied the amygdala, which is small structure deep in the brain important for interpreting things like emotion in faces and fearful images – things that inform us about potential dangers in our surroundings. Historically the amygdala has been thought to play a prominent role in the difficulties with social behavior that are central to autism.

Researchers have long known the amygdala is abnormally large in school-age children with autism, but it was unknown precisely when that enlargement occurs. Now, for the first time, IBIS



Anatomical locations of the splenium (yellow) and right middle occipital gyrus (red) in a representative infant brain.



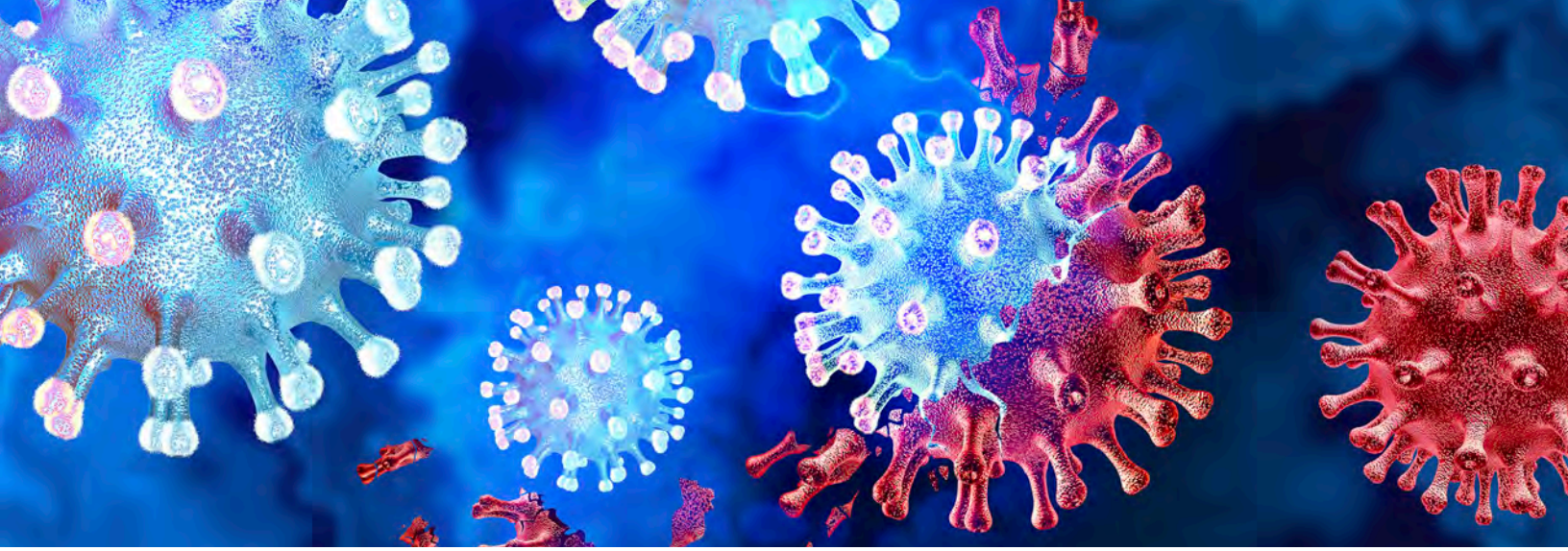
Amygdala (red) within the brain.

researchers used magnetic resonance imaging (MRI) to demonstrate that the amygdala grows too rapidly in infancy for children who later develop autism.

These researchers are part of the UNC Autism Research Center and the long history of cutting edge autism research at UNC-Chapel Hill, as noted by our continued funding for an NIH Autism Center of Excellence.

In 2022, the National Institutes of Health awarded $100 million over the next five years to support nine such centers, which lead multi-institutional research projects to understand and develop interventions for autism. Created in 2007, the ACE program is renewed every five years. Prior to the ACE program, UNC-Chapel Hill received a STAART (Studies to Advance Autism Research and Treatment) Center grant from the NIH in 2003.

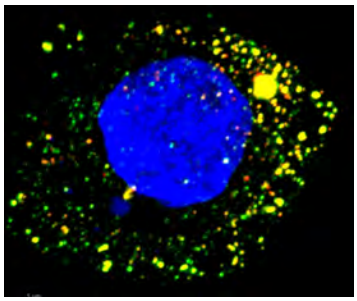
With this new 5-year, $12-million ACE grant, the IBIS Network will examine brain and behavior development in a group of 400 children. The children entered this study as infants, before the typical age of onset of autism and are now entering adolescence, which is the time of onset for most adult psychiatric disorders.



> Our research demonstrates... proof-of-principle for antiviral therapy and the means to stop the spread of hepatitis A in outbreak settings."
>
> -Stan Lemon, MD

Forefront of Infectious Diseases

The **UNC Institute for Global Health and Infectious Diseases** has long been a leader on many fronts at home and around the world, and that continued this past year. Led by **Stan Lemon, MD**, School of Medicine scientists discovered how a protein and enzymes interact to allow hepatitis A virus to replicate, and they used a known drug to stop viral replication in an animal model.



Fluorescence microscopy image of HAV-infected cultured human liver cell. viral RNA targeted by ZCCHC14 appears green, and the virus's protein red.

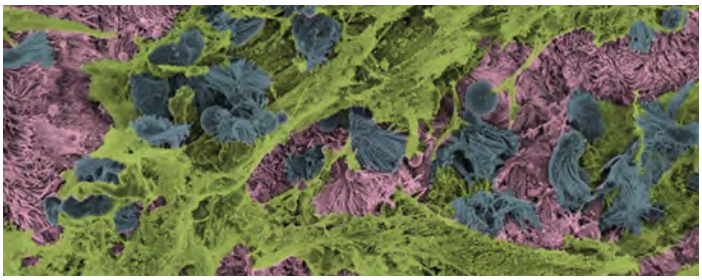
(Credit: Maryna Kapustina, PhD)

These findings, published in the *Proceedings of the National Academy of Sciences*, are the first to show that a drug can halt HAV in mammals.

"Our research demonstrates that targeting this protein complex with an orally delivered, small-molecule therapeutic halts viral replication and reverses liver inflammation in a mouse model of hepatitis A, providing proof-of-principle for antiviral therapy and the means to stop the spread of hepatitis A in outbreak settings," Lemon said.

On COVID, UNC School of Medicine researchers led by **Camille Ehre, PhD**, showed how cells packed with SARS-CoV-2 detach from the upper airway and spread deep into lungs where severe COVID can take root. Ehre and colleagues also discovered how an asthmatic reaction to allergens battles the virus to hold severe COVID at bay.

This research, published in the *Proceedings of the National Academy of Sciences*, illustrates the importance of a well-known cytokine called interleukin-13 (IL-13) in protecting cells against SARS-CoV-2, which helps explain the mystery of why people with allergic asthma generally fair better than the general population despite having a chronic lung condition. The same cannot be said for individuals with other diseases, such as chronic obstructive pulmonary disease (COPD) or emphysema, who are at very high risk of severe COVID.
Also, over the past two years, **Katrina de Paris, PhD**, co-led pre-clinical trials in large primates to test the effectiveness of a protein-based vaccine candidate, and the researchers found the vaccine elicited durable neutralizing antibody responses to SARS-CoV-2. A follow-up study by the same group, published in *Science Translational Medicine*, found that the 2-dose vaccine still provided protection against lung disease in primates one year after they had been vaccinated as infants.



Healthy cells (pink), mucus (green), and cells in the process of cell death (blue).

The protein-based vaccine candidate maintained high levels of neutralizing antibodies for one year and provided superior protection compared to an mRNA vaccine, De Paris said. In addition, the follow-up study demonstrated that the vaccine was safe and highly effective when given to young infant macaques.

On Rare Diseases

UNC is a leader in researching rare conditions and finding potential treatments. In spring 2022, the global biopharmaceutical company UCB announced results from two phase 3 studies evaluating its investigational treatments for adults with generalized myasthenia gravis, or gMG.

Data from the Phase 3 trial, spearheaded by **James F. Howard, MD**, Distinguished Professor of Neuromuscular Disease, Professor of Neurology, Medicine and Allied Health, demonstrated treatment with the drug zilucoplan resulted in clinically meaningful and statistically significant improvements in key outcomes compared with placebo in patients.

"By targeting the underlying mechanisms of gMG at the neuromuscular junction, complement inhibitors like zilucoplan have the potential to provide rapid, consistent disease control earlier in the disease course. These findings are an encouraging sign that we may be able to meet patients' needs effectively, with treatments that are minimally invasive and well tolerated."

In the Lab

School of Medicine scientists led by **Ben Philpot, PhD**, showed for the first time that postnatal gene therapy may be able to prevent or reverse many deleterious effects of a rare genetic disorder called Pitt-Hopkins syndrome. This autism spectrum disorder features severe developmental delay, intellectual disability, breathing and movement abnormalities, anxiety, epilepsy, and mild but distinctive facial abnormalities.

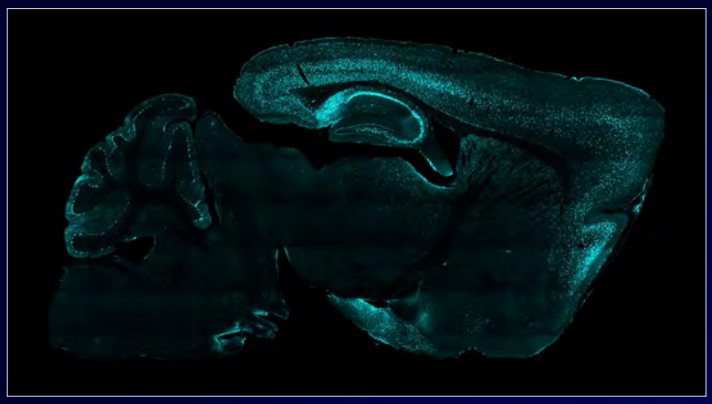
The scientists, who report their results in the journal *eLife*, devised an experimental, gene-therapy-like technique to restore the normal activity of the gene deficient in people with Pitt-Hopkins syndrome. In newborn mice that otherwise model the syndrome, the treatment prevented the emergence of disease signs including anxiety-like behavior, memory problems, and abnormal gene expression patterns in affected brain cells.

Philpot, who is considered the top Angelman syndrome researcher in the world according to an Expertscape analysis of published research, also reported this past year that a gene therapy strategy against Angelman syndrome could be possible. This neurodevelopmental disorder features poor muscle control and balance, hard-to-treat epilepsy, and intellectual disabilities, and it affects roughly one in every 20,000 children.

Philpot's previous work, co-led by UNC postdoc **Matt Judson, PhD**, suggested that the best way to treat the disorder would be to restore function of the *UBE3A* gene in neurons, which has been lost in the brains of people with Angelman syndrome.

The genetics of Angelman syndrome are more complicated than classic single-gene disorders such as cystic fibrosis and sickle-cell anemia. Humans inherit one maternal and one paternal copy of most genes. Angelman syndrome arises in children whose maternal UBE3A copy has somehow been mutated or deleted. For reasons that aren't fully clear, mature neurons normally express only the maternal copy of UBE3A; the paternal copy is effectively silenced. Thus, when the maternal copy is lost, the gene's function is absent in neurons. The absence of UBE3A severely disrupts brain development.

Despite other complexities, Philpot's team was able to craft a version of UBE3A that, when expressed by neurons, yields an effective version of the UBE3A protein in mice to restore motor skill-learning and the essential mouse behaviors of digging, burrowing, and nest-building. The treated mice also did not become as susceptible to epileptic seizures, and importantly, did not suffer any obvious negative side effects. Meanwhile, the untreated mice developed the usual Angelman-like impairments.



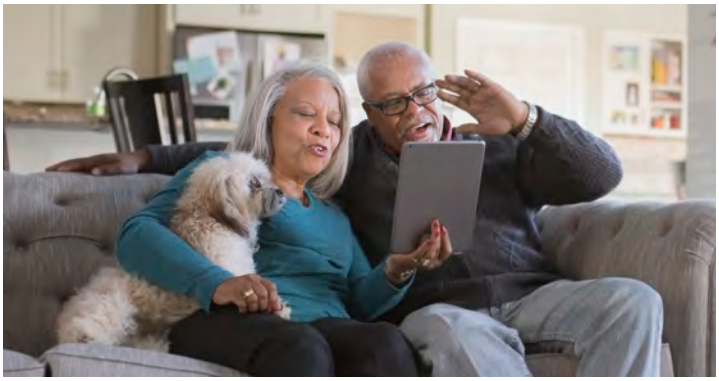
Brain section image: protein Cre (green) delivered to cells as gene therapy via AAV.

Team Players

In 2022, Duke and UNC were awarded an NIH grant to establish an Alzheimer's Disease Research Center to focus on identifying early changes in dementia and factors driving disparities.

The research center, one of 33 nationwide, will focus on identifying age-related changes across the lifespan that impact the development, progression and experience of Alzheimer's and related dementias. The center will also identify how factors that arise in early- and mid-life contribute to racial, ethnic and geographic disparities in dementia.

NIH funding for the joint Duke/UNC center is expected to total $14.8 million over the next five years.



"The reasons why dementia risk is higher among Black populations has not been well-studied," said co-principal investigator **Gwenn Garden, MD, PhD**, professor and chair of the UNC Department of Neurology at the UNC School of Medicine. "Enrolling a diverse cohort that includes people with different lifestyles and racial backgrounds will help address risk in populations. This is important because we don't know if current diagnostic approaches are as effective in populations that haven't been well-studied."

Whitson and Garden said the NIH funding will enable teams from both institutions to engage local communities with new hypotheses about Alzheimer's disease. Specific projects for local community members to consider participation include:

A study recruiting and following people from North Carolina who either have dementia or may be at risk for developing dementia later. This group of study participants will be younger and more diverse than many of the other cohorts followed by ADRCs around the country.

A project to collect and store samples such as blood or spinal fluid, along with brain images from people with well-characterized dementia or dementia risk, in order to identify new biomarkers of Alzheimer's disease, or understand key biological changes that precede the onset of disease (and may be targets for new therapies).

A Brain Bank that provides participants the opportunity to donate their brain to science.

For the first time, the Magness lab used entire human GI tracts from three organ donors to show how cell types differ across all regions of the intestines...

The Complicated Belly

Lastly, the biomedical engineering lab of **Scott Magness, PhD**, is revealing some interesting scientific answers to common questions regarding gut health.

If you get nervous, you might feel it in your gut. If you eat chili, your gut might revolt, but your friend can eat anything and feel great. You can pop ibuprofen like candy with no ill effects, but your friend's belly might bleed and she might get no pain relief. Why is this? The quick answer is because we're all different. The next questions are how different exactly, and what do these differences mean for health and disease?

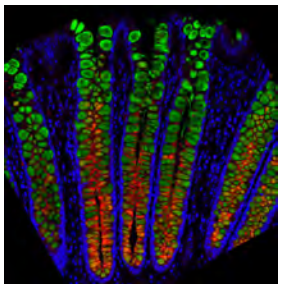
For the first time, the Magness lab used entire human GI tracts from three organ donors to show how cell types differ across all regions of the intestines, to shed light on cellular functions,

and to show gene expression differences between these cells and between individuals.

This work, published in *Cellular and Molecular Gastroenterology and Hepatology*, opens the door to exploring the many facets of gut health in a much more precise manner at greater resolution than ever before.

"Our lab showed it's possible to learn about each cell type's function in important processes, such as nutrient absorption, protection from parasites, and the production of mucus and hormones that regulate eating behavior and gut motility," said Magness. "We also learned how the gut lining might interact with the environment through receptors and sensors, and how drugs could interact with different cell types."

This research involved faculty collaborations across UNC-Chapel Hill and NC State and state-of-the-art RNA sequencing technology acquired for the creation of the UNC Advanced Analytics Core Facility through the UNC Center for Gastrointestinal Disease and Biology, which developed the scientific and intellectual heft – research faculty, staff, postdocs, and students – to use the state-of-the-art equipment.



Protein MUC5b (red) in crypt-resident goblet cells; MUC2 (green) in all goblet cells.

These sorts of projects exemplify the curiosity, ingenuity, collaboration, and innovation that make the UNC School of Medicine a special place for biomedical research. And these aforementioned projects are but a snapshot of the many projects ongoing at the UNC School of Medicine in the basic science labs and at the UNC Medical Center on the clinical side.

White House Meets with UNC Lineberger

In February 2023, UNC Lineberger Comprehensive Cancer Center was tapped to host the President's Chief Science and Technology Advisor, Arati Prabhakar, who met with leading researchers to discuss the Cancer Moonshot program and cancer prevention efforts.

White House Chief Science and Technology Advisor Arati Prabhakar meets with researchers at UNC Lineberger

Following President Joe Biden's State of the Union Address, the White House Chief Science and Technology Advisor Arati Prabhakar visited Chapel Hill to discuss the fight against cancer at the UNC Lineberger Comprehensive Cancer Center. The White House tapped UNC Lineberger, which received Cancer Moonshot funding in 2017 and 2020, for its leadership, its depth of translational research, and as a model of progress in several key areas, especially cancer prevention, early detection and outcomes-based research funded through the National Cancer Institute.

UNC Lineberger director Dr. Shelley Earp provided an overview of UNC Lineberger's role as North Carolina's public comprehensive cancer center to reduce the burden of cancer across the state, from basic scientific drug development to researching and providing promising immunotherapies for patients, before introducing three groups of researchers from across campus:

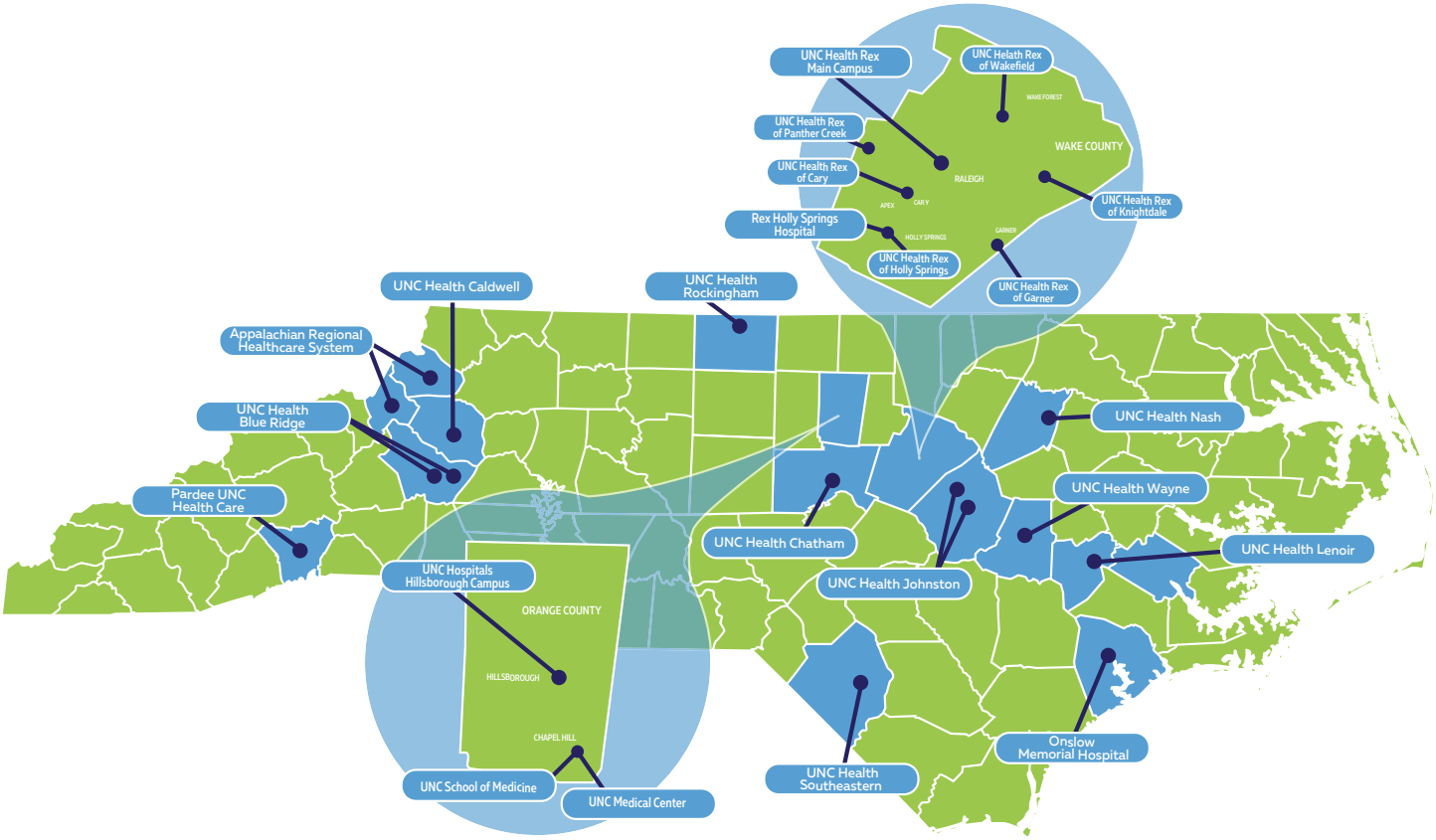
- **The Moonshot-initiated Tobacco Cessation and Prevention Programs:** Dr. Adam Goldstein, director of the UNC Tobacco Intervention and professor of family medicine; and Kurt Ribisl, co-lead of the UNC Lineberger Cancer Prevention and Control, and professor and chair of behavioral health at the UNC Gillings School of Global Public Health.
- **The Moonshot-initiated Cancer Screening efforts:** Stephanie Wheeler, associate director of UNC Lineberger Community Outreach & Engagement, and professor of health policy and management at UNC Gillings; and Dr. Daniel Reuland, co-director of the Carolina Cancer Screening Initiative and professor of medicine at the UNC School of Medicine.
- **Cancer, Nutrition and Obesity, Endometrial Cancer as a Focus:** Dr. Victoria Bae-Jump, director of the UNC Lineberger Endometrial Cancer Center of Excellence and professor of gynecologic oncology at the UNC School of Medicine; and Marissa Hall, assistant professor of health behavior at UNC Gillings.

During each conversational session, Prabhakar engaged each researcher with pertinent questions about the problems our country faces because of cancer and how to best address these issues through better access to tobacco cessation programs, better ways to reduce obesity to decrease endometrial cancers, and how to leverage population health data and technology to reduce cancer rates.

> "Working on solutions to cancer is one of the most important things we can do, and these solutions are so important to the president and first lady," she said. "They have the conviction to tackle this, and that's one of the reasons I took this job."

She added, "I'm heartened by the progress you've made, and we all know we need to do more. It was just such a pleasure to dig in and see the quality of work and commitment you bring to this work."

UNC Health System: 2022



Licensed Beds	Employees	Medical Staff	Employed MDs
4,453	43,045	4,925	2,875

Surgeries	ED Visits
106,779	507,367

Recognitions

UNC Health Alliance

Value-based care fundamentally improves health outcomes for patients, families, and communities while making care more affordable. More affordable care means better access to care, especially for our most vulnerable patients. To do this well, we need to deeply understand the needs of the populations we care for and what contributes to their outcomes. Value-based care continues to provide a path to a more sustainable, accessible, and equitable healthcare system. We are a learning organization, and the more we engage our patients and the physicians and providers who care for them, the faster we learn about the population health management strategies that have the greatest impact.

Through partnership and collaboration, UNC Health Alliance Network Continues to Succeed in Alternative Payment Models, Setting National Standards in Quality Performance and Earning Shared Savings.

UNC Health Alliance, our Clinically Integrated Network and Population Health Services Organization, catalyzed UNC Health's journey into value-based care and alternative payment models in 2017 with participation in just two payor-programs. Over the subsequent years, the Health Alliance has grown to more than 7,000 providers, including 1,500 primary care providers, collectively managing over 600,000 patients across North Carolina. This exceptional group of physicians, advanced practice providers, and hospital partners has remained grounded in our mission to improve the health and well-being of every patient, provider, and community we serve through coordinated, equitable and cost-effective healthcare.

The Health Alliance network of provider partners has generated $160.6 million in value-based performance incentives since 2017. With 80% reinvested in the network, this new revenue has catalyzed exciting innovation in how we deliver care across populations. Our network has achieved impressive quality outcomes, including 98% quality score for our Medicare population, ranking us among the top 10% nationally for ACOs participating in a similar model.

2017-2022 Value Care Revenue	
Commercial	$85 million
Medicare	$59.5 million
Medicare Advantage	$13.2 million
Managed Medicaid	$2.9 million

Throughout 2022, our care teams outreached to more than 1 million patients, many of whom are vulnerable and have fallen out of care. Whether that is mailing 2,000 FIT test kits for colorectal cancer screening or helping 5,200 patients establish advance care plans, we are finding patients needing care outside of our four walls. We conducted 11,000 behavioral health services and 23,000 virtual population health services. Many patients have multiple needs, and we helped 7,800 patients through our complex case management services and conducted 18,000 annual wellness visits. Our dieticians provided 28,000 nutrition services, with 19,000 of them conducted virtually. We are learning how and which services can be delivered virtually, which allows us to scale resources sustainably. Moreover, we are learning how to reach patients where they are, with our Community Health Workers interfacing with 4,200 patients, helping them connect to the impactful resources their local community offers.

Improving Health Equity in Our State

"There can be no Quality without Equity" is a foundational principle that drives our work. Disparities in healthcare are associated with poor health outcomes resulting from a complex interplay of social, economic, and environmental disadvantages. We are beginning to understand this important work, beginning with why and how patients engage or disengage with care. Focusing on two chronic conditions within a well-defined population, our network tested strategies during 2022 to engage under-represented minority patients. With targeted outreach alone, disparities in Diabetes and Hypertension outcomes were reduced by 25 percent, and the disparity in colorectal cancer screenings was almost eliminated.

Improving access is key to addressing disparities. However, this is just a small step. We must also dive deeper to understand and address the causes.

On the Horizon

There is more work to do. As we continue to understand the populations we serve and the most impactful health interventions, we know that treating patients how they prefer and where they are is one of the best ways to improve health. This means enhancing virtual and in-home care, developing solutions for local social determinants of care and enhancing coordination among local providers, care teams and communities. Accessing high-quality care is foundational to good health outcomes and implementing access solutions in rural North Carolina is critical. The Health Alliance is committed to looking beyond the walls of our clinics and hospitals to address patient needs and help our fellow citizens achieve the best health possible.

7,140 Providers with **2,700** Independent Providers

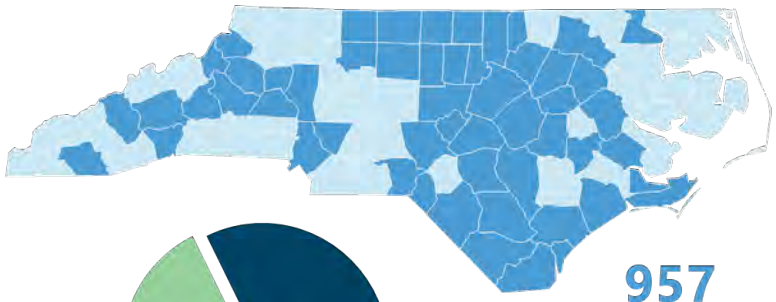
1,570 Primary care providers

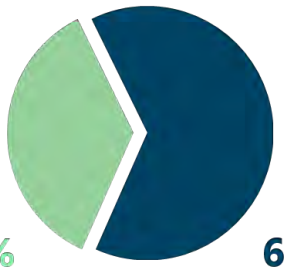
5,570 Specialty providers

170 Specialties and subspecialties covered

SNF preferred network; home health preferred network

UNCHA Network Across North Carolina





38% Independent Providers

62% UNC Health Employed Providers

957 Locations In **52** Counties

12 Hospitals

Updated 02/23

Community and Corporate Relations

"It is beneficial and heartwarming to do this with our teammates. The opportunity for us to bond and do work that supports our local residents illustrates how UNC Health gives back to our communities."

As #OneGreatTeam, we are better together than we are apart. Through effective collaboration, we help improve the health and well-being of North Carolinians and others whom we serve.

Our commitment to being an active member in the community is driven by our desire to make a positive impact. One of the most important things we do is to provide support - both financially and with our time - to a variety of community organizations whose mission strategically aligns with UNC Health. Much of that support is quantifiable and measurable, yet other indirect support is provided through education, advocacy, resource sharing and our presence, further defining how UNC Health is investing in communities.

We understand our responsibility to provide underserved communities with access to high-quality healthcare along with preventive services, regardless of an ability to pay. UNC Health provided more than $141 million in Charity Care during Fiscal Year 2022.

Throughout the fiscal year, our teammates engaged in projects and activities that reduce disparities, build community and support local community development through volunteerism.

UNC Health teammates staffed local community health fairs and provided mobile testing, vaccinations and health screenings to reduce disparities and support health equity. We participated in on-site activities such as bike builds and collection drives at our locations and donated time and energy sorting nutritious food and distributing medications to those with the greatest need. We place an emphasis on providing thought leadership and mentorship to non-profit organizations and student populations as well. UNC Health is committed to ensuring that all residents are afforded the opportunity to lead healthy and productive lives.

We take great pride in supporting community initiatives and health services, as we continually examine how we can do more for our medically underserved neighbors. UNC Health provides a voice for those who need us most. It is beneficial and heartwarming to do this with our teammates. The opportunity for us to bond and do work that supports our local residents shows how UNC Health gives back to our communities.

Together, when we build on the spirit of shared values within our communities, great things happen.

Financials & Statistics

Chapel Hill, North Carolina

For the years ending June 30, 2022, and June 30, 2021

Letter of Transmittal

February 16, 2023

To the Governor, the State Auditor, members of the General Assembly, members of the UNC Board of Governors, UNC Chapel Hill Board of Trustees, members of the UNC Health Care System Board of Directors, supporters of the University of North Carolina Health Care System, and Dr. Wesley Burks, CEO.

Introduction

This Annual Report includes a compilation of the operating results and financial position of the University of North Carolina Health Care System (UNC Health) as established by N.C.G.S 116-37. The financial reports as presented represent a summary of data generated by the various entities under the control of the Board of Directors of UNC Health.

The University of North Carolina Hospitals at Chapel Hill (UNC Hospitals), University of North Carolina System Funds (System Fund), Rex Healthcare, Inc. (Rex), Chatham Hospital, Inc. (Chatham), Caldwell Memorial Hospital (Caldwell), UNC Rockingham Health Care, Inc. (Rockingham), UNC Physicians Network, LLC (UNCPN), UNC Physicians Network Group Practice (UNCPNGP) and the Liability Insurance Trust Fund (LITF) prepare and publish their own separate audit reports on an annual basis. University of North Carolina Faculty Physicians (UNCFP), the clinical patient care programs of the University Of North Carolina School Of Medicine, is included in the audit report for The University of North Carolina at Chapel Hill (UNC-CH). Additional information regarding the organization structure can be found in the Notes to Financials section of the Annual Report.

The Annual Report is compiled to provide useful information about the entity's operations and programs and to ensure its accountability to the citizens of North Carolina. While UNC Health's management believes this information to be accurate, it should be noted that these documents are unaudited and not intended to be used for financial decision purposes.

The Financials and Statistics section of the Annual Report presents Management's Discussion and Analysis and pro-forma financial statements for UNC Health and UNCFP. This section also includes selected statistical and financial ratio information. Management's Discussion and Analysis provides a review of the financial operations and the Notes to Financials section provides additional explanation for the reader.

Financial Information

Internal Control Structure

UNC Health's management establishes and maintains an internal control structure to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management implements internal control standards to meet each of the internal control objectives and to assess internal control effectiveness. When evaluating the effectiveness of internal control over financial reporting and compliance with financial-related laws and regulations, management follows an assessment process to assure to the state of North Carolina and the public that UNC Health is committed to safeguarding its assets and is providing reliable financial information.

One objective of an internal control structure is to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. Another objective is to ensure that transactions are executed in accordance with appropriate authorization and recorded properly in the financial records to permit the preparation of financial statements in accordance with generally accepted accounting principles. Annually, management provides assurances on internal control in its Performance and Accountability Report, including a separate assurance on internal control over financial reporting along with a report on identified material weaknesses and corrective actions.

As a recipient of federal and state funds, UNC Health is responsible for ensuring compliance with all applicable laws and regulations. A combination of state and UNC Health policies and procedures, integrated with a system of internal controls, provides for this compliance. The accounts and operations of UNC Hospitals, the System Fund and UNCFP (as a part of UNC-CH) are subject to an annual examination by the Office of the State Auditor. Rex, Chatham, Caldwell, Rockingham, UNCPN, UNCPNGP and the LITF are audited annually by an independent third-party CPA firm. All of these entities were an integral part of the state's reporting entity represented in the state's Annual Comprehensive Financial Report and the state's Single Audit Report. The audit procedures are conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States.

Budgetary Controls
On an annual basis, UNC Health's Board of Directors approves budgets for UNC Hospitals, UNCFP, Rex, Chatham, Caldwell, Rockingham, UNCPN and UNCPNGP. The budget for UNCFP is also subject to approval by UNC-CH. The LITF is governed by the LITF Council. Each entity of UNC Health produces monthly reports that compare budget and actual operating results. Department heads are expected to review the reports and identify significant variances from their budget. If necessary, action plans are implemented that will improve negative variances.

UNC Health is subject to the provisions of the Executive Budget Act, except for trust funds identified in N.C.G.S. 116-36.1 and 116-37.2. These two statutes primarily apply to the receipts generated by patient billings and other revenues from the operations of UNC Hospitals and UNCFP. UNC Hospitals submits monthly reports to the Office of the State Controller that reflect its overall operations. UNC Health receives no appropriation from the state. In the past, appropriated funds from the General Fund covered a portion of operating expenses, including the portion of expenses attributable to the cost of providing (i) care to indigent patients and (ii) graduate medical education.

Cash and Investment Management
UNC Health continues to work with the Office of the State Treasurer and the University of North Carolina Management Company (UNCMC) to maximize the investment earnings for UNC Hospitals based on changes in the General Statutes that were made during the 2005, 2008 and 2011 sessions of the General Assembly. In addition, UNC-CH has allowed UNCFP to invest a portion of their funds in an intermediate fund beginning in fiscal year 2008. Investment earnings subsidize operating income and enable UNC Health to provide more services to the citizens of the state of North Carolina. The cash management policy includes all areas of receipts and disbursements so that investment earnings are maximized, and vendor relations are maintained.

Risk Management
Exposures to loss are managed by a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance and self-retention of certain risks. The key to managing risk is to ensure that programs are in place that educate and guide employees to the best practices for our industry. We have a responsibility to safeguard our patients so that no additional harm comes to them while under our care. We are similarly committed to ensure a safe workplace for our employees.

In addition to the typical litigation risks with which we are faced, we have to recognize the risk and rewards associated with the health care industry. Continual evaluation of existing programs and new service development is the only way to maintain or increase our competitive advantage.

Acknowledgements

Preparation for this Annual Report would not have been possible without the coordinated efforts of the various financial staffs within UNC Health, with special assistance from the CEO's office and Communications & Marketing.

John Lewis
Chief Business Integration Officer
The University of North Carolina Health Care System

Our Values

Carolina Care

- We care holistically about patients and each other.
- It is our privilege to serve the people of North Carolina.
- We demonstrate kindness and compassion in every interaction.

One Great Team

- We are better together than we are apart.
- Our effective collaboration is key to providing quality care.
- We are building an inclusive and equitable culture that encourages and supports the diverse voices of our patients and each other.

Leading the Way

- We make a difference by improving lives every day and training the next generation of healthcare leaders.
- Our research is changing the world.
- We provide innovative care.

It Starts With Me

- Each of us takes ownership of, and accountability for, doing the right thing.
- We empower and trust each other to step up.
- We support each other and hold each other accountable in our work.

UNC Health
Board of Directors

(As of March 1, 2023)

Gregory J. Wessling (Greg)
Chair, UNC Health System Board of Directors
Business Advisor, A&G Associates and Partners, LLC
Davidson, NC

Anne B. Faircloth
Vice Chair,
UNC Health System Board of Directors
Owner and Manager, Faircloth Farms
Clinton, NC

John E. Bailey (Jack)
Strategic Advisor and Recent President, GSK U.S.
Raleigh, NC

Samuel B. Bowles (Sam)
Managing Director,
New Republic Capital
Charlotte, NC

A. Wesley Burks, MD
Dean, UNC School of Medicine
Vice Chancellor for Medical Affairs, UNC-Chapel Hill
CEO, UNC Health
Chapel Hill, NC

G. Hadley Callaway, MD
Physician, Raleigh Orthopaedic Clinic
Raleigh, NC

Rebecca T. Cobey (Becky)
Retired – Community Volunteer
Chapel Hill, NC

Michael A. Crabb, III (Trey)
SVP, Chief Business Development Officer
Methodist LeBonheur Healthcare
Memphis, TN

Matthew G. Ewend, MD, FACS (Matt)
Chief Clinical Officer, UNC Health
President, UNC Physicians
Chapel Hill, NC

Bernadette Gray-Little, PhD
Chancellor Emerita, University of Kansas
Chapel Hill, NC

Kevin M. Guskiewicz, PhD
Chancellor, The University of North Carolina at Chapel Hill
Chapel Hill, NC

Janet T. Hadar
President, UNC Hospitals
Chapel Hill, NC

Peter D. Hans
President, University of North Carolina System
Chapel Hill, NC

Hayden P. Kirby, MD
Anesthesiologist, North American Partners in Anesthesia
Wilmington, NC

Tracy A. Leinbach
Retired, CFO, Ryder, Inc.
Pinehurst, NC

Charles F. Marshall
Vice Chancellor and General Counsel,
The University of North Carolina at Chapel Hill
Chapel Hill, NC

Matthew A. Mauro, MD (Matt)
President, UNC Faculty Physicians
UNC School of Medicine
Chapel Hill, NC

John G. McNeil, MD, MPH, PHD
President and CEO, Verum Clinical Research
Fayetteville, NC

Deborah Murray
Executive Director, Caldwell County Economic Development Commission
Lenoir, NC

C. Howard Nye (Ward)
Chairman of the Board, President and Chief Executive Officer, Martin Marietta
Raleigh, NC

Charles D. Owen, III (Charlie)
President, Fletcher Development Group, Inc.
Fletcher, NC

Cristen P. Page, MD, MPH (Cristy)
Executive Dean, UNC School of Medicine
Chapel Hill, NC

J. Troy Smith, Jr.
Attorney, Ward and Smith, P.A.
New Bern, NC

William Winkenwerder, Jr., MD
Chairman, Citius Tech
Chairman, Winkenwerder Strategies
Asheville, NC

Management's Discussion and Analysis

Introduction

Management's discussion and analysis provides an overview of the financial position and activities of the University of North Carolina Health Care System (UNC Health) for the fiscal years ending June 30, 2022, and June 30, 2021. The financial statements included for UNC Health — The Statement of Net Position; The Statement of Revenues, Expenses, and Changes in Net Position; and The Statement of Cash Flows — are labeled "*pro forma*" to demonstrate that they are an aggregation of assets and liabilities and the results of financial activities and not the result of an overall audit of UNC Health by an independent auditor and should not be relied on as such. UNC Health was established November 1, 1998, by N.C.G.S. 116-37. The original legislation included only the University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and the clinical patient care programs of the University of North Carolina at Chapel Hill (UNC-CH). UNC Health is governed by a Board of Directors and is administered as an affiliated enterprise of the University of North Carolina. UNC Faculty Physicians (UNCFP) represents the clinical patient care programs of the UNC School of Medicine (UNC SOM). The University of North Carolina System Funds (System Fund), REX Healthcare, Inc. (REX), Chatham Hospital, Inc. (Chatham), Caldwell Memorial Hospital (Caldwell), UNC Rockingham Health Care (Rockingham), UNC Physicians Network (UNCPN) and UNC Physicians Network Group Practice (UNCPNGP) have been added to the organization since its inception.

The Liability Insurance Trust Fund (LITF) is also included in the annual report. LITF is an unincorporated entity created by North Carolina General Statutes Chapter 116, Article 26 and the University of North Carolina Board of Governors Resolution of June 9, 1978. LITF is a self-insurance program established to provide professional medical malpractice liability coverage for UNC Hospitals and UNCFP, (collectively, the program participants) and is discussed in more detail within the Notes to the Financial Statements.

Effective February 1, 2014 UNC Health and Johnston Memorial Hospital Authority (JMHA) entered into a Master Agreement to form Johnston Health Services Corporation (JHSC), a joint venture to provide health care services to the residents of Johnston County. Oversight and governance of the joint venture is controlled by a Board of Directors consisting of appointees from both JMHA and UNC Health. UNC Health manages the day-to-day operations of JHSC.

On November 4, 2020, the boards of REX and JHSC executed a Joint Operating Agreement to form a stronger partnership to expand the organizations' long history of collaboration to enhance care, improve outcomes, and increase access for patients in Johnston and Wake counties. The agreement calls for a long-term commitment to opening new medical facilities in Johnston County and expanding clinical services offered across the region.

UNC Health owns and/or controls the net assets and financial operations of UNC Hospitals, the System Fund, REX, Chatham, Caldwell, Rockingham, UNCPN and UNCPNGP. In contrast, UNC-CH owns and controls the net assets and financial operations of UNCFP. The UNC Health Board of Directors governs and oversees physician credentialing, quality and patient safety, and resident training and acts to advise and review the financial activities of UNCFP. Final direct control of the monetary operations of UNCFP remains within UNC-CH. The physicians who provide patient care at UNC Hospitals and in the UNC-CH clinics are employees of UNC-CH. Most non-physician employees who assist in providing patient care and the associated administrative, billing and collection services are employees of UNC Health.

For purposes of these financial statements, UNCFP serves as a financial proxy for the "clinical patient care programs of the School of Medicine." The financial statements for the entities directly controlled by UNC Health (UNC Hospitals, the System Fund, REX, Chatham, Caldwell, Rockingham, UNCPN and UNCPNGP) are separately audited on an annual basis and have received unqualified opinions for their prior year reports. The financial activities of UNCFP are included in the financial statements and audit report of UNC-CH. LITF is also audited separately on an annual basis. Since an audit on the aggregation of financial information for these entities cannot be efficiently obtained, we have used the term "*pro forma*" to describe the financial statements presented.

Pro forma consolidated financial statements for UNC Health are presented, which include UNC Hospitals, the System Fund, REX, Chatham, Caldwell, Rockingham, UNCPN, UNCPNGP, LITF and UNCFP. UNCFP's Statement of Net Position, and Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the fiscal years ending June 30, 2022 and 2021 are also included since these financial activities are not separately disclosed elsewhere.

Using This Financial Report

UNC Health's financial statements provide information regarding its financial position and results of operations as of June 30, 2022 and 2021 and the years then ended. The Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows comprise the basic financial statements required by the Governmental Accounting Standards Board (GASB). In accordance with GASB, the *pro forma* financial statements are presented and follow reporting concepts similar to those used by private-sector health organizations. These statements offer short and long-term financial activities about its operations. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the operations. The Notes to the Financial Statements provide information relative to the significant accounting principles applied in the financial statements and further details concerning the organization and its operations. These disclosures provide information to better understand details, risk and uncertainty associated with the amounts reported and are considered an integral part of these *pro forma* financial statements.

***Pro Forma* Statement of Net Position**

The *pro forma* Statement of Net Position provides information relative to the assets (resources), deferred outflows of resources, liabilities (claims to resources), deferred inflows of resources, and net position (equity). Assets and liabilities on this Statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year, and it is anticipated that they will be used to pay for current liabilities. Current liabilities are those payable in the next fiscal year. Management estimates are necessary in some instances to determine current or noncurrent categorization. The *pro forma* Statement of Net Position provides the basis for evaluating the capital structure, liquidity and its ability to meet current and long-term obligations.

***Pro Forma* Statement of Revenues, Expenses, and Changes in Net Position**

The *pro forma* Statement of Revenues, Expenses and Changes in Net Position provides information relative to the results of the organization's operations, nonoperating activities and other activities affecting net assets. Nonoperating activities include noncapital gifts and grants, investment income (net of investment expenses), unrealized gains and losses on investments, and loss realized on the disposition of capital assets. Under GASB, bond interest expense is considered a nonoperating activity; but for these *pro forma* statements it is presented as operating. The *pro forma* Statement of Revenues, Expenses and Changes in Net Position measures the success of UNC Health's operations and can be used to determine whether UNC Health successfully recovered all of its costs through its revenue, profitability and credit worthiness.

***Pro Forma* Statement of Cash Flows**

The *pro forma* Statement of Cash Flows provides information relative to the cash receipts, cash disbursements, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It also provides answers to such questions as where cash comes from, what cash was used for, and what the change in the cash balance was during the reporting period.

Notes to the Financial Statements

Notes to the *pro forma* financial statements are designed to give the reader additional information concerning UNC Health and further supports the statements noted above. These disclosures provide information to better understand details, risk, and uncertainty associated with the amounts reported and are considered an integral part of the financial statements.
COMPARISON OF TWO-YEAR DATA FOR 2022 TO 2021
Data for 2022 and 2021 are presented in this report and discussed in the following sections. Discussion in the following sections is pertinent to fiscal year 2022 results and changes relative to ending balances in fiscal year 2021.

Financial Analysis

STATEMENT OF NET POSITION

Total assets remained essentially the same year over year while there was movement between the non-current and current asset categories. Current assets increased $76.7 million due in large part to Patient Accounts Receivable. The increase in net patient accounts receivable is attributed to several factors including a higher accounts receivable valuation for Medicaid claims based on higher reimbursement rates for both Traditional and Medicaid Managed Care, a measurable delay in the adjudication of claims across payors, and the natural growth in this account balance due to volume and pricing. This was followed by an increase in Other Assets Whose Use is Limited or Restricted category that is driven by an increase in receivables due from State of North Carolina Component Units. The increase in current assets was largely offset by the $72.4 million decrease in noncurrent assets. Noncurrent assets decreased primarily due to the sale of investments while property plant and equipment increased due to ongoing investment.

Deferred outflows of resources increased $61 million from adjustments related to Governmental Accounting Standards Board (GASB) No. 68 and Statement No. 75 as it relates to the State of North Carolina Teacher's' and State Employee's Retirement System Plan and other postemployment benefits.

Total liabilities decreased $395 million from June 30, 2021. Current liabilities decreased $143.7 million due primarily to recoupments of the Medicare Advance Payments. Noncurrent Liabilities decreased by $251.3 million due to the combined change in the net pension liability and net other postemployment benefits liability recorded in accordance with GASB Statements No. 68 and No. 75, respectively as well as from paying down long-term debt.

Deferred inflows of resources increased $75.4 million from the recognition of differences between actual and expected

pension plan experience, including investment performance, related to the pension plan and other postretirement benefits in accordance with GASB No. 68 and Statement No. 75.

Net position increased $384.9 million or 16.4% year over year as described in the statement of revenues, expenses, and changes in net position.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

UNC Health generated operating income of $143.1 million (2.6% operating margin) in fiscal year 2022 which resulted from a partial rebound in patient volume but not to pre-pandemic levels with higher acuity cases. Operating expenses increased primarily in Salaries and Benefits as well as Medical & Surgical Supplies. Salaries generally increase every year, but this fiscal year also reflects the result of position equity studies, and the use of contract labor, mainly in nursing, that were implemented to ensure competitiveness. Medical & Surgical Supplies increased due to volume overall as well as from retail and contract pharmacy expenses.

Nonoperating income was positive overall at $291.5 million but down significantly compared to the prior year as a result of lower fiscal year 2022 investment returns.

Transfers are comparable to the prior fiscal year and mainly in support of the UNC School of Medicine.

CAPITAL ASSETS

Various capital projects are underway throughout UNC Health.

The Hillsborough Bed Tower II created additional rehabilitation and medical and surgical capacity at the UNC Hospitals Hillsborough campus, which will decompress and allow for new volume at the main UNC Medical Center campus. In January 2022, 50 of the 80 beds opened while the remaining 30 medical and surgical beds are planned to open early calendar year 2023.

The Surgical Tower will provide new space and modernize a significant number of operating and intensive care rooms located on the UNC Medical Center campus. This project is expected to be completed in mid-calendar year 2024.

The Neuroscience Hospital had construction done throughout fiscal year 2022 and will continue throughout fiscal year 2023. The renovations are being done to accommodate new patient behavior health and medical rooms and also to address updated regulatory requirements and ensure continued safety for our behavioral health patients.

Finally, the generator plant project at UNC Hospitals is currently underway and will provide a facility to house the generators required to provide emergency power for the entire UNC Medical Center. This project will also modernize the standard and emergency power equipment in each hospital building as required by code.

Rex Holly Springs Hospital opened in November 2021, to provide much-needed medical care and services to one of the Triangles fastest-growing regions. The facility was planned to open in September 2021, however Rex delayed opening the hospital to ensure the main hospital in Raleigh had the staff necessary to manage the increase in patients requiring hospitalization from a dramatic surge in COVID-19 cases. The eight-story community hospital includes 50 inpatient beds, operating rooms for a wide range of surgeries, a full-service Emergency Department, MRI, radiology, laboratory, pharmacy, seven labor and delivery rooms, a C-section operating suite and OB Emergency bays.

Rex completed construction of a new Cancer Center in March 2022 on Blue Ridge Road in Raleigh, directly across the street from the main hospital campus. The four-story, 145,000 square foot facility tripled space dedicated to cancer care. This new facility is better equipped to provide the latest cancer treatments and service for a growing and aging patient population from across Eastern North Carolina. Through partnership with the University of North Carolina at Chapel Hill (UNC) Lineberger Cancer Center and N.C. Cancer Hospital in Chapel Hill, Rex patients will continue to benefit from the best in academic medicine, research and clinical trials.

Significant investment in facility improvements, routine capital equipment and technology were made throughout UNC Health during the fiscal year.

LONG-TERM DEBT ACTIVITY

UNC Health has no borrowing authority. UNC Hospitals, REX, and Chatham have issued revenue bonds in the past and may issue additional debt in the future should the need arise to finance construction projects and if market rates are favorable.

On July 22, 2020, the Rex issued $70,535,000 in Series 2020B revenue refunding bonds. The bonds were issued for a current refunding of $70,535,000 of outstanding Series 2010B revenue bonds.

On February 1, 2021, UNC Hospitals issued $28,280,000 in Series 2021A revenue refunding bonds. The bonds were issued for a current refunding of $28,280,000 of outstanding Series 2010B revenue bonds.

S&P Global Ratings (S&P) and Moody's Investors Service (Moody's) rate UNC Hospitals' bonds as AA and Aa3, respectively. S&P and Moody's, rate REX's bonds as AA- and A2, respectively. All of these ratings have stable outlooks.

Discussion of Conditions that May Have a Significant Effect on Net Position or Revenues, Expenses and Changes in Net Position

UNC Health derives the vast majority of its operating revenues from patient care services. Strong operating performance in the past and earning a positive operating margin during fiscal year 2022 has enabled UNC Health to make investments in support of the clinical, education, and research programs of UNCFP, UNC SOM, and other network entities. These

investments have yielded positive results as measured by growth in needed services, expansion of the medical school class and increased research funding.
UNC Health has adapted to the challenges presented by the COVID-19 pandemic and continues to evolve in order to remain a leader in providing the continuum of services required in health care. Providing these services relies on a variety of options for program and service development as well as significant capital investment. UNC Health utilizes acquisitions, partnerships, network development, contracts, and other means to expand its provision of care as opportunities are developed. Guided by a philosophy of collaboration and partnership with other providers, UNC Health continues to evaluate options of strategic importance to its development. Acquisitions and affiliations include hospitals, home health, hospice, physician practices and infusion services. We are making significant infrastructure investments to modernize and expand our patient care as noted in the Capital Assets section.

Third-party payors, including governmental sponsored programs, continue to migrate from fee-for-service to fee-for-value. Significant investments have been made in population health care to prepare for a value-based reimbursement regulatory environment. UNC Health Alliance, LLC, a subsidiary of UNCPN, is a clinically integrated network designed to enable private practice community physicians to enter into value contracts jointly with UNC Health and third party payors, with the goal of increasing quality and better managing the cost of care. UNC Senior Alliance, LLC, is also a subsidiary of UNCPN and has entered into an agreement with the Centers for Medicare and Medicaid Services (CMS's) to participate in the Next Generation Accountable Care Organization (ACO) for Medicare recipients effective January 1, 2017. The Next Generation ACO Model is a value-based payment model that encourages providers to assume greater accountability in coordinating the health care of Medicare fee-for-service beneficiaries. Learning from these programs will allow UNC Health to more rapidly scale and ramp-up our initiatives when appropriate.

UNC Health continues to provide care without charge and at amounts less than its established rates to patients who meet qualifying criteria. Persons who have no health insurance coverage, no coverage from another third party, or who obtain services not covered by their health insurance are eligible for a 40% discount on charges, no application required. (some exceptions apply e.g. cosmetic procedures.)

Many North Carolinians require additional support. North Carolina Residents with a household income at or below 250% of the Federal Poverty Guidelines may apply for Financial Assistance (Charity Care). A family of four with a household income at or below $69,375 would qualify, as would an individual with income at or below $33,975.

If approved, Financial Assistance will apply to medically necessary services, after all third-party coverage has been collected (some exceptions apply.) Risk to payment levels for Medicaid patients is expected to continue in fiscal year 2023 with the transition to Medicaid Managed Care. Management is monitoring this closely to ensure minimization of denials and adverse impacts.

Rex and UNC Hospitals opened its Advanced Care at Home, an innovative model that delivers hospital level care, infusions, diagnostic tests, nursing assessments, and physician visits to patients in their homes through a combination of in person and virtual care. This program allows patients to avoid certain risk factors inherent in traditional hospitalization and also provides care insight into a patient's home situation which can have a significant impact on their health.

Management is committed to proper expense management while maintaining high quality patient care, innovation, and very satisfied patients. Our teams will continue to focus on our Commitment to Caring patient experience which has proven to be a differentiator in care delivered by the health care system for many years. Successfully managing in the future requires tighter integration of administrative functions across the entities of UNC Health, caring for patients in lower cost delivery settings, and developing sufficient scale to spread the cost of major investments across a broad base. UNC Health continues to implement these changes through a health system-wide planning and implementation process.

The surge of the Omicron COVID-19 variant in early quarter three of fiscal year 2022 had a significant impact on operations. Management has put operational plans in place to maintain efficiency, productivity and further mitigate operation challenges and associated financial impacts, but continue to manage through the continued effects of pandemic and post-pandemic effects including a slow return of volume, staffing shortages, and behavioral health crises.

Despite the many challenges noted above UNC Health achieved a number of notable recognitions. Three UNC Health Hospitals are among only 330 hospitals nationwide to make Newsweek Magazine's ranking of the "World's Best Hospitals". Several UNC Health hospitals earned a top "A" safety grade from Leap Frog. UNC Children's named to the U.S. News' "Best Children's Hospitals" list for the fourteenth straight year. UNC Health Advanced Care at Home Program received the Highsmith award at its one-year milestone.

The University of North Carolina Health Care System

Pro Forma Statement of Net Position

For the Years Ended June 30, 2022 and June 30, 2021

	2022	restated 2021
Current Assets		
Cash and Investments	$616,749,000	$705,337,000
Patient Accounts Receivable Net	597,308,000	492,795,000
Estimated Third Party Settlements	69,653,000	47,803,000
Other Assets Whose Use is Limited or Restricted	189,742,000	143,597,000
Inventories	115,563,000	123,761,000
Prepaid Expenses and Other Current Assets	126,097,000	125,158,000
Total Current Assets	**1,715,112,000**	**1,638,451,000**
Noncurrent Assets		
Investments and Assets Whose Use is Limited or Restricted	1,587,359,000	1,760,038,000
Other Noncurrent Assets	1,441,446,000	1,550,871,000
Property Plant and Equipment, Net	2,538,194,000	2,328,475,000
Total Noncurrent Assets	**5,566,999,000**	**5,639,384,000**
Total Assets	**$7,282,111,000**	**$7,277,835,000**
Deferred Outflows of Resources	557,408,000	496,374,000
Total Assets and Deferred Outflows	**$7,839,519,000**	**$7,774,209,000**
Current Liabilities		
Accounts and Other Payables	420,409,000	453,400,000
Accrued Salaries and Benefits	357,602,000	336,989,000
Current Portion of Long Term Debt	59,265,000	48,500,000
Estimated Third Party Settlements - Current	131,191,000	159,531,000
Other Current Liabilities	329,283,000	443,018,000
Total Current Liabilities	**1,297,750,000**	**1,441,438,000**
Noncurrent Liabilities		
Noncurrent Portion of Long Term Debt	2,519,703,000	2,700,257,000
Estimated Third Party Settlements - Noncurrent	103,345,000	101,748,000
Other Noncurrent Liabilities	484,696,000	557,014,000
Total Noncurrent Liabilities	**3,107,744,000**	**3,359,019,000**
Total Liabilities	**4,405,494,000**	**4,800,457,000**
Deferred Inflows of Resources	**702,672,000**	**627,266,000**
Net Position	**2,731,353,000**	**2,346,486,000**
Total Liabilities, Deferred Inflows of Resources and Net Position	**$7,839,519,000**	**$7,774,209,000**

The University of North Carolina Health Care System

Pro Forma Statement of Revenues, Expenses, and Changes in Net Position

For For the Years Ended June 30, 2022 and June 30, 2021

	2022	restated 2021
Operating Revenues		
Net patient service revenue	$4,886,957,000	$4,533,728,000
Other operating revenues	536,282,000	693,151,000
Total Operating Revenues	**5,423,239,000**	**5,226,879,000**
Operating Expenses		
Salaries and benefits	2,899,950,000	2,702,208,000
Medical and surgical supplies	1,271,065,000	1,124,506,000
Contracted services	615,089,000	691,358,000
Other supplies and services	248,296,000	300,771,000
Depreciation and amortization	209,287,000	191,980,000
Interest expense	36,421,000	36,281,000
Total Operating Expenses	**5,280,108,000**	**5,047,104,000**
Operating Income (Loss)	**143,131,000**	**179,775,000**
Nonoperating Income (Loss)		
Investment income, net	40,089,000	640,714,000
CARES Act Stimulus	207,362,000	32,423,000
Other, net	44,084,000	-427,000
Nonoperating Income, Net	**291,535,000**	**672,710,000**
Excess (Deficit) of Revenues and Gains Over Expenses and Losses	**434,666,000**	**852,485,000**
Health Care System Transfers	**(49,799,000)**	**(55,335,000)**
Change in Net Position	**384,867,000**	**797,150,000**
Net Position - Beginning of Period	**2,346,486,000**	**1,549,336,000**
Net Position - End of Period	**$ 2,731,353,000**	**$ 2,346,486,000**

The University of North Carolina Health Care System

Pro Forma Statement of Cash Flows

For the Years Ended June 30, 2022 and June 30, 2021

	2022	restated 2021
Operating Activities		
Receipts from patients and third-party payors	$4,536,652,000	$4,436,372,000
Payments to and on behalf of employees	(3,000,954,000)	(2,653,113,000)
Payments to suppliers	(2,066,498,000)	(1,665,982,000)
Other receipts	402,588,000	421,351,000
Net Cash Used by Operating Activities	**(128,212,000)**	**538,628,000**
Noncapital Financing Activities		
Health Care System transfers	(134,116,000)	5,494,000
CARES Act stimulus	161,273,000	31,323,000
Other payments	19,853,000	25,553,000
Net Cash Provided by Noncapital Financing Activities	**47,010,000**	**62,370,000**
Capital and Related Financing Activities		
Proceeds from issuance of long-term debt, net of premium	-	70,536,000
Proceeds from lease arrangements	608,000	-
Interest paid on capital debt	(17,337,000)	(35,163,000)
Interest paid on leases	(3,361,000)	(3,530,000)
Principal paid on revenue bond maturity	(34,363,000)	(88,415,000)
Principal paid on capital lease and notes payable	(10,579,000)	107,732,000
Acquisition and construction of capital assets	(346,706,000)	(441,199,000)
Transfer to construction fund	47,159,000	102,030,000
Net Cash Used/Provided by Capital and Related Financing Activities	**(364,579,000)**	**(288,009,000)**
Investing Activities		
Interest income	79,857,000	165,821,000
Investment income, net	232,472,000	(995,017,000)
Net Affiliated Activity	(1,887,000)	(13,432,000)
Other receipts, net	46,751,000	(5,467,000)
Net Cash Used/Provided by Investing Activities	**357,193,000**	**(848,095,000)**
Net Increase in Cash and Cash Equivalents	**(88,588,000)**	**(535,106,000)**
Cash and Cash Equivalents - Beginning of Period	**705,337,000**	**1,240,443,000**
Cash and Cash Equivalents - End of Year	**$ 616,749,000**	**$ 705,337,000**

The University of North Carolina Health Care System // UNC Faculty Physicians

Statement of Net Position (Unaudited)

For the Years Ended June 30, 2022 and June 30, 2021

	2022	restated 2021
Current Assets		
Cash and Investments	$71,088,000	$44,077,000
Patient Accounts Receivable Net	49,175,000	43,454,000
Estimated Third Party Settlements	63,951,000	37,547,000
Other Assets Whose Use is Limited or Restricted	69,354,000	155,495,000
Inventories	236,000	174,000
Prepaid Expenses and Other Current Assets	18,617,000	19,397,000
Total Current Assets	**272,421,000**	**300,144,000**
Noncurrent Assets		
Investments and Assets Whose Use is Limited or Restricted	527,000	527,000
Other Noncurrent Assets	89,385,000	92,200,000
Total Noncurrent Assets	**89,912,000**	**92,727,000**
Total Assets	**$ 362,333,000**	**$ 392,871,000**
Total Assets and Deferred Outflows	**$ 362,333,000**	**$ 392,871,000**
Current Liabilities		
Accounts and Other Payables	$50,894,000	$57,509,000
Accrued Salaries and Benefits	56,105,000	68,681,000
Total Current Liabilities	**106,999,000**	**126,190,000**
Noncurrent Liabilities		
Other Noncurrent Liabilities	56,780,000	53,950,000
Total Noncurrent Liabilities	**56,780,000**	**53,950,000**
Total Liabilities	**163,779,000**	**180,140,000**
Net Position	**198,554,000**	**212,731,000**
Total Liabilities, Deferred Inflows, and Net Position	**$ 362,333,000**	**$ 392,871,000**

Statement of Revenues, Expenses and Changes in Net Position (Unaudited)

For the Years Ended June 30, 2022 and June 30, 2021

	2022	restated 2021
Operating Revenues		
Net patient service revenue	$551,095,000	$523,875,000
Other operating revenues	148,863,000	142,306,000
Total Operating Revenues	**699,958,000**	**666,181,000**
Operating Expenses		
Salaries and benefits	611,058,000	584,608,000
Medical and surgical supplies	49,334,000	39,523,000
Contracted services	94,875,000	85,678,000
Other supplies and services	25,903,000	18,125,000
Total Operating Expenses	**781,170,000**	**727,934,000**
Operating Income (Loss)	**(81,212,000)**	**(61,753,000)**
Nonoperating Income (Loss)		
Investment income, net	3,151,000	23,584,000
Other, net	35,968,000	(13,968,000)
Nonoperating Income, Net	**39,119,000**	**9,616,000**
Excess (Deficit) of Revenues and Gains Over Expenses and Losses	**(42,093,000)**	**(52,137,000)**
Health Care System Transfers	**27,916,000**	**53,850,000**
Change in Net Position	**(14,177,000)**	**1,713,000**
Net Position - Beggining of Period	**212,731,000**	**211,018,000**
Net Position - End of Period	**$ 198,554,000**	**$ 212,731,000**

The University of North Carolina Health Care System // UNC Faculty Physicians

Statement of Cash Flows (Unaudited)

For the Years Ended June 30, 2022 and June 30, 2021

	2022	restated 2021
Operating Activities		
Receipts from patients and third-party payors	$518,970,000	$506,108,000
Payments to and on behalf of employees	(620,804,000)	(551,608,000)
Payments to suppliers	(173,522,000)	(138,783,000)
Other receipts	235,004,000	80,690,000
Net Cash (Used) Provided by Operating Activities	**(40,352,000)**	**(103,593,000)**
Noncapital Financing Activities		
Health Care System transfers	27,916,000	53,850,000
Other payments	-	(13,968,000)
Net Cash Provided by Noncapital Financing Activities	**27,916,000**	**39,882,000**
Investing Activities		
Interest income	3,151,000	23,583,000
Investment income, net	328,000	(18,333,000)
Net Affiliated Activity	-	(89,000)
Other receipts, net	35,968,000	-
Net Cash Provided by Investing Activities	**39,447,000**	**5,161,000**
Net Increase in Cash and Cash Equivalents	**27,011,000**	**(58,550,000)**
Cash and Cash Equivalents - Beginning of Period	**44,077,000**	**102,627,000**
Cash and Cash Equivalents - End of Year	**$ 71,088,000**	**$ 44,077,000**

The University of North Carolina Health Care System

Pro Forma Selected Statistics and Ratios

For the Years Ended June 30, 2022 and June 30, 2021

	2022	restated 2021
Patient Service Statistics		
Discharges	81,649	83,001
Patient Days	579,482	568,155
Observation Day Equivalents	34,796	32,610
Deliveries	10,001	9,717
Adjusted Discharges	184,132	178,531
Adjusted Patient Days	1,202,377	1,117,568
CMI Adjusted Discharges	361,873	350,595
CMI Adjusted Patient Days	2,417,954	2,247,194
ED Visits	218,002	189,608
wRVUs	10,879,832	9,172,049
Surgical Cases	60,644	61,507
Cath Lab	15,796	16,280
EP Lab	24,750	23,192
Structural Heart	659	696
Chemotherapy	89,753	88,026
Radiation Therapy	62,751	62,145
Imaging	742,187	697,771
Endoscopy	30,371	27,698
Transplants	406	443

Notes to the Pro Forma Financial Statements

NOTE 1 // SIGNIFICANT ACCOUNTING POLICIES

A. Organization — The University of North Carolina Health Care System (UNC Health) was established November 1, 1998, by N.C.G.S. 116-37. It is governed and administered as an affiliated enterprise of The University of North Carolina system with its stated purpose to provide patient care, facilitate the education of physicians and other health care providers, conduct research collaboratively with the health sciences schools of the University of North Carolina at Chapel Hill (UNC-CH) and render other services designed to promote the health and well-being of the citizens of North Carolina.

The original legislation included the University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and the clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill (UNC SOM) including University of North Carolina Physicians and Associates (UNC P&A). As of January 1, 2013, UNC Physicians & Associates changed its name to UNC Faculty Physicians (UNCFP) to better identify the relationship with the UNC School of Medicine. UNC Health is under the governance of the Board of Directors of UNC Health. The University of North Carolina System Funds (System Fund), REX Healthcare, Inc. (REX), Chatham Hospital, Inc. (Chatham), Caldwell Memorial Hospital (Caldwell), UNC Rockingham Health Care (Rockingham), UNC Physicians Network (UNCPN), UNC Physicians Network and Group Practice (UNCPNGP) have been added to the organization since its inception.

Caldwell Memorial Hospital (Caldwell) – Caldwell is a private, not-for-profit community hospital in Lenoir, North Carolina and is an acute care hospital with a provider network of approximately 70 primary and specialty care physicians and advanced practice professionals. UNC Health became the sole corporate member of Caldwell on May 1, 2013.

Chatham Hospital, Inc. (Chatham) – Chatham is a private, nonprofit corporation that owns and operates a critical access facility located in Siler City, North Carolina. UNC Health is the sole member of Chatham. The Chatham Board consists of 7 to 15 members including the Chatham President and Chief of Staff serving as ex-officio trustees while residents of Chatham's service area are required to hold one third of the trustee positions. UNC Health's Board reviews and approves all board nominations as well as Chatham's annual operating and capital budgets.

Liability Insurance Trust Fund (LITF) – LITF is an unincorporated entity created by North Carolina General Statutes Chapter 116, Article 26 and the University of North Carolina Board of Governors Resolution of June 9, 1978. LITF is a self-insurance program established to provide professional medical malpractice liability coverage for UNC Hospitals and UNCFP, (collectively, the program participants). LITF services professional liability claims and defense costs for each case and manages separate accounts for each participant from which losses are paid. LITF provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of the program participants. LITF is exempt from federal and state income taxes and is not subject to regulation by the North Carolina Department of Insurance.

REX Healthcare, Inc. (REX) – REX is a North Carolina not-for-profit corporation organized to provide support for a wide range of services offered through UNC Health and its affiliates to the residents of the Triangle area of North Carolina. UNC Health is the sole member of REX. REX is the sole member and parent corporation of Rex Hospital, Inc. (Rex Hospital). Both REX and Rex Hospital are separate, non-profit 501(c)(3) corporations, organized under the laws of North Carolina and each is governed by a separate board of directors. As of May 30, 2019 REX, no longer has a 13-member Board of Trustees. As of that date, REX has a Board of Directors consisting of three members in order to better serve the interests of REX and provide greater flexibility and convenience in terms of administration. UNC Health appoints all three seats on REX's Board of Directors. Rex Hospital is governed by a Board of Directors consisting of not less than nine or more than fifteen members. The president of Rex Hospital serves as an ex-officio voting member of the Rex Hospital Board of Directors. All of the other members of the Rex Hospital Board of Directors are elected by UNC Health. UNC Health reviews and approves REX's, including Rex Hospital's, annual operating and capital budgets.

Health care operations are managed by Rex Hospital. REX, the parent corporation, acts as a supporting organization for UNC Health and certain affiliates. REX may perform management and administrative functions and overall planning and coordination, as well as provide shared services, for the benefit of UNC Health. REX is a component unit of UNC Health and its financial data is incorporated into the comprehensive annual financial report of UNC Health.

The University of North Carolina Faculty Physicians — Formerly known as UNC Physicians & Associates, University of North Carolina Faculty Physicians (UNCFP) is the clinical service component of the UNC School of Medicine. At the heart of UNCFP are the approximately 1,290 physicians who provide a full range of specialty and primary care services for patients of UNC Health. While the great majority of services are rendered at the inpatient units of UNC Hospitals and the outpatient clinics on the UNC campus, there is a growing range of services provided at clinics in the community. There are 22 clinical departments and 4 administrative units that collectively form UNCFP.

Clinical Departments:

Allied Health Sciences
Anesthesiology
Dermatology
Emergency Medicine
Family Medicine
Medicine
Neurology
Neurosurgery
Obstetrics & Gynecology
Ophthalmology
Orthopaedics
Otolaryngology
Pathology & Laboratory Medicine
Pediatrics
Physical Medicine & Rehabilitation
Psychiatry
Radiation Oncology
Radiology
Surgery Urology
Center for Development and Learning
Treatment and Education of Autistic and Orthopedics Related Communication Handicapped Children

Administrative Units:

Administrative Office (Billing & Collections, Managed Care)
Ambulatory Administration
Funds Flow Admin
Shared Services

While UNCFP is affiliated with UNC Health, the net assets of UNCFP are held in a UNC-CH trust fund. The operating income and expenses for UNCFP are managed via the UNC-CH's accounting infrastructure, and its operational results are included in the annual audit for the UNC-CH.

The University of North Carolina Hospitals — The University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) is the only state-owned teaching hospital in North Carolina. With a licensed base of 951 beds, this facility serves as an acute care teaching hospital for The University of North Carolina at Chapel Hill. UNC Hospitals consists of North Carolina Memorial Hospital, North Carolina Children's Hospital, North Carolina Neurosciences Hospital, North Carolina Women's Hospital, North Carolina Cancer Hospital, UNC Hospitals Hillsborough campus and UNC Hospitals WakeBrook campus. As a state agency, UNC Hospitals is required to conform to financial requirements established by various statutory and constitutional provisions.

UNC Physicians Network, LLC (UNCPN) — UNCPN is a North Carolina limited liability corporation organized to meet the needs of community practice physicians and offer a partnership for both physicians and UNC Health to face the challenging health care environment. Acting through its network of more than 114 practices, UNCPN provides health care to patients from several locations throughout the Triangle area (Raleigh, Durham and Chapel Hill) and surrounding counties in North Carolina.

UNC Physicians Network Group Practices, LLC (UNCPN-GP) — UNCPN-GP is also a North Carolina limited liability corporation organized to meet the needs of community practice physicians and offer a partnership for both physicians and UNC Health to face the challenging health care environment. UNCPN-GP is wholly owned by UNC Health, but is a private employer.

University of North Carolina Health Care Health Insurance Fund (HCS Health Insurance Fund) — HCS Health Insurance Fund was created to help manage the medical, dental, and pharmacy claims for NC Health non-state team members. This fund provides an essential benefit to UNC Health team members and funded by each owned and managed entity that participates in this program.

University of North Carolina Health Care Real Estate Fund (NC Health Properties) — NC Health Properties within UNC Health was created to segregate and track real estate holdings in the name of UNC Health Care System and Health System Properties, LLC. This fund acts as a service center to accumulate costs associated with real estate holdings across various UNC Health entities which will have rental or use agreements with NC Health Properties.

UNC Rockingham Health Care (Rockingham) — Rockingham is a not-for- profit acute care hospital located in Eden, North Carolina, formally known as Morehead Memorial Hospital. It was acquired via an asset purchase agreement and became a part of the UNC Health as of December 2017.

University of North Carolina Health Care Shared Administrative Services Fund (Shared Administrative Services Fund) — The Shared Administrative Services Fund within UNC Health represents those activities that benefit all of the owned entities such as legal, marketing, human resources, finance, strategic planning, contract pharmacy, risk management, and information technology services. The annual flow of funds involves budgeting the Shared Administrative Services required to support UNC Health's operations over the course of the next year and then billing the applicable entities for their allocated share. Managed entities are provided services on a contractual basis.

University of North Carolina Health Care System Funds (System Fund) — The Board of Directors of UNC Health Care System (UNC Health) authorized and approved the creation of the System Fund to enable fund transfers among the entities within the System in support of the System's vision and mission to be the nation's leading public academic health care system.

WakeBrook Mental Health Campus (WakeBrook) — UNC Health agreed to provide, enhance and expand all services offered in the past at Wake County's WakeBrook facility. Pursuant to agreements with Wake County and Alliance Behavioral Health, UNC Health began with the operation of WakeBrook Crisis and Assessment services on February 1, 2013. WakeBrook provides behavioral health and medical services in the areas of Crisis and Assessment, Residential Facility Based Crisis, Detoxification Beds, Onsite Medical Care, Primary Care Clinic, Inpatient Care, and Assertive Community Treatment Team.

B. Basis of Presentation — The accompanying financial statements present all activities under the direction of the UNC Health Board of Directors. The financial statements for UNC Health are presented as a *pro forma* compilation of the various statements generated by its separate entities. Caldwell, Chatham, REX, Rockingham, NC Hospitals, UNCPN, UNCPN-GP, and the System Fund issue their own audited

financial statements while UNCFP is included as a part of the audited statements for the UNC-CH.

In compiling the financial statements for UNC Health, significant intercompany transactions and balances between the related parties have been eliminated. In addition, while the general statutes refer to only the clinical operations of the School of Medicine, which are reported through UNCFP, this annual report includes the assets, liabilities and net assets of UNCFP, which are included in the audited financial statements for the UNC-CH.

C. Basis of Accounting – The financial statements of the various entities have been prepared using the accrual basis of accounting for Caldwell, Chatham, LITF UNCFP, UNC Hospitals, REX, Rockingham, UNCPN, UNCPN-GP, and the System Fund. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. When preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

D. Current and Noncurrent Designation – Assets are classified as current when they are expected to be collected within the next 12 months or consumed for a current expense in the case of cash or prepaid items. Liabilities are classified as current if they are due and payable within the next 12 months.

E. Operating and Nonoperating Activities – Revenues and expenses are classified as operating or nonoperating in the accompanying Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as charges for inpatient and outpatient services as well as for external customers who purchase medical services or supplies. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions "and donations" that represent subsidies or gifts, as well as investment income "and gain (loss) on disposal of capital assets," are considered nonoperating since these are investing, capital or noncapital financing activities. CARES Act relief funds and FEMA reimbursements are recorded as nonoperating income.

F. Cash and Cash Equivalents – This classification includes all highly liquid investments with an original maturity of three months or less when purchased including deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF account has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

UNC-CH manages the funds of UNCFP as authorized by the University of North Carolina Board of Governors pursuant to N.C.G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina. Special funds and funds received for services rendered by health care professionals pursuant to N.C.G.S 116-36.1(h) are invested in the same manner as the State Treasurer is required to invest. Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. UNC-CH utilizes investment pools to manage investments and distribute investment income. Shares in the temporary pool trade at a fixed value of $1 per share.

G. Investments – This classification includes marketable debt and equity securities with readily determinable fair values, including assets whose use is limited and is measured at fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating income (loss). The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

H. Patient Accounts Receivable, Net – Net patient accounts receivable consist of unbilled (in-house patients, inpatients discharged but not final billed and outpatients not final billed) and billed amounts. Payment of these charges comes primarily from managed care payors, Medicare, Medicaid and, to a lesser extent, the patient. The amounts recorded in the financial statements are net of charity care, contractual allowances, avoidable and other losses, and allowances for bad debt to determine the net realizable value of accounts receivable.
Reserves for these deductions are recorded based on the historical collection percentage realized for each payor and projections for future collection rates. Flexible payment arrangements have been established to optimize collection of past-due accounts, and any amounts payable beyond one year are classified as noncurrent assets.

I. Inventories – Inventories consist of medical and surgical supplies, pharmaceuticals, prosthetics and other supplies that are used to provide patient care or used by service departments. Inventories are stated at the lower of cost using the first-in, first-out method or market.

J. Other Assets and Receivables – Other assets and receivables relate to items such as sales tax refunds due from the North Carolina Department of Revenue, amounts due from State agencies, and billings to outside companies for ancillary testing.

K. Assets Whose Use Is Limited or Restricted – Current assets whose use is limited or restricted include the debt service funds established with the trustee in accordance with the bond indenture agreements and donor restrictions. The debt service funds are used to pay bond interest and principal as it becomes due. Noncurrent assets whose use is limited or

restricted include the bond proceeds for construction projects, the funds required by the bond indenture agreements, funds in the maintenance reserve fund that will be used to acquire or construct future property, plant or equipment and the money on deposit with LITF.

L. Property Plant and Equipment – Property, plant and equipment are recorded at cost or acquisition value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs for major renewals and betterments are capitalized and depreciated over the estimated useful lives of the assets. Upon disposition, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is credited or charged to nonoperating revenues and expenses.

Depreciation and amortization are generally computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 20 years for software and movable equipment, 10 to 40 years for fixed equipment and buildings and 5 to 25 years for general infrastructure and building improvements. Assets under capital leases and leasehold improvements are depreciated over the estimated useful life or the related lease term, whichever is shorter; generally, periods ranging from 5 to 7 years. Depreciation of assets under capital leases and leasehold improvements is included in depreciation and amortization expense in the accompanying statements of revenues, expenses and changes in net position.

M. Other Noncurrent Assets – Other noncurrent assets include amounts for long-term payment arrangements for patient accounts receivable, bond issuance costs-net of amortization and investments in affiliates.

N. Current and Noncurrent Portions of Long-Term Debt – These categories represent debt issued for the construction of buildings and the acquisition of equipment. The current amount is the portion of debt due within one year, and the balance is reflected as noncurrent.

The debt instruments have fixed, variable or synthetically fixed rates with final maturity in fiscal year 2050. The interest rates in effect on June 30, 2020 ranged from 0.43% to 6.33%. When applicable, debt is reported net of unamortized discount, premium and deferred loss on refunding. Amortization of these amounts is done using either the effective interest method or the straight-line method.

O. Other Current Liabilities – Other current liabilities represent funds held for others and amounts due to patients or third parties for credit balances.

P. Compensated Absences – Compensated absences represent the liability for employees with accumulated leave balances earned through various leave programs. These amounts would be payable if an employee terminated employment. Employees earn leave at varying rates depending upon their years of service and the leave plan in which they participate.

Q. Net Position – Net Position represents the difference between assets and liabilities. Due to the complexities of consolidating these entities, only a combined number is shown for Net Position.

Normally, under generally accepted accounting principles, the Net Position category would be further categorized as the amounts (1) Net Investment in Capital Assets, (2) Restricted and (3) Unrestricted.

R. Net Patient Service Revenue – Patient service revenue is recorded at established rates when services are provided with contractual adjustments, estimated bad debt expenses and services qualifying as charity care deducted to arrive at net patient service revenue. Contractual adjustments arise under reimbursement agreements with Medicare, Medicaid, certain insurance carriers, health maintenance organizations and preferred provider organizations, which provide for payments that are generally less than established billing rates. The difference between established rates and the estimated amount collectible is recognized as revenue deductions on an accrual basis.

Charity care represents health care services that were provided free of charge or at amounts that are less than the established rates to individuals who meet the criteria of UNC Health's charity care and uninsured policy. For UNC Hospitals and UNCFP, uninsured patients receive a 40 percent discount for medically necessary treatment. Charity care provided is not considered to be revenue since no effort is made to collect accounts that fall under this policy.

Medicare reimburses for inpatient acute care services under the provisions of the Prospective Payment System (PPS). Under PPS, payment is made at predetermined rates for treating various diagnoses and performing procedures that have been grouped into defined diagnostic-related groups (DRGs) applicable to each patient discharge rather than on the basis of the Hospitals' allowable charges. Psychiatric and Rehabilitation inpatient services are reimbursed under separate programs.

A prospective payment system for outpatient services was implemented Aug. 1, 2000 and is based on ambulatory payment classifications. It applies to most hospital outpatient services other than rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, nonimplantable durable medical equipment, prosthetic devices and orthotics.

Medicaid reimburses inpatient services on an interim basis under a prospective payment system. Medicaid uses the Medicare DRG system with some modifications. Medicaid reimburses outpatient services on an interim basis at an agreed-upon percent of charges approximating 70% of cost, but is settled under an Upper Payment Limit

program based on 100% percent of documented cost, less intergovernmental transfers, for all services except hearing aids, durable medical equipment (DME), outpatient pharmacy, laboratory and home health.

Hospital payments for Medicare and Medicaid services are made based on a tentative reimbursement rate with final settlement determined after submission of the appropriate cost reports by the entities within UNC Health. Medicaid reimburses physician services using a fee schedule that approximates ninety-five percent (95 percent) of allowable Medicare rates. Some UNC Health physicians receive supplemental payments under the Upper Payment Limit Program in addition to their Medicaid reimbursement as a replacement to filing a Medicaid Cost report for periods after June 30, 2010.

S. Medical and Surgical Supplies – Medical and surgical supplies represent the items used to provide patient care. These include instruments, special medical devices and pharmaceuticals.

T. Medical Malpractice Costs – Medical malpractice costs represent the actuarially determined contributions required for self-insured funding or commercial premiums for third-party coverage. The coverage is intended to include both reported claims and claims that have been incurred but not yet reported.

U. Medical School Trust Fund – Medical School Trust Fund (MSTF) expenses represent an assessment of 2.5 percent of net patient service revenue. The MSTF funds are at the Dean's discretion for the support of projects such as program development and recruitment incentives for new department chairs.

V. Donated Services – No amounts have been included for donated services since no objective basis is available to measure the value of such services. However, a substantial number of volunteers donated significant amounts of their time to the operations of UNC Health.

W. Concentrations of Credit Risk – UNC Health provides services to patients without collateral or other proof of ability to pay. Concentration of credit risk with respect to patient accounts receivable are limited due to large numbers of patients served and formalized agreements with third-party payors. Significant accounts receivable are dependent upon the performance of certain governmental programs, primarily Medicare and North Carolina Medicaid for their collectability. Management does not believe there are significant credit risks associated with these governmental programs.

X. Deferred Outflows / Inflows of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as revenue until then.

NOTE 2 // ESTIMATED THIRD-PARTY SETTLEMENTS

Estimated third-party amounts represent settlements with Medicare, Tricare/Champus and Medicaid programs that may result in a receivable or a payable. Reimbursement for cost-based items are paid at a tentative interim rate with final settlement determined after submission of annual cost reports and audits thereof by fiscal intermediaries. Final settlements under the Medicare and Medicaid programs are based on regulations established by the respective programs and as interpreted by fiscal intermediaries. The classification of patients under the Medicare and Medicaid programs as well as the appropriateness of their admission is subject to review. Several years of cost reports are currently under review. Beginning in FY 2022, NC Medicaid started transitioning to Medicaid Managed Care plans and hospital entities receive supplemental reimbursement via directed payments for Medicaid Managed Care.

Tricare/Champus is a federal insurance program for eligible active duty and retired military personnel and their dependents. Tricare/Champus makes payments on an interim basis. Upon completion of the Medicare Cost Report, Tricare will reimburse certain portions of direct medical and paramedical education and capital costs from the Medicare Cost Report.

NOTE 3 // CAPITAL ASSETS

A summary of capital assets as of June 30:

	FY2022	FY2021
Land and Improvements	$149,355,000	$131,228,000
Buildings and Improvements	2,054,172,000	1,777,807,000
Equipment	1,232,105,000	1,123,308,000
Computer Software	241,522,000	230,304,000
Goodwill	30,685,000	29,962,000
Right of Use	417,303,000	397,948,000
Construction in Progress	467,972,000	502,466,000
Gross PP&E	**$4,593,114,000**	**$4,193,023,000**
Accumulated Depreciation	(2,054,920,000)	(1,864,548,000)
Net PP&E	**$2,538,194,000**	**$2,328,475,000**

NOTE 4 // LONG-TERM DEBT

A summary of outstanding bond debt and related issuance costs as of June 30, 2022 was:

	Total FY2022	Total FY2021
Rex Series 2015A Bonds	50,000,000	50,000,000
Rex Series 2015B Bonds	100,000,000	100,000,000
Rex Series 2020A Bonds	198,540,000	199,725,000
Rex Series 2020B Bonds	62,935,000	70,535,000
UNCH Series 2001 Bonds	78,000,000	80,200,000
UNCH Series 2003 Bonds	51,740,000	58,095,000
UNCH Series 2009 Bonds	7,450,000	10,970,000
UNCH Series 2016 A Bonds	74,945,000	74,945,000
UNCH Series 2016 B Bonds	25,000,000	25,000,000
UNCH Series 2019 Bonds	149,995,000	149,995,000
UNCH Series 2021 Bonds	25,655,000	28,280,000
Face Value of Bonds Outstanding	**$ 824,260,000**	**$ 847,745,000**
Deferred Costs - Premium on Issuance	71,960,976	74,360,771
Net Value Outstanding	**$ 896,220,976**	**$ 922,105,771**
Current Portion of Bonds	24,300,000	23,485,000
Current Portion of Notes	8,333,895	6,268,475
Other Current Debt	2,103,561	501,470
Total Current Bonds and Notes	**$ 34,737,456**	**$ 30,254,945**
Noncurrent Portion of Bonds	871,920,976	898,620,771
Noncurrent Portion of Notes	38,769,350	46,087,291
Other Noncurrent Debt	731,858	866,127
Total Noncurrent Bonds and Notes	**$ 911,422,184**	**$ 945,574,189**
Deferred Costs - Loss on Refunding	(4,072,888)	(4,893,008)
Hedging Liability	3,042,429	7,887,997
Deferred Bond Activity	**$ (1,030,458)**	**$ 2,994,989**

As currently structured, UNC Health has no authority to issue debt. Only the individual entities within UNC Health have assets and revenue that can be pledged as collateral for the debt.

Annual requirements to pay principal and interest (including swap arrangements) on the bonds outstanding at June 30, 2022 are:

Fiscal Year	Principal	Interest	Total
2023	$ 24,300,000	$ 26,626,807	$ 50,926,807
2024	25,130,000	26,006,288	51,136,288
2025	26,055,000	25,393,772	51,448,772
2026	27,010,000	24,819,916	51,829,916
2027	27,790,000	24,222,228	52,012,228
2028-2032	136,795,000	112,379,598	249,174,598
2033-2037	83,495,000	98,928,772	182,423,772
2038-2042	118,100,000	84,954,440	203,054,440
2043-2047	227,830,000	54,294,772	282,124,772
2048-2052	127,755,000	8,713,150	136,468,150
Total	**$ 824,260,000**	**$ 486,339,743**	**$ 1,310,599,743**

Annual requirements to pay principal and interest on the outstanding notes and capital leases payable at June 30, 2022 are:

Fiscal Year	Principal	Interest	Total
2023	$ 8,883,050	$ 842,058	$ 9,725,108
2024	19,168,704	396,498	19,565,202
2025	3,404,904	228,332	3,633,236
2026	3,452,225	185,067	3,637,291
2027	3,396,712	145,213	3,541,925
2028-2032	10,465,139	193,635	10,658,775
Total	**$ 48,770,733**	**$ 1,990,804**	**$ 50,761,537**

NOTE 5 // PENSION PLANS

UNC Health has a variety of retirement plans available to its permanent full-time employees. The majority of employees of UNC Hospitals and UNCFP are members of the Teachers' and State Employees' Retirement System (TSERS) as a condition of employment. TSERS is a cost-sharing, multiple-employer, defined-benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer. Graduate medical residents, temporary employees and permanent part-time employees with appointments of less than 30 hours per week are not covered by the plan.

The Optional Retirement Program (the Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Eligible employees of UNC Hospitals and eligible faculty of UNC CH may join the Program instead of TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program. Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

REX sponsors a single-employer, defined-benefit retirement plan available to eligible employees. The benefit formula is based on the highest five consecutive years of an employee's compensation during the 10 plan years preceding retirement. There are no employee contributions to the plan. During the year ended June 30, 2015, the plan was amended to freeze the accrued benefits for all plan participants.

Funding amounts for all of the plans are based upon actuarial calculations.

In addition to the employer plans, UNC Health employees may elect to participate in any number of deferred compensation and Supplemental Retirement Income Plans. These include 401(k) plans, 403(b) plans and 457 plans. All costs of administering and funding the plans are the responsibility of the participants. REX employees may contribute to a tax-deferred annuity plan through which REX matches one half of each participant's voluntary contributions on a graduated scale based on length of service, not to exceed 5 percent of the participant's annual salary.

REX offers a full menu of employment benefits to its employees through various third-party carriers. These include medical insurance, dental coverage, short-term and long-term disability benefits and life insurance coverage.
More information about these plans can be found in the individual audit reports of the various entities.

NOTE 6 // OTHER EMPLOYMENT BENEFITS

UNC Hospitals and UNCFP participate in State-administered programs that provide health insurance and life insurance to current and eligible former employees. Funding for the health care benefit is financed on a pay-as-you-go basis based upon actuarial reports. Due to the implementation of GASB 75, liability for retiree health care benefits provided by the program is now carried by employers proportionately.

UNC Hospitals and UNCFP participate in the Disability Income Plan of North Carolina (DIPNC). DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Due to the implementation of GASB 75, the liability for long-term disability benefits provided by the program is now carried by employers proportionately.

More information about these plans can be found in the individual audit reports of the various entities.

NOTE 7 // RISK MANAGEMENT

UNC Health is exposed to various risks of loss related to torts; theft of, damage to and the destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and various employee plans for health, dental and accident. These exposures to loss are handled by a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year.

Liability Insurance Trust Fund – UNC Hospitals and UNCFP participate in the Liability Insurance Trust Fund (the Fund), a claims-servicing public entity risk pool for professional liability protection. The Fund acts as a servicer of professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid.

Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Fund.

Additional disclosures relative to the funding status and obligations of the Fund are set forth in the audited financial statements of the Liability Insurance Trust Fund. Copies of this report may be obtained from The University of North Carolina Liability Insurance Trust Fund, 5221 Paramount Parkway, Suite 410, Morrisville, NC 27560.

NOTE 8 // ESCROW FOR CERTIFIED PUBLIC EXPENDITURES (CPEs)

With the help of the North Carolina Hospital Association, UNC Health entered into an agreement with other Public Hospitals in North Carolina to receive the benefit of additional Certified Public Expenditures (CPEs) (as defined by Federal Regulation 45 CFR 95.13 and 42 CFR 433.51) from public hospitals (as defined in the North Carolina State Plan for Medicaid payments) which decided to assist UNC Health in meeting its obligations to fund the remaining Disproportionate Share Hospital (DSH) allotment. DSH payments are special payments for hospitals which serve a disproportionate share of low-income patients. By making additional CPE's available, the public hospitals risk possible DSH overpayments that would require repayment to state or federal agencies. In order to mitigate the public hospitals' risk, UNC Health established a reserve fund to be held in escrow. The fund will reimburse participating public hospitals for any repayments that should result from this program. At June 30, 2022, $68,136,906.55 was held by the Escrow Agent, First Citizens Bank & Trust Company.

NOTE 9 // RELATED PARTY TRANSACTIONS

Blue Ridge Health – The system includes one hospital with two locations, a wellness center, a continuing care retirement community and nearly 120 primary care physicians. Blue Ridge provides graduate medical education programs for medical school graduates and students in osteopathic medicine. Specifically, UNC Health and Blue Ridge intend to build a leading healthcare option for UNC Health's Mountain Region, form a high-performing network of facilities and clinicians and expand Blue Ridge's clinical programs and service lines as well as provide access to research and clinical trials leverage UNC Health's existing population health solutions and explore innovative rural healthcare models that will make UNC Health and Blue Ridge a leader in value-based care regionally and

across the state. On April 22, 2021 Blue Ridge Health System signed a management services agreement with UNC Health.

CarolinaEast Health System – CarolinaEast Health System includes, CarolinaEast Medical Center which is a 350 bed acute care hospital, a rehabilitation hospital, free-standing ASC, comprehensive cancer center and numerous physician practices. Under the terms of the arrangement, CarolinaEast remains a separate legal entity under the authority of its own Board of Directors. The affiliation between UNC Health and New Bern, NC-based CarolinaEast will enhance the quality of healthcare in the Eastern Region while simultaneously growing specialty services in Craven County and beyond. The collaboration will also increase primary and specialty services while growing access to an expanded network of care in the surrounding community. CarolinaEast Health System signed a management services agreement with UNC Health on May 11, 2021.

Henderson County Hospital Corporation d/b/a Margaret R. Pardee Memorial Hospital (HCHC) – Henderson County is the sole member of HCHC, a North Carolina not-for-profit corporation, which is in turn the sole member of Henderson County Urgent Care Centers, Inc. and Western Carolina Medical Associates, Inc. HCHC was created by Henderson County to provide for the operation of a community hospital in Henderson County, North Carolina that is dedicated to serving the health care needs of Henderson County citizenry. On June 22, 2011, HCHC signed a management service agreement engaging the Hospitals to conduct and effectively manage the day-to-day operations of Margaret R. Pardee Memorial Hospital and HCHC's affiliated operations over a term of 10 years. On September 4, 2013, this agreement was extended to a term of 25 years.

The John REX Endowment – The John REX Endowment (Endowment) operates as a 501(c)(3) corporation and is independent of the Board of Directors of UNC Health. Its purpose is to advance the health and well-being of the residents of the greater Triangle area, with specific funds set aside for indigent care and to make grants to support health services, education, prevention and research. In discharging its purposes, priority consideration will be given to any funding requests from REX, UNC Health and their affiliates. The funding source for the Endowment is the $100 million transfer that came from UNC Health in April 2000.

Johnston Health Services Corporation – Effective February 1, 2014, Johnston Memorial Hospital Authority (JMHA) and UNC Health entered into a Master Agreement to form Johnston Health Services Corporation (JHSC), a joint venture created to achieve the long-term vision of providing high-quality health care to the residents of Johnston County, North Carolina. Oversight and governance of the joint venture is controlled by a Board of Directors consisting of appointees from both JMHA and UNC Health. UNC Health manages the day-to-day operations of JHSC under the terms of a Management Services Agreement entered into and effective November 1, 2013.

On November 4, 2020, the boards of REX and JHSC executed a Joint Operating Agreement to form a stronger partnership to expand the organizations' long history of collaboration to enhance care, improve outcomes, and increase access for patients in Johnston and Wake counties. The agreement calls for a long-term commitment to opening new medical facilities in Johnston County and expanding clinical services offered across the region. This agreement increased UNC Health's membership interest from 35.25 percent to 49.9 percent interest in JHSC.

Lenoir Memorial Hospital, Inc. – Lenoir Memorial Hospital, Inc. is a private, not-for-profit hospital located in Kinston, North Carolina that operates Lenoir Memorial Hospital and several physician practices. It serves patients primarily from Lenoir and neighboring counties. Lenoir Memorial Hospital, Inc. signed a management services agreement with UNC Health on May 17, 2016 to provide certain management services over an initial term of 10 years.

The Medical Foundation of North Carolina, Inc. – UNC Hospitals and UNCFP are participants in The Medical Foundation of North Carolina, Inc., a nonprofit foundation for the University of North Carolina at Chapel Hill and UNC Hospitals, which solicits gifts and grants for both entities. The Board of Directors of the Medical Foundation administers the funds of the Foundation. Transactions are recorded only by the Foundation. If the Foundation were to purchase any equipment for UNC Hospitals, then the amount would be recorded at the time of receipt on UNC Hospitals' financial statements.

Nash Health Care Systems – Nash Health Care Systems is a nonprofit hospital authority composed of Nash General Hospital, Nash Day Hospital, the Bryant T. Aldridge Rehabilitation Center, Community Hospital and Coastal Plain Hospital. It serves Nash, Edgecombe, Halifax, Wilson and Johnston counties, but draws patients from beyond these areas as well. Nash Health Care Systems signed a management service agreement engaging UNC Health to conduct and manage its operations effective April 1, 2014.

UNC Health Care System Enterprise Fund – The Board of Directors of UNC Health authorized and approved the creation of the UNC Health Care System Enterprise Fund (System Fund) to support UNC Health's mission and vision to be the nation's leading public academic health care system. Pursuant to a memorandum of understanding effective July 1, 2005, UNC Hospitals, UNCFP, REX and the UNC-CH School of Medicine agreed to finance the Enterprise Fund. The System Fund enables fund transfers among entities in the health system in support of the Board's vision to be the nation's leading public academic health care system.

The System Fund assesses, holds, and allocates funds across the entities of UNC Health. Initially formed as the Enterprise Fund to facilitate investments in support of the clinical, academic and research missions of UNC Health and the UNC School of Medicine, the Enterprise Fund today exists as a subaccount within the System Fund. Since its formation, the System Fund has been used to enable additional types of transfers between entities of UNC Health. As such, the Enterprise Fund, Outreach Fund, Patient Safety Fund,

Recruitment Fund, and Shared Administrative Services Fund each function as subaccounts of the System Fund.

Onslow County Hospital Authority – Onslow County Hospital Authority is the sole member of Onslow Memorial Hospital, Inc., which operates Onslow Memorial Hospital, a not-for-profit hospital located in Jacksonville, North Carolina. The hospital serves patients primarily from Onslow and neighboring counties. Onslow County Hospital Authority entered into a management services agreement with UNC Health, effective January 1, 2019, to provide certain management services for purposes of managing Onslow Memorial Hospital over an initial term of 2 years. On January 1, 2021, the agreement was extended for another 2 years.

Southeastern Regional Medical Center d/b/a Southeastern Health – Southeastern Health is a private, not-for-profit hospital located in Lumberton, North Carolina that operates Southeastern Regional Medical Center, physician practices and an ambulatory surgery center. It serves patients primarily from Robeson and neighboring counties. Southeastern Health signed a management services agreement with UNC Health on January 1, 2021 to provide certain management services over an initial term of 10 years.

Wayne Health Corporation – Wayne Health Corporation is a private, not-for-profit health corporation located in Goldsboro, North Carolina that operates Wayne Memorial Hospital, Wayne Health Physicians, Wayne MRI, Wayne Health Enterprises, American Management Associates, Wayne Health Properties, and Wayne Health Foundation. It serves patients primarily from Wayne and neighboring counties. Wayne Health Corporation signed a management services agreement with UNC Health on January 1, 2016 to provide certain management services over an initial term of 10 years.

NOTE 10 // COMMUNITY BENEFITS

In addition to providing care without charge, or at amounts less than established rates to certain patients identified as qualifying for charity care, UNC Health also recognizes its responsibility to provide health care services and programs for the benefit of the community, at no cost or at reduced rates. UNC Health sponsors many community health initiatives, including breast and prostate cancer screenings, cardiovascular and pulmonary awareness and diabetes education programs that ultimately result in the overall improved health of the community. UNC Health also provides contributions, cash and in-kind, to various charitable and community organizations. The costs of these programs are included in operating expenses in the accompanying *pro forma* statements of revenues, expenses, and changes in net position.

NOTE 11 - THE CORONAVIRUS PANDEMIC EMERGENCY

In response to the coronavirus pandemic emergency, the federal government provided grants to the State and UNC Health through various coronavirus program funds appropriated by (1) The Coronavirus Aid, Relief, and Economic Security Act (CARES), (2) The Coronavirus Response and Relief Supplemental Appropriations within the Federal Consolidated Appropriations Act of 2021 (CRRSA), and (3) The American Rescue Plan Act of 2021 (ARP).

The grant revenues from the various coronavirus program funds are contingent upon meeting the terms and conditions of the grant and signed agreements with the funding agencies, incurring qualifying expenditures, and are reported in the following nonoperating revenue captions of the financial statements:

State Aid - Coronavirus - This caption includes grant funds received directly by the State from the U.S. Department of Treasury, Coronavirus State and Local Fiscal Recovery Funds (CRF), and appropriated by the State to UNC Health. Additionally, UNC Health received Federal Emergency Management Agency (FEMA) assistance passed through the State.

Federal Aid - COVID-19 - This caption includes Provider Relief Fund distributions received directly from the U.S. Department of Health and Human Services to reimburse UNC Health for health care-related expenses or lost revenues not otherwise reimbursed that are directly attributable to COVID-19. The CARES Act also made other forms of financial assistance available to healthcare providers, including Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advanced Payment Program, which makes available accelerated payments of Medicare funds in order to increase cash flow to healthcare providers. Advanced Payments are recorded in the following caption of the financial statements:

Advanced Payments - During the year ended June 30, 2020, UNC Health received advanced payments of under the Medicare Accelerated and Advanced Payment program. Recoupment of these advanced payments started in May 2021 and will be spread over a 17-month period with a balloon payment in month 18 for any remaining balance. The recoupment in the first 11 months is 25% of the total Medicare payment and 50% for the final 6 months.

NOTE 12 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2022, UNC Health implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 87, Leases

GASB Statement No. 93, Replacement of Interbank Offered Rates

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

GASB Statement No. 99, Omnibus 2022

GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 93 addresses the accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR) for derivative instruments, leases, and other agreements in which variable payments made or received depend on an IBOR.

GASB Statement No. 97's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

GASB Statement No. 99 enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

NOTE 13 // SUBSEQUENT EVENTS

UNC Health has evaluated subsequent events from June 30, 2022 through the date of this report. UNC Health and CarolinaEast Health System intend to execute a Mutual Termination Agreement of our Management Services Agreement, effective March 31, 2023. This agreement will terminate all related clinical or consultative partnerships, even those that predate the Management Services Agreement.


NC Women's Hospital
Information
FIRE


Admitting/Registration

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