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2018 was dedicated to developing near and far-reaching strategies for UNC Health Care with a laser focus on improving the health of all North Carolinians. Key to accomplishing this goal is operating with a solid financial base, while at the same time implementing a number of initiatives aimed at reducing the cost of care for our patients.

**GROWTH ACROSS THE STATE**

In late 2018, ground was broken at the UNC Medical Center for a new surgical tower. Set to open in 2022, this 333,555 square foot tower will allow us to create new, enhanced surgical spaces, new pre- and post-operating rooms, and more waiting space for our patients’ families.

We also will break ground on a new six-story medical office building as part of the Eastowne project. This new compact medical campus will consolidate health care service lines while simultaneously making it much easier for patients to access care.

In Wake County, UNC REX Healthcare is executing its plans to expand services with a new 50-bed hospital in Holly Springs, opening in 2020. Rex also has plans for a new cancer center in west Raleigh, across the street from its main campus.

Last year also saw changes to the overall makeup of UNC Health Care including the sale of High Point Regional Hospital to Wake Forest Baptist Medical Center. Near the end of 2017, Morehead Memorial, in Eden, was acquired out of bankruptcy and re-named UNC Rockingham. Just a few months later, we opened UNC Cancer Care at Rockingham, a service of UNC Hospitals, offering comprehensive cancer care and support services close to home for residents of that community.

We rounded out 2018 with the December announcement that Onslow Memorial Hospital in Jacksonville had entered into a partnership agreement with UNC Health Care, growing the system’s footprint to 11 hospitals and 13 hospital campuses across the state. Onslow and UNC Rockingham are examples of UNC Health Care’s commitment to serving rural areas of North Carolina.

**EXPERTISE**

Among the expertise UNC Health Care and the School of Medicine provide, is UNC Lineberger’s use of CAR-T therapy to harness the power of a patient’s immune system to fight cancer. In CAR-T therapy, patients’ T cells (a type of immune system cell) are altered in the laboratory so they will attack cancer cells.
One example of this work is that a team of researchers from UNC, in collaboration with researchers in Milan, Italy, have genetically engineered cancer-killing immune cells (T-cells) that can hunt and attack brain tumors. These researchers believe their approach holds promise for a new immunotherapy treatment for glioblastoma, the most lethal primary brain tumor.

Similarly, our Chronic Pancreatitis and Autologous Islet Cell Transplant Program is helping patients improve their quality of life by eliminating severe pain and reducing or ending the use of narcotic pain medications, while preventing brittle diabetes. In this procedure, a surgeon removes the pancreas, harvests insulin-secreting islet cells from the pancreas, then reinfuses those cells back into the liver where they find a home and help manage blood sugar by secreting insulin. The goal of this procedure is to reduce pain, improve quality of life and prevent severe diabetes.

INNOVATION
In this year’s “Research Review,” (pg. 14 of this report), we detail highlights of the research coming out of the UNC School of Medicine. Inroads from our research include everything from “Building a Better Opioid” (non-addictive, with fewer side effects) to immunotherapies for brain cancer, blood cancer and melanoma. In a separate effort to combat the opioid crisis, the UNC Opioid Stewardship Committee made recommendations for opioid prescribing and education materials which led to a reduction of 400,000 fewer opioid pills being prescribed.

A different example of innovation from UNC Health Care is our commitment to moving toward more value-based arrangements for our patients. In value-based care, we are focusing on delivering high-quality care and coordination across all health care settings – to improve outcomes and lower the cost of care. As we make this transition, we must implement population management strategies to ensure we are providing the right care, to the right people, in the right setting – at an affordable cost.

A prime example of this change in care models is the Blue Premier initiative we announced in January 2019 along with Blue Cross NC and several other major health care systems.

LEADERSHIP CHANGES
Near the end of FY 2018, we learned that Dr. Bill Roper, CEO of UNC Health Care and Dean of the School of Medicine, would step down from the leadership position he held for 14 years. Dr. Roper was subsequently asked to serve as interim president of the UNC System, following the announced departure of President Margaret Spellings.

With Dr. Roper’s departure, I (Dr. Burks) was humbled and honored to accept the position of Health Care System CEO and Dean of the School of Medicine. With a strong foundation set by Dr. Roper, we are optimistic about the direction and the future of our health care system.

UNC Health Care is North Carolina’s Health Care System, caring for patients from all 100 counties. We leverage the world class research being conducted in the School of Medicine and translate that innovation to life-saving and life-changing therapies, procedures, and techniques for the patients who rely on our expertise and innovation through our hospitals and practices across our great state.

Sincerely,

Wesley Burks, M.D.
CEO
UNC Health Care

Charles D. Owen, III
Chair
UNC Health Care Board of Directors
In 2018, UNC Health Care progressed further toward its goal of becoming the nation’s leading public academic health system. This year saw advances and innovations that will improve the care we provide to patients. We better harnessed the power of technology. We expanded our footprint across the state. We reached out to neighbors in need. We broke ground on a major new surgical tower project. And we never wavered in our commitment to educating a physician workforce that will meet the needs of North Carolina.
EXPERTISE AND INNOVATION

IT Accomplishments
Over the last year, UNC Health Care has established itself as a national leader in the field of health information technology. This has led not only to national recognition and industry awards, but also to tangible benefits for UNC Health Care providers and patients.

These honors represent the culmination of a multiyear effort by UNC Health Care to create an integrated electronic health record (EHR) that would provide one patient ID, one problem list, one medication list, and one bill for patients.

In April of 2018, UNC Health Care was recognized by HIMMS Analytics, a leading global health care research advisory firm, with a Stage 7 designation. This designation, the highest awarded by HIMMS, recognizes the utilization of a complete electronic medical record infrastructure, including external Health Information Exchanges, advanced data/analytics, and comprehensive plans and support in place for information technology governance, disaster recovery, privacy, and security. UNC Health Care is the only health system in the U.S. to achieve Stage 7 status on all three HIMSS Analytics domains.

UNC Health Care also received the “Most Wired Advanced” designation from the American Hospital Association because it fully leverages technology in the AHA survey’s four focus areas of infrastructure, business and administrative management, clinical quality and safety, and clinical integration.

As UNC Health Care has further established itself as a leader in this field, high profile partnerships and more advanced IT projects have garnered attention from private industry partners, patients, and the news media.

In January, 2018, UNC Health Care announced it was collaborating with Apple on the early release of a new health records feature in the iPhone Health app. This service allows UNC Health Care patients to access their clinical health records from the iPhone’s Health App. In addition to this seamless connection, patients utilizing this service benefit from the ability to use their iPhone’s health and fitness tracking data in collaboration with UNC Health Care providers to inform and improve their overall care. UNC Health Care was the only health system in North Carolina and one of only 12 health systems nationwide initially approached by Apple to participate in this effort.

Finally, UNC Health Care is utilizing technology as an important tool in its ongoing efforts to combat the state’s opioid epidemic. In late June, UNC Health Care became the first organization in North Carolina to integrate its Epic Electronic Health Record (EHR) system with the NC Controlled Substance Reporting System, a giant step forward in empowering the system’s physicians to address the opioid epidemic.

This provides physicians with a one-click integration between Epic and the NC Controlled Substances Reporting System and reduces a 13-step process to three steps for providers to confirm prior controlled substance prescriptions.
The UNC Center for Health Innovation manages a diverse portfolio of novel projects and programs focused on innovation in care delivery, payment model redesign, digital health, data sciences and analytics, and translational research.

Fostering Innovation
The UNC Center for Health Innovation celebrated its sixth year of operation in 2018. Established jointly by UNC Health Care and the UNC School of Medicine, the Center initiates, evaluates, and supports the adoption of disruptive, patient-centered innovations in the delivery and financing of health care. The Center provides program and project management, partnership development, consultation, and funding to support innovation. It manages a diverse portfolio of novel projects and programs focused on innovation in care delivery, payment model redesign, digital health, data sciences and analytics, and translational research.

Since its inception, the Center has provided more than $1 million of internal funding for 21 Innovation Pilot Awards which have, in turn, resulted in $3.2 million of additional extramural funding and improved health outcomes and patient experience at UNC Health Care. In 2018, winners included teams developing a drug-eluting esophageal string, piloting a low-cost postpartum blood pressure remote monitoring solution, creating a financial navigation clinic for cancer patients, and developing a machine learning analytics platform for staging patients with peripheral arterial disease.

The Center is also a key resource supporting UNC Health Care’s transition to value-based care models for its commercial and Medicare accountable care organizations. This year, the Center supported the development and launch of UNC Palliative Care at Home, a new home-based palliative care program serving patients with serious illness in the Triangle. The UNC Afib Care Network, which grew out of a previous Center pilot, secured a $1.7 million grant from the Bristol-Myers Squibb Foundation to expand access to its novel clinics that coordinate all services needed by patients with atrial fibrillation in one location. An Afib Support Group and smartphone app also helps patients manage their condition. This grant adds to the more than $23 million in external funding the Center has played a role in bringing to UNC.

Precision Medicine
Precision Medicine is a growing movement aimed at providing personalized health care to each and every patient. This approach to care takes a patient’s lifestyle, environment, and even genetics into account, allowing physicians to tailor treatments for individual patients.

In 2018, UNC Health Care committed to expand its Precision Medicine capabilities, investing $10 million in the creation of The Program for Precision Medicine in Health Care. The program, led by Jonathan Berg, MD, PhD, associate professor of genetics, represents a collaboration between multiple departments. The primary goal of the new program is to translate advances in genomics, technology, and data analytics into advances in clinical care.

“We believe that the practice of medicine is an art, but the foundation of medicine is science,” said Berg.

“We want to leverage advances from basic science and technology to improve the diagnosis and management of patients, and to make...
evidence-based precision screening and disease prevention part of routine medical care,” said Berg.

**CAR-T Cancer Trials**

An international team of researchers led by UNC Lineberger’s Gianpietro Dotti, MD, has genetically engineered cancer-killing immune cells that can hunt brain tumors displaying a new molecular target that is highly prevalent on brain cancer cells. Based on the findings from their early, preclinical studies, the researchers believe their approach holds promise for a new immunotherapy treatment for glioblastoma, which is the most lethal primary brain tumor.

The study is part of a research program launched at UNC Lineberger to develop personalized immune-based treatments called chimeric antigen receptor T cell, or CAR-T, therapies. This approach involves removing a patient’s immune cells and genetically engineering them to recognize and attack cancer. Other centers have launched CAR-T clinical trials for glioblastoma, but the UNC Lineberger team designed immune cells that hunt CSPG4, a different target on the surface of glioblastoma cells that they believe could be more potent than other targets.

In addition to this work in glioblastoma, UNC Lineberger Comprehensive Cancer Center is currently running several clinical trials, utilizing CAR-T in the treatment of cancers including myeloma, Hodgkin’s Lymphoma, and Acute Lymphoblastic Leukemia.

**UNC Urgent Care 24/7**

In April, UNC Health Care introduced a new virtual care service called UNC Urgent Care 24/7 to provide care where it’s most important for patients – home, office, or on the go – for non-emergency medical issues through secure video on a computer, tablet, or smart phone. The service costs $49 or less per visit, depending on insurance. It offers simple, convenient and around-the-clock care.

Since the service’s launch, more than 5,600 people have registered and nearly 2,000 physician visits have been completed.

The service’s highest utilization came during the month of September. As Hurricane Florence approached the state of North Carolina, UNC Health Care decided to waive all fees for the service, allowing free access for people across the state affected by the storm. This announcement received extensive media coverage leading to higher utilization during the storm and increased sign ups afterward.
SERVING AS NORTH CAROLINA’S HEALTH CARE SYSTEM

Surgical Tower Construction
A lot has changed since NC Memorial Hospital opened in the 1950s. UNC surgeons deserve a facility that reflects the cutting edge care they deliver to patients.

In late October, 2018, construction began on a new surgical tower at UNC Medical Center in Chapel Hill. When completed in 2022, the seven-story, 330,000 square foot facility will be the largest building on the UNC Medical Center Campus.

The surgical tower will offer modernized operating rooms and top notch technology for our surgeons and medical staff, improved accommodations for recovering patients, and more space for families and guests.

UNC Rockingham reflects on one year with UNC Health Care
UNC Rockingham officially joined the UNC Health Care network in January of 2018. During its first year as part of UNC Health Care, the hospital has made many improvements, enhancing the services it is able to provide to its patients in and around Eden, NC.

One of the first efforts undertaken in collaboration with partners from across UNC Health Care was the creation of a new strategic plan. That effort has resulted in a new mission, vision, and strategic goals that will continue to improve quality and service, stabilize clinical programs, achieve operational excellence and engage the community for years to come.

In the area of clinical care, UNC Cancer Care at Rockingham, a service of UNC Hospitals, opened in May, offering medical oncology, infusion, and radiation oncology services. The ability to receive care close to home provides exceptional comfort and convenience to patients and their families.

UNC Rockingham’s work over the past year has been recognized with two ‘A’ ratings from The Leapfrog Group and accreditation by Det Norske Veritas Healthcare.

2018 U.S. News’ “Best Hospitals” National Specialty Rankings
(UNC Medical Center - Adults)

#10 in Ear, Nose, and Throat
#20 in Gastroenterology and GI Surgery
#26 in Nephrology
#36 in Cancer
#45 in Gynecology
The UNC School of Medicine’s primary care program was ranked number 1 in *U.S. News & World Report*’s 2019 “Best Graduate Schools” report. Our work in training the best and brightest doctor’s is paying off.

Several UNC-Chapel Hill graduate and doctoral programs received high rankings as part of *U.S. News & World Report*’s 2019 edition of “America’s Best Graduate Schools,” but none higher than the UNC School of Medicine’s primary care ranking of Number One.

“I was proud to serve as Chair of Family Medicine and to be a part of the team effort to advance primary care for the needs of our state,” said Executive Dean Cristy Page, MD, MPH. “Getting the number one ranking for primary care is a huge recognition of UNC’s commitment to provide the highest quality of primary care education and health care for the needs of North Carolinians and beyond.”
UNC’s assessment recognized that our six facilities provide a vital safety net for individuals with complex needs — many of whom are uninsured and have few, if any, options to receive that care.
In October, 2017, the North Carolina Department of Health and Human Services (NC DHHS) engaged UNC Health Care to conduct an assessment of the current state of behavioral health care delivery across the state. Following the months-long project, UNC Health Care delivered its recommendations to NC DHHS which is now working toward implementing several of these recommendations.

“We are grateful for UNC Health Care’s assessment of our three psychiatric hospitals and three substance abuse treatment facilities. Their work identified ways the Department can improve the consistency, efficiency and delivery of acute behavioral health services.

“In requesting this assessment from UNC Health Care, we turned to a fellow State partner that shares a similar public mission, and who has direct experience running a health care system that includes behavioral health services.

“UNC’s assessment recognized that our six facilities provide a vital safety net for individuals with complex needs — many of whom are uninsured and have few, if any, options to receive that care. To thrive, UNC noted our facilities must operate under a common mission and have certain flexibilities so as to integrate seamlessly within the broader continuum of behavioral health care and as part of a the larger system of health care. We are working toward implementing many of UNC’s recommendations, some of which are long-term in nature and require legislative action.”

— Kody H. Kinsley, Deputy Secretary for Behavioral Health & IDD
North Carolina Department of Health and Human Services
"A MINDFUL INHIBITION"

The inhibitory neurons (green, magenta) are located in a brain region that plays a key role in learning and memory. Loss of neurons in this region contributes to Alzheimer’s disease, a brain disorder that initially impairs short term memory. We study how neurons in this and other brain regions – and the proteins that make the neurons function – contribute to conditions such as autism, Angelman syndrome, and Alzheimer’s.
Thousands of visitors to the North Carolina Museum of Art (NCMA) in Raleigh saw a different sort of artwork on the walls this year: lymphatic vessels in the heart, lung mucus, fruit fly larvae, E. coli DNA and more.

The images were part of an unusual exhibition, “The Art of Science and Innovation,” which showcased the hidden beauty of biomedical research at UNC. The exhibition included a dozen stunning images from the labs of UNC School of Medicine scientists such as Dr. Kathleen Caron, Dr. Dirk Dittmer, Dr. Jack Griffith, Dr. Li Qian, Dr. Mark Zylka and others.

It was also a unique partnership between UNC Health Care and the NCMA that highlighted the integration of arts and science, of creativity and scientific thinking.

“That combination of creativity and expert clinical care is one way that UNC stands apart as North Carolina’s health care system,” Dr. Wesley Burks, who took over as CEO of UNC Health Care in January 2019, told a full house at the exhibition’s grand opening in November 2018.

The North Carolina Museum of Art estimates that more than 50,000 visitors saw the exhibition before it closed in January. The images helped reinforce UNC’s reputation for innovative medical research that will one day lead to deepening our understanding of diverse diseases such as cystic fibrosis, heart disease and autism spectrum disorder.

“Integrating the arts helps collapse the walls of traditional subject matter and makes all learners more aware of the interdisciplinary world they inhabit,” museum Director Valerie Hillings said. “Those types of connections foster creative and critical thinking.”
TOP RATED, WELL-FUNDED, AND INNOVATIVE

UNC Health Care is inextricably linked to the UNC School of Medicine from top to bottom, and there is no better way to show their synergy than through the innovation of our doctors and researchers that span every department of the school and every part of our hospitals, clinics, and medical campus in Chapel Hill.

In February of 2018, the Blue Ridge Institute for Medical Research published its annual list of top NIH funded research universities. The UNC School of Medicine ranked 16th overall and 6th among peer public institutions, with six basic science departments ranked in the top 10 in federal funding and among the top three for public universities. Cell biology and physiology ranked first among public universities (second overall). Ten clinical departments were ranked in the top 25 in NIH funding, with obstetrics & gynecology ranking highest at 5th.

For FY18, the UNC School of Medicine received $346.7 million in NIH funding. Total research funding for the UNC School of Medicine in Calendar Year 2018 was $484 million.

*U.S. News & World Report* ranked UNC’s pharmacology/toxicology as second in the world and first among U.S. public schools in the magazine’s annual “Best Global Universities” rankings.

Here is a sampling of outstanding innovative research conducted at the school in conjunction with the UNC Medical Center.

BUILDING A BETTER OPIOID

The lab of Bryan Roth, MD, PhD, the Michael Hooker Distinguished Professor or Protein Therapeutics and Translational Proteomics in the Department of Pharmacology, solved the crystal structure of an opioid receptor bound to a morphine derivative. They then created a new drug-like compound that activates only that receptor, a key step in the development of better pain medications.

The research, published in the journal *Cell*, shows a route toward creating opioids that relieve pain without causing the severe side effects at the heart of the opioid epidemic. This has been impossible previously.

Currently, most opioids bind to several opioid receptors on the surface of nervous system cells, and this is one of the main reasons why opioids relieve severe pain, but also trigger a wide range of side effects from nausea, numbness, and constipation to anxiety, severe dependency, hallucinations, and even death caused by respiratory depression.

“To create better opioids, we need to know the structure of their receptors,” said Roth, a world-renowned scientist and one of the world’s most cited researchers. “Until recently, this was impossible. But, now we know the structure of the activated kappa opioid receptor. And we showed we can actually use the structure to make a drug-like compound with better properties than current opioids.”
Roth, who gave the prestigious Presidential Lecture at the Society for Neuroscience international this year, also this year solved the crystal structure of a dopamine receptor crucial for the development for better antipsychotic drugs. Roth and former UNC pharmacology chair Gary Johnson received a $28 million grant for “illuminating the druggable Genome” from the National Institutes of Health.

TO VAPE OR NOT TO VAPE . . . OR JUUL?

In the past 10 years, the electronic cigarette industry has boomed and evolved to the point where a particular product called Juul has become the overwhelmingly preferred product for youth and young adults. Its slick packaging and ubiquitous usage got the FDA’s attention in 2018, and the agency is considering tighter regulations of the e-cigarette industry, which has been like the wild west of nicotine addiction for a decade.

At the UNC School of Medicine, researchers at the UNC Marsico Lung Institute have made startling discoveries, published this year in PLOS Biology.

“We found that e-liquid ingredients are extremely diverse, and some of them are more toxic than nicotine alone and more toxic than just the standard base ingredients in e-cigarettes – propylene glycol and vegetable glycerin,” said Dr. Robert Tarran, UNC Lineberger Comprehensive Cancer Center. “The FDA, which helped fund our study, is just beginning to regulate e-liquid ingredients, and we hope that our data will inform their efforts.”

Tarran’s colleague Mehmet Kesimer, PhD, associate professor of pathology and laboratory medicine, discovered that e-cigarettes appear to trigger unique immune responses in our airways, as well as the same kinds of immune responses triggered by regular cigarettes. His lab reported these findings in the American Journal of Respiratory and Critical Care Medicine.

Immune responses are the biological reactions of cells and fluids to an outside substance the body doesn’t recognize as its own. Such immune responses play roles in disease, including lung disease spurred on by cigarette use. Kesimer’s work is believed to be the first study of the harmful effects of e-cigarettes using sputum samples from human lungs.

Brad Drummond, MD, director of the Obstructive Lung Diseases Clinical and Translational Research Center at the UNC School of Medicine, wanted to better understand how vaping affects patients with COPD.

“We were surprised to find that there was at least an association between e-cig use and negative health status,” Drummond said. “We expected to see that folks who quit combustibles would have decreased symptoms because of their decreased tobacco use, but that wasn’t the case.”

TAKING THE STING OUT OF PEANUTS

More than a decade ago, Wesley Burks, MD, the new CEO of UNC Health Care and Dean of the UNC School of Medicine, began exploring an immunotherapeutic strategy to help kids overcome their allergy to peanuts. This past year, Burks and Edwin Kim, MD, assistant professor of medicine, led a national study proving Burks’ idea worked. Introducing kids to a miniscule bit of peanut protein at first and slowly increasing that amount throughout a year made it likely that the kids would be able to tolerate as much as two peanut kernels.

This research was presented in spring of 2018. By year’s end, this work was published in the New England Journal of Medicine, and a therapeutic approach based on Burks’ original work was on the verge of FDA approval.

Moreover, this approach of reintroducing to patients to tiny amounts of the food they are allergic to in a very controlled manner holds promise for many types of food allergies.
TAKING CHARGE WITH T CELLS

Immunotherapy has grown by leaps and bounds as a new way to treat various forms of cancer, and at the North Carolina Cancer Hospital, researchers have taken aim at brain cancer, blood cancer, and melanoma.

An international team of researchers including Gianpietro Dotti, MD, professor of microbiology and immunology, genetically engineered cancer-killing immune cells that can hunt brain tumors displaying a new molecular target that is highly prevalent on brain cancer cells. Based on the findings from their early, preclinical studies, the researchers believe their approach holds promise for a new immunotherapy treatment for glioblastoma, which is the most lethal primary brain tumor.

Led by Andrew Wang, associate professor of radiation oncology, UNC School of Medicine and UNC Lineberger Comprehensive Cancer Center researchers used nanoparticles to bind molecules that can unleash and stimulate immune cells, to effectively trigger the body's defenses system against cancer in laboratory studies.

“Our study suggests that if you're able to present two different therapeutics at the same time to immune cells to help them fight cancer, the effect is greater,” Wang said. “It's difficult to deliver them at the same time unless you tie them together, and a nanoparticle is one great way to tie the two together.”

And UNC researchers also reported on a potential new way to fight melanoma by blocking one of the immune system's checks and balances. Combining their strategy with an existing immunotherapy treatment that works by releasing the “brakes” on immune cells, they found they could shrink melanoma tumors, and prolong survival in preclinical models for melanoma.

“We have immune cells called T-cells that are really good at killing off cancer cells, but there is an inhibition system in place to prevent autoimmunity,” said the study's senior author Maureen Su, MD, associate professor in the departments of pediatrics and microbiology and immunology. “We have found a way to get rid of their inhibition so they can fight off cancer cells.”

HOW THE BRAIN’S WIRING GOES BAD

Todd Cohen, PhD, assistant professor of neurology, used human cell cultures to show how a protein called amyloid beta can trigger a dramatic inflammatory response in immune cells and how that interaction damages neurons. Cohen showed how that kind of neuron damage leads to the formation of bead-like structures filled with abnormal tau protein. Similar bead-like structures are known to form in the brain cells of people with Alzheimer's disease.

Cohen also identified two proteins – MMP-9 and HDAC6 – that help promote this harmful amyloid-to-inflammation-to-tau cascade. These proteins and others associated with them could become drug targets to treat or prevent Alzheimer’s.

“It's exciting that we were able to observe tau – the major Alzheimer's protein – inside these beaded structures,” said Cohen, who is also a member of the UNC Neuroscience Center. “We think that preventing these structures from forming would leave people with healthier neurons that are more resistant to Alzheimer's.”

This past year, Cohen's lab also made a critical discovery regarding ALS, also known as Lou Gehrig's Disease. Scientists have long known that a protein called TDP-43 clumps together in brain cells of people with ALS and is associated with neuron death. This same protein
TO BEAT BACK CHRONIC LUNG DISEASE

A team of scientists from the UNC School of Medicine and North Carolina State University (NCSU) developed a promising stem cell treatment for several lung conditions, such as idiopathic pulmonary fibrosis (IPF), chronic obstructive pulmonary disease (COPD), and cystic fibrosis – often-fatal conditions that affect tens of millions of Americans.

Jason Lobo, MD, assistant professor of medicine, co-led this research to harvest lung stem cells from people, using a relatively non-invasive, doctor’s-office technique. They were then able to multiply the harvested lung cells in the lab to yield enough cells for human therapy. In a second study, they showed that in rodents they could use the same type of lung cell to successfully treat a model of IPF – a chronic, irreversible, and ultimately fatal disease characterized by a progressive decline in lung function.

The researchers gained FDA approval for a clinical trial and hope to start it in 2019.
is thought to cause muscle degeneration in patients with sporadic inclusion body myositis (sIBM), leading many researchers to think that TDP-43 is one of the causative factors in ALS and sIBM. Cohen and colleagues found that a specific chemical modification called acetylation promotes TDP-43 clumping in animals. Using a natural anti-clumping method in mouse models, the scientists reversed protein clumping in muscle cells and prevented the sIBM-related muscle weakness.

“We suspect that getting rid of this abnormal TDP-43 clumping could be a potential therapy for these diseases,” Cohen said. “In principle, we think this reversal of clumping could be achieved by taking an injectable or oral medication. Though, we caution, that’s still a long way off. The research community still has much more work to do.”

GETTING TO THE HEART OF THE MATTER

Heart defects are the most common type of birth defect, and can be caused by mutations in the gene CHD4. Researchers at the UNC School of Medicine and the McAllister Heart Institute have now revealed key molecular details of how CHD4 mutations lead to heart defects.

The team reported in June 2018 that the CHD4 protein normally works in developing heart muscle cells to repress the production of muscle-filament proteins that are meant to operate in non-heart types of muscle cell. The failure of this repression leads to the development of abnormal, “hybrid” muscle cells that can’t pump blood as efficiently as normal heart cells.

“For patients with congenital heart defects linked to CHD4 mutations, this research helps explain why their hearts don’t work as well as normal, and suggests strategies for therapeutic intervention,” said study senior author Frank Conlon, PhD, a professor in the departments of biology and genetics and a member of the UNC McAllister Heart Institute.

McAllister associate director, Li Qian, PhD, associate professor of pathology and laboratory medicine, published the first scientific paper last year to compare in great detail the two leading techniques to reprogram heart scar tissue cells called fibroblasts back into healthy heart muscle cells called cardiomyocytes.

This work comes on the heels of earlier research from her lab showing the potential therapeutic effect of healing damaged heart muscles after heart attacks.

McAllister colleague Jonathan Schisler, PhD, assistant professor of pharmacology, studies the buildup of plaque in the heart’s arteries, which is an unfortunate part of aging. By studying the genetic makeup of people who maintain clear arteries into old age, Schisler and colleagues reported in November 2017 a possible genetic basis for coronary artery disease (CAD), as well as potential new opportunities to prevent it.

His team discovered the protein CXCL5 is found in much higher levels in older adults with much clearer heart arteries.

“CXCL5 looks to be protective against CAD, and the more CXCL5 you have, the healthier your coronary arteries are,” said Schisler. “Our findings suggest that there may be a genetic basis to CAD and that CXCL5 may be of therapeutic interest to combat the disease.”
Opioid Stewardship
Four North Carolinians die each day from an overdose of opioid-related drugs. To help reduce opioid abuse in the state, staff at the UNC Medical Center established the UNC Opioid Stewardship Steering Committee. The Committee seeks to educate providers on opioid prescribing, storage and security and has developed and implemented a data-driven Standard Opioid Prescribing Schedule (SOPS) based upon surgical procedure and actual patient usage.

Physician education materials outline recommendations for opioid prescribing practices; patient education materials provide advice on pain management at home, as well as the safe storage and disposal of opioids.

This effort helped reduce the number of opioids prescribed by physicians in eight service lines by 400,000 opioid pills in 2018.
2017–18 VOLUNTEER HIGHLIGHTS

HOSPITAL VOLUNTEER HOURS

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<th>HOSPITAL</th>
<th>VOLUNTEER HOURS</th>
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<tbody>
<tr>
<td>UNC REX</td>
<td>140,991</td>
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<td>UNC Medical Center</td>
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<td>UNC Wayne</td>
<td>11,179</td>
</tr>
<tr>
<td>Hospice</td>
<td>3,477</td>
</tr>
</tbody>
</table>

Total volunteer hours System Wide: 402,501

- 4,478 Total Volunteers System Wide
- 7,370 Doula volunteer hours provided supporting mothers during the birthing process by the UNC Volunteer Association
- $264,962 Donated to UNC Health Care by the UNC Volunteer Association
- 1,366 Hours of pet visits to patients by Tar Heal Paws Pet Therapy
- 900 Patients visited through the Military Visitation Program
- 22,181 Volunteer hours contributed at Children's Hospital
Co-worker Hurricane Relief
In the fall of 2018, UNC REX co-workers volunteered and raised funds for Hurricane relief for two hurricanes that impacted North Carolina. UNC REX matched co-worker donations to achieve a $7,058 donation to the Food Bank of Central & Eastern NC.

Carolina Conexiones
Carolina Conexiones is a volunteer organization within NC Children’s Hospital that serves Spanish-speaking families by providing nonmedical interpretation and general wayfinding support throughout the hospital, and by providing a warm, welcoming environment.

Volunteers provide the option of participating in projects that further improve health care access. Additionally, Carolina Conexiones focuses on increasing each Navigator’s awareness and integration within the health care field. It is aimed at improving not only Spanish-speaking families’ and patients’ experience, but also the Navigators’ bilingual skills, knowledge, and enthusiasm of the health care field. In FY 2018, 65 volunteers donated 2,152 hours and served 897 patients and families.

UNC Lineberger Lay Patient Navigation Program
Lay cancer patient navigators are trained UNC Health Care volunteers who work in tandem with oncology nurses, social workers and pharmacists, providing additional emotional support while linking patients to available local, state and national cancer support resources.

In fiscal year 2017-18, the program accounted for 1,385 patient encounters contributing 2,722 hours of support for these patients at the NC Cancer Hospital.
The Military Visitation Program (MVP) was initiated in 2015 based on observations of military population patients by UNC medical students during their clinical rotations. Some of these patients, particularly active duty and their dependents, needed varying degrees of administrative support with their home bases, posts, and stations. The core value of the group is camaraderie, empathy, honor, and respect.

During this fiscal year, 11 volunteers donated over 417 hours visiting 900 patients.

Compassionate Companions
Volunteers are specially trained to sit with patients when family can’t be with them during the end-of-life transition. They also visit patients who have no other visitors. Last year, 32 volunteers donated 373 hours to support these patients.
FINANCIALS AND STATISTICS

CHAPEL HILL, NORTH CAROLINA
For the years ending June 30, 2018, and June 30, 2017
LETTER OF TRANSMITTAL

February 15, 2019

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 Care) 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 Care.

The University of North Carolina Hospitals at Chapel Hill (UNC Hospitals), Rex Healthcare, Inc. (Rex), Chatham Hospital, Inc. (Chatham), High Point Regional Health (High Point), Caldwell Memorial Hospital (Caldwell), UNC Rockingham Health Care, Inc. (Rockingham) and UNC Physicians Network, LLC (UNCPN) 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 organizational 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 Care’s management believes this information to be accurate, it should be noted that these documents are unaudited and not intended to be used for any financial decisions.

The Financials and Statistics section presents Management’s Discussion and Analysis and pro-forma financial statements for UNC Health Care and UNCFP. This section 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 explanations for the reader.

FINANCIAL INFORMATION

Internal Control Structure

UNC Health Care’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 applies the 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 the assessment process to assure to the state of North Carolina and the public that UNC Health Care 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 Care is responsible for ensuring compliance with all applicable laws and regulations. A combination of state and UNC Health Care policies and procedures, integrated with a system of internal controls, provides for this compliance. The accounts and operations of UNC Hospitals and UNCFP (as a part of UNC-CH) are subject to an annual examination by the Office of the State Auditor. Rex, Chatham, High Point, Caldwell, Rockingham and UNCPN are audited annually by independent third-party CPA firms. All of these entities, except for Rockingham, were an integral part of the state’s reporting entity represented in the state’s Comprehensive Annual 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 Care’s Board of Directors approves budgets for UNC Hospitals, UNCFP, Rex, Chatham, High Point, Caldwell, Rockingham and UNCPN. The budget for UNCFP is also subject to approval by UNC-CH. Each entity of UNC Health Care 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 Care 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 State Budget and Management that reflect its overall operations. UNC Health Care 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 Care 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 Care 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 handled 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 Care, with special assistance from the CEO’s office and Public Affairs office.

John P. Lewis  
Chief Financial Officer  
The University of North Carolina Health Care System
Charles D. Owen, III (Chair)
Chair, UNC Health Care System Board of Directors
President, Fletcher Development Group, Inc.
Fletcher, NC

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

Anne H. Bernhardt
Vice Chairman, Bernhardt Furniture Company
Lenoir, NC

Samuel B. Bowles
Managing Director, Minturn Partners
Charlotte, NC

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

G. Hadley Callaway, MD
Orthopedic Surgeon, Raleigh Orthopedic Clinic
Raleigh, NC

Rebecca Todd (Becky) Cobey
Community Volunteer
Chapel Hill, NC

Michael A. Crabb, III (Trey)
Executive Director, Morgan Stanley, Not-For-Profit Strategic Services
Nashville, TN

Susan B. Culp
Past Chairman, High Point Regional Health System
High Point, NC

Matthew G. Ewend, MD, FACS
President, UNC Physicians
Chapel Hill, NC

Anne Faircloth
Owner and Manager, Faircloth Farms
Clinton, NC

Timothy L. Humphrey
Vice President, Chief Data Office, IBM
Research Triangle Park, NC

A. Dale Jenkins
Chief Executive Officer, Medical Mutual Insurance Company of North Carolina
Raleigh, NC

William G. Lapsley, PE
Consultant Engineer, WGLA Engineering
Hendersonville, NC

Matthew A. Mauro, MD
CEO, UNC Faculty Physicians
Chair, Department of Radiology, UNC School of Medicine
Chapel Hill, NC

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

Gary L. Park
President, UNC Hospitals
Chapel Hill, NC

Roger Perry
President, East-West Partners
Chapel Hill, NC

Jonathan C. Pruitt
Vice Chancellor for Finance and Operations
UNC-Chapel Hill
Chapel Hill, NC

William L. Roper, MD, MPH
President, University of North Carolina System
Chapel Hill, NC

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

Edward L. Willingham, IV
Chief Operating Officer, First Citizens Bank
Raleigh, NC
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 Care) for the fiscal years ending June 30, 2018, and June 30, 2017. The financial statements included for UNC Health Care — 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 Care by an independent auditor and as a result should not be relied on as such.

UNC Health Care was established November 1, 1998, by N.C.G.S. 116-37. The original legislation included only the University of North Carolina Hospitals (UNC Hospitals) and the clinical patient care programs of the University of North Carolina at Chapel Hill (UNC-CH). UNC Health Care 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. REX Healthcare, Inc. (REX), Chatham Hospital, Inc. (Chatham), High Point Regional Health (High Point), Caldwell Memorial Hospital (Caldwell), UNC Physicians Network (UNCPN) and UNC Physicians Network Group Practice (UNCPNGP) have been added to the organization since its inception. More recently, UNC Rockingham Health Care (Rockingham), a not-for-profit acute care hospital located in Eden, North Carolina, formerly known as Morehead Memorial Hospital was acquired via an asset purchase agreement and is now a part of the UNC Health Care System as of December 2017. Conversely, High Point was sold to Wake Forest Baptist Medical Center effective September 2018.

Effective February 1, 2014, UNC Health Care 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 Care. UNC Health Care manages the day-to-day operations of JHSC.

As illustrated in the reporting structure on page 27, UNC Health Care owns and/or controls the net assets and financial operations of UNC Hospitals, REX, Chatham, High Point, Caldwell, Rockingham, UNCPN and UNCPNGP. In contrast, UNC-CH owns and controls the net assets and financial operations of UNCFP. The UNC Health Care 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 the UNC-CH. The physicians who provide patient care at UNC Hospitals and in the UNC-CH clinics are employees of the 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 Care.

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 Care (UNC Hospitals, REX, Chatham, High Point, 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 the UNC-CH. 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 Care are presented, which include UNC Hospitals, REX, Chatham, High Point, Caldwell, Rockingham, UNCPN, UNCPNGP and UNCFP. UNCFP’s Statement of Net Position, and Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ending June 30, 2018 and 2017 are also included since these financial activities are not separately disclosed elsewhere.
USING THIS FINANCIAL REPORT

UNC Health Care’s financial statements provide information regarding its financial position and results of operations as of June 30, 2018 and 2017 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 activities. 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 Financials 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 the financial statements.

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.

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 Care’s operations and can be used to determine whether UNC Health Care successfully recovered all of its costs through its revenue, profitability and credit worthiness.

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 Care 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 2018 TO 2017
Data for 2018 and 2017 are presented in this report and discussed in the following sections. Discussion in the following sections is pertinent to fiscal year 2018 results and changes relative to ending balances in fiscal year 2017.

Financial Analysis
STATEMENT OF NET POSITION
Total assets increased by $341.5 million or 8 percent during fiscal year 2018. Current assets decreased $41.4 million due primarily to the reclassification of assets and prepaids that were determined to be noncurrent. Noncurrent assets increased $382.9 million due to investment returns, continued capital investment and from the reclassification of assets and prepaids from the current category.

Deferred outflows of resources decreased 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 $393.7 million from June 30, 2017 due largely to the noncurrent change in net pension liability and net other postemployment benefits liabilities in accordance with GASB Statement No. 68 and Statement No. 75, respectively. Other changes in current liabilities include a decrease in accounts payable and estimated third party settlements resulting from paying down these balances while the liability for salaries and benefits increased due to the timing of the associated accruals.

Deferred inflows of resources increased from the required 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 $243.5 million year over year and was driven by operating income and investment returns as seen in the statement of revenues, expenses, and changes in net position.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
UNC Health Care generated operating income of $147.8 million (3.5% operating margin) in fiscal year 2018 which is attributed to strong net revenue combined with management of expenses. Operating Expenses were managed effectively but increased year over year by 10.3% compared to a growth of 8.5% in Operating Revenues. Aggressive cost containment efforts have been implemented and continue in nongrowth areas in response. In order to remain financially strong, to reinvest in new facilities, and to retain the most highly trained workforce, UNC Health Care’s goal is to average an annual operating margin of at least 4 percent.
Nonoperating gains of $126.6 million were driven by positive investment returns resulting in an increase in net assets of $243.5 million, a 5.7 percent margin.

**Discussion of Capital Asset and Long-Term Debt Activity**

**CAPITAL ASSETS**

Capital investment remained strong in fiscal year 2018 with the most notable transactions being the addition of UNC Rockingham Health Care, Inc. which was formally Morehead Memorial Hospital located in Eden, North Carolina. Expenditures on the REX Heart Hospital on REX’s main campus wound down over the year as the facility opened and operations transitioned. The Heart Hospital opened in March 2017 and included the relocation of acute care beds from REX’s aging patient tower, relocation of existing operating rooms, and the consolidation of all existing heart and vascular services into a more convenient and accessible location. Other notable investments include the master facility plan that continues at Caldwell and includes significant upgrades to and the enlargement of the surgical facilities. The master facility project is expected to be completed during fiscal year 2019. Capital project investment will continue in the future as construction of a new surgical tower at UNC Hospitals began in the Fall of 2018 and is expected to be completed in Spring 2022. The surgical tower will modernize a significant number of operating rooms located on the UNC Chapel Hill campus. Investment in facility improvements, routine capital equipment and technology were also made throughout UNC Health Care during the fiscal year.

**LONG-TERM DEBT ACTIVITY**

UNC Health Care has no borrowing authority. UNC Hospitals, REX, High Point 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 the market rates are favorable.

In June 2018, Chatham executed agreements to defease and prepay the remaining $23.2 million balance of its FHA Insured North Carolina Medical Care Commission Mortgage Revenue Bonds (the “Series 2007 Note”). To provide a source of funds for this repayment, the UNC Health Care System created a $16 million line of credit for Chatham. As a result of this defeasance, Chatham realized a $1 million gain on its Statement of Revenues, Expenses and Changes in Net Position. UNCFP issues its bonds through the UNC-CH. As such, its revenues and assets are a part of the bond covenants of the UNC-CH. UNC Hospitals, Rex, High Point, and Caldwell did not enter into new debt-financing arrangements during the past fiscal year.

Standard and Poor’s and Moody’s Ratings Services classify UNC Hospitals’ bonds as AA and Aa3 respectively. Standard & Poor’s classifies REX’s bonds as AA- and Moody’s rates them as A2 while Fitch has assigned a rating of A+. All of these ratings have stable outlooks. Additional information about debt activity can be found in the notes to the pro forma statements.

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

UNC Health Care derives the vast majority of its operating revenues from patient care services. Strong operating performance has enabled UNC Health Care to make investments in support of the clinical, education, and research programs of UNC Faculty Physicians, the UNC School of Medicine, and other network entities. These continued investments have yielded positive results as measured by growth in needed services, expansion of the medical school class and increased research funding.

UNC Health Care strives to remain a leader by evolving to meet the demands of an ever-changing environment. Pressure on health care providers comes in a variety of forms including expectations to provide greater value at a lower cost, to have fully interoperable electronic health records, to care for the uninsured, to integrate care for individual patients, and to improve wellness across populations. We are addressing these demands in a number of ways including a continued expansion of access points as well as looking at streamlining operations to maximize efficiencies.

UNC Health Care completed a review of all operations through a program known as Carolina Value. This program was developed and executed to enable UNC Health Care to be more integrated operationally and clinically. The Carolina Value initiative also generated significant annual financial improvements across the system. Similarly, UNC Health Care recently implemented an integrated medical record across the system at all of our owned network entities. These projects each move us forward towards our ongoing goal of improving the health of North Carolina, providing exceptional patient care and service, becoming more efficient and working together as one team across UNC Health Care.

We continue to respond to the State’s needs and the needs of underserved populations. UNC Health Care has proudly cared for underserved patients as a safety net provider.

Successfully managing in the future requires tighter integration of administrative functions across the entities of UNC Health Care, caring for patients in lower cost delivery settings, and comprising sufficient scale to spread the cost of major investments across a broad base. UNC Health Care continues to plan for these changes through a health system-wide planning and implementation process.
## The University of North Carolina Health Care System

### Pro Forma Statement of Net Position

*For the Years Ended June 30, 2018 and June 30, 2017*

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$573,160,000</td>
<td>$539,981,000</td>
</tr>
<tr>
<td>Patient Accounts Receivable –</td>
<td>458,446,000</td>
<td>406,458,000</td>
</tr>
<tr>
<td>Net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Third Party Settlements</td>
<td>46,700,000</td>
<td>41,978,000</td>
</tr>
<tr>
<td>Other Assets Whose Use is</td>
<td>171,211,000</td>
<td>295,664,000</td>
</tr>
<tr>
<td>Limited or Restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>111,974,000</td>
<td>89,815,000</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>19,623,000</td>
<td>48,631,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>1,381,114,000</strong></td>
<td><strong>1,422,527,000</strong></td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments and Assets Whose</td>
<td>1,402,182,000</td>
<td>1,100,001,000</td>
</tr>
<tr>
<td>Use is Limited or Restricted</td>
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<td></td>
</tr>
<tr>
<td>Other</td>
<td>173,884,000</td>
<td>153,922,000</td>
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<tr>
<td>Property Plant and Equipment,</td>
<td>1,675,491,000</td>
<td>1,614,759,000</td>
</tr>
<tr>
<td>Net</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td><strong>3,251,557,000</strong></td>
<td><strong>2,868,682,000</strong></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>4,632,671,000</strong></td>
<td><strong>4,291,209,000</strong></td>
</tr>
<tr>
<td><strong>Deferred Outflows of Resources</strong></td>
<td>240,877,000</td>
<td>275,909,000</td>
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<tr>
<td><strong>Total Assets and Deferred Outflows</strong></td>
<td><strong>$4,873,548,000</strong></td>
<td><strong>$4,567,118,000</strong></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and Other Payables</td>
<td>324,904,000</td>
<td>344,498,000</td>
</tr>
<tr>
<td>Accrued Salaries and Benefits</td>
<td>204,611,000</td>
<td>177,511,000</td>
</tr>
<tr>
<td>Current Portion Long Term Debt</td>
<td>29,568,000</td>
<td>27,398,000</td>
</tr>
<tr>
<td>Estimated Third-Party Settlements</td>
<td>151,107,000</td>
<td>204,571,000</td>
</tr>
<tr>
<td>Other</td>
<td>114,777,000</td>
<td>79,391,000</td>
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<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>824,967,000</strong></td>
<td><strong>833,369,000</strong></td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncurrent Portion of Long Term Liabilities</td>
<td>2,262,960,000</td>
<td>2,644,008,000</td>
</tr>
<tr>
<td>Estimated Third Party Settlements</td>
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<td>75,833,000</td>
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<tr>
<td>Compensated Absences</td>
<td>123,570,000</td>
<td>116,722,000</td>
</tr>
<tr>
<td><strong>Total Noncurrent Liabilities</strong></td>
<td>2,451,298,000</td>
<td>2,836,563,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>3,276,265,000</strong></td>
<td><strong>3,669,932,000</strong></td>
</tr>
<tr>
<td><strong>Deferred Inflows of Resources</strong></td>
<td><strong>$484,358,000</strong></td>
<td><strong>$27,767,000</strong></td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td><strong>$1,112,925,000</strong></td>
<td><strong>$869,419,000</strong></td>
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<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td><strong>$4,873,548,000</strong></td>
<td><strong>$4,567,118,000</strong></td>
</tr>
</tbody>
</table>

*2017 as restated*
## Pro Forma Statement of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2018 and June 30, 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Patient Service Revenue</td>
<td>$3,988,996,000</td>
<td>$3,686,184,000</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>256,907,000</td>
<td>225,293,000</td>
</tr>
<tr>
<td><strong>Net Operating Revenue</strong></td>
<td><strong>4,245,903,000</strong></td>
<td><strong>3,911,477,000</strong></td>
</tr>
</tbody>
</table>

| **Operating Expenses** |                           |                     |
| Salaries and Benefits  | 2,410,128,000       | 2,138,518,000   |
| Medical and Surgical Supplies | 832,251,000     | 747,209,000  |
| Contract Services      | 444,455,000        | 402,238,000   |
| Other Supplies and Services | 221,939,000 | 240,325,000 |
| Depreciation and Amortization | 166,283,000 | 166,057,000 |
| Interest Expense       | 23,004,000         | 22,151,000    |
| **Total Operating Expenses** | **4,098,060,000** | **3,716,498,000** |

| **Operating Income (Loss)** | 147,843,000 | 194,979,000 |

| **Nonoperating Revenues (Expenses)** |                     |                     |
| Investment Income (Loss)  | 123,180,000        | 95,623,000    |
| Net Other Nonoperating Rev/Exp | 3,420,000       | (6,548,000)   |
| **Total Nonoperating Gains** | **126,600,000** | **89,075,000** |

| **Income Before Other Expenses** | 274,443,000 | 284,054,000 |

| Other Changes in Net Assets |                     |                     |
| Medical School Trust Fund and Other Transfers | (30,937,000) | (15,713,000) |

| **Change in Net Position** | **$243,506,000** | **$268,341,000** |

*2017 as restated
### PRO FORMA STATEMENT OF CASH FLOWS

*For the Years Ended June 30, 2018 and June 30, 2017*

#### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received from Patients and Third Parties</td>
<td>$3,968,303,000</td>
<td>$3,688,196,000</td>
</tr>
<tr>
<td>Payments to Employees and Fringe Benefits</td>
<td>($2,058,098,000)</td>
<td>($1,913,250,000)</td>
</tr>
<tr>
<td>Payments to Vendors and Suppliers</td>
<td>($1,702,768,000)</td>
<td>($1,456,560,000)</td>
</tr>
<tr>
<td>Payments for Medical Malpractice</td>
<td>($12,600,000)</td>
<td>($11,007,000)</td>
</tr>
<tr>
<td>Other Receipts</td>
<td>254,170,000</td>
<td>320,664,000</td>
</tr>
<tr>
<td><strong>Net Cash Provided</strong></td>
<td><strong>$449,007,000</strong></td>
<td><strong>$628,043,000</strong></td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care System Grants</td>
<td>($29,822,000)</td>
<td>($19,783,000)</td>
</tr>
<tr>
<td><strong>Net Cash Used</strong></td>
<td><strong>($29,822,000)</strong></td>
<td><strong>($19,783,000)</strong></td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from Issuance of Long Term Debt</td>
<td>17,292,000</td>
<td>101,391,000</td>
</tr>
<tr>
<td>Principal Paid on Outstanding Debt</td>
<td>($83,243,000)</td>
<td>($38,130,000)</td>
</tr>
<tr>
<td>Interest and Fees Paid on Debt</td>
<td>($21,268,000)</td>
<td>($21,283,000)</td>
</tr>
<tr>
<td>Capital Grants</td>
<td>2,261,000</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition and Construction of Capital Assets</td>
<td>($206,941,000)</td>
<td>($230,875,000)</td>
</tr>
<tr>
<td><strong>Net Cash Used</strong></td>
<td><strong>($291,899,000)</strong></td>
<td><strong>($188,897,000)</strong></td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Income &amp; Other Activity</td>
<td>22,108,000</td>
<td>95,622,000</td>
</tr>
<tr>
<td>Purchase and Sale of Investments, Net of Fees</td>
<td>($43,066,000)</td>
<td>($235,826,000)</td>
</tr>
<tr>
<td>Investments in and Loans to Affiliated Enterprises - Net</td>
<td>($73,149,000)</td>
<td>($192,252,000)</td>
</tr>
<tr>
<td><strong>Net Cash Provided</strong></td>
<td><strong>($94,107,000)</strong></td>
<td><strong>($332,456,000)</strong></td>
</tr>
</tbody>
</table>

#### NET INCREASE (DECREASE)

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET INCREASE (DECREASE)</strong></td>
<td><strong>$33,179,000</strong></td>
<td><strong>$86,907,000</strong></td>
</tr>
</tbody>
</table>

#### BEGINNING CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BEGINNING CASH AND CASH EQUIVALENTS</strong></td>
<td><strong>$539,981,000</strong></td>
<td><strong>$453,074,000</strong></td>
</tr>
</tbody>
</table>

#### ENDING CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENDING CASH AND CASH EQUIVALENTS</strong></td>
<td><strong>$573,160,000</strong></td>
<td><strong>$539,981,000</strong></td>
</tr>
</tbody>
</table>

*2017 as restated*
### Statement of Net Position (Unaudited)

*For the Years Ended June 30, 2018 and June 30, 2017*

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$100,684,000</td>
<td>$77,526,000</td>
</tr>
<tr>
<td>Patient Accounts Receivable Net</td>
<td>39,164,000</td>
<td>47,370,000</td>
</tr>
<tr>
<td>Estimated Third Party Settlements</td>
<td>35,307,000</td>
<td>30,829,000</td>
</tr>
<tr>
<td>Other Assets and Receivables</td>
<td>27,679,000</td>
<td>28,157,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>394,000</td>
<td>177,000</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>7,228,000</td>
<td>3,563,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>210,456,000</strong></td>
<td><strong>187,622,000</strong></td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>80,607,000</td>
<td>51,038,000</td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td><strong>80,607,000</strong></td>
<td><strong>51,038,000</strong></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>291,063,000</strong></td>
<td><strong>238,660,000</strong></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and Other Payables</td>
<td>41,098,000</td>
<td>33,222,000</td>
</tr>
<tr>
<td>Accrued Salaries and Benefits</td>
<td>30,146,000</td>
<td>13,911,000</td>
</tr>
<tr>
<td>Estimated Third-Party Settlements</td>
<td>0</td>
<td>2,569,000</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>71,244,000</strong></td>
<td><strong>49,702,000</strong></td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>38,869,000</td>
<td>39,128,000</td>
</tr>
<tr>
<td><strong>Total Noncurrent Liabilities</strong></td>
<td><strong>38,869,000</strong></td>
<td><strong>39,128,000</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>110,113,000</strong></td>
<td><strong>88,830,000</strong></td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td><strong>180,950,000</strong></td>
<td><strong>149,830,000</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Position</strong></td>
<td><strong>$291,063,000</strong></td>
<td><strong>$238,660,000</strong></td>
</tr>
</tbody>
</table>
The University of North Carolina Health Care System // UNC Faculty Physicians

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (UNAUDITED)

For the Years Ended June 30, 2018 and June 30, 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Patient Service Revenue</td>
<td>$451,826,000</td>
<td>$419,236,000</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>121,812,000</td>
<td>110,423,000</td>
</tr>
<tr>
<td><strong>Net Operating Revenues</strong></td>
<td>$573,638,000</td>
<td>$529,659,000</td>
</tr>
</tbody>
</table>

| **Operating Expenses** |                  |                  |
| Salaries and Benefits | $474,437,000     | $441,086,000     |
| Medical and Surgical Supplies | $29,217,000     | $23,783,000     |
| Contract Services | $74,392,000      | $58,701,000      |
| Other Supplies and Services | $23,961,000     | $32,418,000     |
| Interest Expense | -                | $319,000         |
| **Total Operating Expenses** | $602,007,000   | $556,307,000     |
| **Operating Income (Loss)** | $(28,369,000)  | $(26,648,000)    |

| **Nonoperating Revenues (Expenses)** |                  |                  |
| Net Other Nonoperating Rev/Exp | $4,787,000       | $2,925,000       |
| Transfers From Enterprise Fund | $71,825,000      | $71,760,000      |
| Medical School Trust Fund | $(17,123,000)    | $(15,713,000)    |
| **Total Operating Expenses** | $59,489,000      | $58,972,000      |

| **Increase in Net Position** | $31,120,000      | $32,324,000      |
### Statement of Cash Flows (Unaudited)

*For the Years Ended June 30, 2018 and June 30, 2017*

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received from Patients and Third Parties</td>
<td>$455,952,000</td>
<td>$458,306,000</td>
</tr>
<tr>
<td>Payments to Employees and Fringe Benefits</td>
<td>(458,461,000)</td>
<td>(435,678,000)</td>
</tr>
<tr>
<td>Payments to Vendors and Suppliers</td>
<td>(120,507,000)</td>
<td>(109,227,000)</td>
</tr>
<tr>
<td>Payments for Medical Malpractice</td>
<td>(4,771,000)</td>
<td>(7,122,000)</td>
</tr>
<tr>
<td>Other Receipts</td>
<td>116,858,000</td>
<td>99,886,000</td>
</tr>
<tr>
<td><strong>Net Cash Provided (Used)</strong></td>
<td>(10,929,000)</td>
<td>6,165,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Capital Financing and Related Financing Activities</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care System Grants</td>
<td>54,750,000</td>
<td>49,513,000</td>
</tr>
<tr>
<td><strong>Net Cash Provided</strong></td>
<td>54,750,000</td>
<td>49,513,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Investing Activities</th>
<th>2018</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Income &amp; Other Activity</td>
<td>6,398,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Purchase and Sale of Investments, Net of Fees</td>
<td>(27,061,000)</td>
<td>(17,532,000)</td>
</tr>
<tr>
<td><strong>Net Cash Provided</strong></td>
<td>(20,663,000)</td>
<td>(16,032,000)</td>
</tr>
</tbody>
</table>

**Net Increase (Decrease)**: 23,158,000 39,646,000

**Beginning Cash and Cash Equivalents**: 77,526,000 37,880,000

**Ending Cash and Cash Equivalents**: $100,684,000 $77,526,000

*2017 as restated*
## PRO FORMA SELECTED STATISTICS

For the Years Ended June 30, 2018 and June 30, 2017

<table>
<thead>
<tr>
<th>PATIENT SERVICE STATISTICS</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discharges</td>
<td>100,157</td>
<td>99,571</td>
</tr>
<tr>
<td>Patient Days</td>
<td>586,178</td>
<td>583,427</td>
</tr>
<tr>
<td>Observation</td>
<td>34,207</td>
<td>32,857</td>
</tr>
<tr>
<td>Deliveries</td>
<td>9,599</td>
<td>9,384</td>
</tr>
<tr>
<td>Adjusted Discharges</td>
<td>201,291</td>
<td>193,583</td>
</tr>
<tr>
<td>Adjusted Patient Days</td>
<td>1,039,075</td>
<td>1,010,799</td>
</tr>
<tr>
<td>CMI Adjusted Discharges</td>
<td>359,654</td>
<td>345,444</td>
</tr>
<tr>
<td>CMI Adjusted Patient Days</td>
<td>1,788,641</td>
<td>1,723,743</td>
</tr>
<tr>
<td>ED Visits</td>
<td>250,960</td>
<td>247,505</td>
</tr>
<tr>
<td>wRVUs</td>
<td>8,551,682</td>
<td>7,716,021</td>
</tr>
<tr>
<td>Surgical Cases</td>
<td>67,980</td>
<td>67,086</td>
</tr>
<tr>
<td>Cath Lab</td>
<td>17,910</td>
<td>18,282</td>
</tr>
<tr>
<td>EP Lab</td>
<td>14,803</td>
<td>13,603</td>
</tr>
<tr>
<td>Structural Heart</td>
<td>434</td>
<td>288</td>
</tr>
<tr>
<td>Chemotherapy</td>
<td>90,158</td>
<td>85,187</td>
</tr>
<tr>
<td>Radiation Therapy</td>
<td>65,521</td>
<td>69,966</td>
</tr>
<tr>
<td>Imaging</td>
<td>803,502</td>
<td>792,579</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>29,533</td>
<td>28,152</td>
</tr>
<tr>
<td>Transplants</td>
<td>413</td>
<td>415</td>
</tr>
</tbody>
</table>
NOTES TO FINANCIALS

NOTE 1 // SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION – The University of North Carolina Health Care System (UNC Health Care) was established November 1, 1998, by N.C.G.S. 116-37. It is governed and administered as an affiliate 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 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 Care is under the governance of the Board of Directors of UNC Health Care, REX Healthcare, Inc. (REX), Chatham Hospital, Inc. (Chatham), High Point Regional Health (High Point), Caldwell Memorial Hospital (Caldwell), UNC Physicians Network (UNCPN) and UNC Physicians Network Group Practice (UNCPNGP) have been added to the organization since its inception. More recently, UNC Rockingham Health Care (Rockingham), a not-for-profit acute care hospital located in Eden, North Carolina, formally known as Morehead Memorial Hospital, was acquired via an asset purchase agreement in December 2017 and is now a part of UNC Health Care System. Conversely, High Point was sold to Wake Forest Baptist Medical Center effective September 2018.

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 935 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 Hillborough 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. While UNC Hospitals is exempt from both federal and state income taxes, a small portion of its revenue is subject to the unrelated business income tax.

BLENDED COMPONENT UNITS – Although legally separate, Health System Properties, LLC (the LLC), a component unit of UNC Hospitals, is reported as if it were part of the Hospitals.

The LLC was established to purchase, develop and/or lease real property. Because UNC Health Care is the sole member manager of the LLC, the elected directors of the LLC are the same members of the UNC Health Care System Board of Directors that directs UNC Hospitals’ operations, and as the LLC’s primary purpose is to benefit UNC Hospitals, its financial statements have been blended with those of UNC Hospitals.

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 1,089 physicians who provide a full range of specialty and primary care services for patients of UNC Health Care. 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 three administrative units that collectively form UNCFP.

While UNCFP is affiliated with UNC Health Care, 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.

UNC REX Healthcare, Inc. – REX Healthcare, Inc. (REX) is a North Carolina not-for-profit corporation organized to provide a wide range of health care services to the residents of the Triangle area of North Carolina.

UNC Health Care is the sole member of the corporation and appoints eight of the 13 seats on REX’s Board of Trustees and also reviews and approves REX’s annual operating and capital budgets.

Chatham Hospital, Inc. – Chatham Hospital, Inc. (Chatham) is a private, nonprofit corporation that owns and operates a critical access facility located in Siler City, North Carolina. UNC Health Care is the sole member of Chatham Hospital, Inc. UNC Health Care appoints nine of the 15 members on the Chatham Hospital, Inc. Board and reviews and approves its annual operating and capital budgets.

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 the University of North Carolina Health Care System (UNCHCS) to face the challenging health care environment. Acting through its network of 86 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 the University of North Carolina Health Care System to face the challenging health care environment. UNCPN-GP is wholly owned by UNCHCS, but is a private employer.

CLINICAL DEPARTMENTS:
- Allied Health Sciences
- Anesthesiology
- Dermatology
- Emergency Medicine
- Family Medicine
- Medicine
- Neurology
- Neurosurgery
- Obstetrics & Gynecology
- Ophthalmology
- Orthopedics
- 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 Related Communication Handicapped Children

ADMINISTRATIVE UNITS:
- Administrative Office (Billing & Collections, Managed Care)
- Ambulatory Administration
- Shared Services (Home Office)
High Point Regional Health, Inc. – High Point is a North Carolina not-for-profit corporation located in High Point, North Carolina, to promote and advance charitable, educational and scientific purposes, and to provide and support health care services.

UNC Health Care became the sole corporate member of High Point on March 31, 2013. High Point is the parent holding company of High Point Regional Health Foundation, High Point Health Care Ventures, Inc., and High Point Regional Health Services, Inc. As noted earlier, High Point was sold to Wake Forest Baptist Medical Center effective September 2018.

Caldwell Memorial Hospital – Caldwell Memorial Hospital (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 55 primary and specialty care physicians and advanced practice professionals. UNC Health Care became the sole corporate member of Caldwell on May 1, 2013.

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 Care System as of December 2017.

WakeBrook Mental Health Campus (WakeBrook) – UNC Health Care 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 Care began with the operation of WakeBrook Crisis and Assessment services on February 1, 2013. WakeBrook is now fully operational, providing the behavioral health and medical services in the areas of Crisis and Assessment, Residential Facility, Detoxification Beds, Onsite Medical Care, Primary Care Clinic and Assertive Community Treatment Team.

B. BASIS OF PRESENTATION – The accompanying financial statements present all activities under the direction of the UNC Health Care Board of Directors. The financial statements for UNC Health Care are presented as a pro forma compilation of the various statements generated by its separate entities, UNC Hospitals, REX, Chatham, UNCPN, High Point, Rockingham and Caldwell 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 Care, 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 operating activities of the various entities included in the consolidated 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 UNC Hospitals, REX, Chatham, UNCPN, High Point, Rockingham and Caldwell and the modified accrual basis of accounting for UNCFP. 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. For UNCFP, their monthly financials are maintained on a cash basis, and then at year-end, adjustments are made to accrue all known material amounts for revenue and expense.

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.

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.

The 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 660.2.4 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(b) 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. The 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 indigent care, contractual allowances and allowances for bad debt to determine the net realizable value of the accounts receivable balance.

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 with selected payors have been established to optimize collection of past-due accounts, and any amounts payable beyond one year are classified as noncurrent assets.

I. ESTIMATED THIRD-PARTY SETTLEMENTS – Estimated third-party amounts represent settlements with Medicare, TriCare and Medicaid programs that may result in a receivable or a payable. Reimbursement for cost-based items is 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 2012, UNC Health Care’s physician and hospital entities receive supplemental reimbursement for Medicaid via the Upper Payment Limit methodology.
J. INVENTORIES – Inventories consist of medical and surgical supplies, pharmaceuticals, prosthetics and other supplies that are used to provide patient care by service departments. Inventories are stated at the lower of cost or market on the FIFO (first-in, first-out) basis.

K. 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.

L. 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 the Liability Insurance Trust Fund.

M. PROPERTY, PLANT AND EQUIPMENT – Property, plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred during the period of construction are capitalized.

Assets under capital lease are stated at the present value of the minimum lease payments at the inception of the lease.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to 20 years for equipment, 10 to 40 years for buildings and fixed equipment and five to 25 years for general infrastructure and building improvements. Assets under capital leases and leasehold improvements are depreciated over the related lease term, generally periods ranging from five to seven years.

N. 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.

O. 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 bonds due within one year, and the balance is reflected as noncurrent.

The bonds carry interest rates ranging from 0.02 percent to 7.00 percent. The various bond series have fixed, variable or synthetic rates with final maturity in fiscal year 2045. Bonds payable are reported net of unamortized discount, premium and deferred loss on refundings. Amortization of these amounts is done using either the effective interest method or the straight-line method. The notes payable carry various interest rates ranging from 0.0 percent to 11.02 percent with a final maturity in fiscal year 2026.

P. OTHER CURRENT LIABILITIES – Other current liabilities represent funds held for others and amounts due to patients or third parties for credit balances.

Q. 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.

R. 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) Invested in Capital Assets, Net of Related Debt, (2) Restricted – Expendable and (3) Unrestricted.

S. 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 from 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 Care’s charity care and uninsured policy. For UNC Hospitals and UNCFE 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 ambulance, 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, ambulance services 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 Care. Medicaid reimburses physician services using a fee schedule that approximates ninety-five percent (95 percent) of allowable Medicare rates. Some UNC Health Care 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.

T. MEDICAL AND SURGICAL SUPPLIES – Medical and surgical supplies represent the items used to provide patient care. These include instruments, special medical devices and pharmaceuticals.

U. 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.
V. MEDICAL SCHOOL TRUST FUND –
Medical School Trust Fund (MSTF) expenses represent an assessment of 4.6 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.

W. 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 Care.

X. CONCENTRATIONS OF CREDIT RISK –
UNC Health Care provides services to a relatively compact area surrounding the Research Triangle Park, 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.

Y. 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 and so will not be recognized as revenue until then.

NOTE 2 // ESTIMATED THIRD-PARTY SETTLEMENTS
For Medicare and Medicaid, reported amounts reflect the net difference between the filed cost report settlements and amounts reserved for possible future audit findings. 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 was:

<table>
<thead>
<tr>
<th></th>
<th>FY2018</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Improvements</td>
<td>$153,631,284</td>
<td>$133,584,951</td>
</tr>
<tr>
<td>Buildings and Improvements</td>
<td>1,769,317,765</td>
<td>1,704,193,754</td>
</tr>
<tr>
<td>Equipment</td>
<td>1,284,847,822</td>
<td>1,212,770,203</td>
</tr>
<tr>
<td>Computer Software</td>
<td>227,748,146</td>
<td>225,661,483</td>
</tr>
<tr>
<td>Goodwill</td>
<td>7,704,529</td>
<td>7,704,529</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>114,472,160</td>
<td>80,565,564</td>
</tr>
<tr>
<td>Gross PP&amp;E</td>
<td>$3,557,721,706</td>
<td>$3,364,480,484</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(1,882,230,063)</td>
<td>(1,749,721,544)</td>
</tr>
<tr>
<td>Net PP&amp;E</td>
<td>$1,675,491,643</td>
<td>$1,614,758,939</td>
</tr>
</tbody>
</table>

NOTE 4 // LONG-TERM DEBT
A summary of outstanding bond debt and related issuance costs as of June 30 was:

<table>
<thead>
<tr>
<th></th>
<th>FY2018</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chatham Series 2007 Bonds</td>
<td>$0</td>
<td>$24,090,000</td>
</tr>
<tr>
<td>Rex Series 2010A Bonds</td>
<td>89,130,000</td>
<td>94,775,000</td>
</tr>
<tr>
<td>Rex Series 2015A Bonds</td>
<td>50,000,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Rex Series 2015B Bonds</td>
<td>100,000,000</td>
<td>100,000,000</td>
</tr>
<tr>
<td>UNCH Series 2001 Bonds</td>
<td>86,400,000</td>
<td>88,400,000</td>
</tr>
<tr>
<td>UNCH Series 2003 Bonds</td>
<td>75,810,000</td>
<td>81,290,000</td>
</tr>
<tr>
<td>UNCH Series 2009 Bonds</td>
<td>20,765,000</td>
<td>23,790,000</td>
</tr>
<tr>
<td>UNCH Series 2010 Bonds</td>
<td>35,030,000</td>
<td>37,160,000</td>
</tr>
<tr>
<td>UNCH Series 2016 A Bonds</td>
<td>74,945,000</td>
<td>74,945,000</td>
</tr>
<tr>
<td>UNCH Series 2016 B Bonds</td>
<td>25,000,000</td>
<td>25,000,000</td>
</tr>
<tr>
<td><strong>FACE VALUE OF BONDS OUTSTANDING</strong></td>
<td>$557,080,000</td>
<td>$599,450,000</td>
</tr>
<tr>
<td>Deferred Costs - Premium on Issuance</td>
<td>2,868,049</td>
<td>3,071,823</td>
</tr>
<tr>
<td><strong>NET VALUE OUTSTANDING</strong></td>
<td>$559,948,049</td>
<td>$602,521,823</td>
</tr>
<tr>
<td>Current Portion of Bonds</td>
<td>18,940,000</td>
<td>19,170,000</td>
</tr>
<tr>
<td>Current Portion of Notes</td>
<td>4,448,120</td>
<td>1,913,822</td>
</tr>
<tr>
<td>Other Current Debt</td>
<td>4,866,321</td>
<td>6,314,178</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT BONDS AND NOTES</strong></td>
<td>$27,874,441</td>
<td>$27,398,000</td>
</tr>
<tr>
<td>Noncurrent Portion of Bonds</td>
<td>527,921,351</td>
<td>570,265,089</td>
</tr>
<tr>
<td>Noncurrent Portion of Notes</td>
<td>44,189,854</td>
<td>30,186,120</td>
</tr>
<tr>
<td>Other Noncurrent Debt</td>
<td>6,000,524</td>
<td>11,435,791</td>
</tr>
<tr>
<td><strong>TOTAL NONCURRENT BONDS AND NOTES</strong></td>
<td>$587,111,693</td>
<td>$611,887,000</td>
</tr>
<tr>
<td>Deferred Costs – Loss on Refunding</td>
<td>(7,353,371)</td>
<td>(8,173,492)</td>
</tr>
<tr>
<td>Hedging Liability</td>
<td>7,919,195</td>
<td>12,558,232</td>
</tr>
<tr>
<td><strong>DEFERRED BOND ACTIVITY</strong></td>
<td>$565,824</td>
<td>$4,384,740</td>
</tr>
</tbody>
</table>

As currently structured, UNC Health Care has no authority to issue debt. Only the individual entities within UNC Health Care 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, 2018 are:

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>PRINCIPAL</th>
<th>INTEREST</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$18,940,000</td>
<td>$19,583,707</td>
<td>$38,523,707</td>
</tr>
<tr>
<td>2020</td>
<td>19,630,000</td>
<td>18,871,970</td>
<td>38,501,970</td>
</tr>
<tr>
<td>2021</td>
<td>20,485,000</td>
<td>18,100,156</td>
<td>38,585,156</td>
</tr>
<tr>
<td>2022</td>
<td>21,245,000</td>
<td>17,312,500</td>
<td>38,557,500</td>
</tr>
<tr>
<td>2023</td>
<td>22,170,000</td>
<td>16,504,238</td>
<td>38,674,238</td>
</tr>
<tr>
<td>2024–2028</td>
<td>122,135,000</td>
<td>69,903,517</td>
<td>192,038,517</td>
</tr>
<tr>
<td>2029–2033</td>
<td>104,250,000</td>
<td>48,052,248</td>
<td>152,302,248</td>
</tr>
<tr>
<td>2034–2038</td>
<td>48,370,000</td>
<td>37,279,868</td>
<td>85,649,868</td>
</tr>
<tr>
<td>2039–2043</td>
<td>92,950,000</td>
<td>27,874,750</td>
<td>120,824,750</td>
</tr>
<tr>
<td>2044–2048</td>
<td>86,905,000</td>
<td>5,089,967</td>
<td>91,994,967</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$557,080,000</td>
<td>$278,572,921</td>
<td>$835,652,921</td>
</tr>
</tbody>
</table>

Annual requirements to pay principal and interest on the outstanding notes and capital leases payable at June 30, 2018 are:

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>PRINCIPAL</th>
<th>INTEREST</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$10,041,646</td>
<td>$1,750,679</td>
<td>$11,792,325</td>
</tr>
<tr>
<td>2020</td>
<td>9,737,157</td>
<td>1,532,258</td>
<td>11,269,415</td>
</tr>
<tr>
<td>2021</td>
<td>10,566,162</td>
<td>1,273,905</td>
<td>11,840,067</td>
</tr>
<tr>
<td>2022</td>
<td>2,872,313</td>
<td>938,664</td>
<td>3,810,977</td>
</tr>
<tr>
<td>2023</td>
<td>2,857,723</td>
<td>850,177</td>
<td>3,707,900</td>
</tr>
<tr>
<td>2024–2028</td>
<td>21,111,023</td>
<td>1,072,111</td>
<td>22,183,134</td>
</tr>
<tr>
<td>2029–2033</td>
<td>3,046,000</td>
<td>88,016</td>
<td>3,134,016</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$60,232,024</td>
<td>$7,505,810</td>
<td>$67,737,834</td>
</tr>
</tbody>
</table>

NOTE 5 // PENSION PLANS

UNC Health Care 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 the Hospital and eligible faculty of the University may join the Program instead of the Teachers’ and State Employees’ Retirement System. 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 Care 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. UNC Hospitals and UNCFP assume no liability for retiree health care benefits provided by the programs other than their required contributions. 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. UNC Hospitals and UNCFP assume no liability for long-term disability benefits under the Plan other than their contribution. Due to the implementation of GASB 75, the liability for long-term disability benefits provided by the program is now carried by employers proportionately.

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 7 // RISK MANAGEMENT

UNC Health Care 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.
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.

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

With the help of the North Carolina Hospital Association, UNC HealthCare has entered into an agreement with other Public Hospitals in North Carolina to receive the benefit of additional Certified Public Expenditures (CPEs). By making additional CPEs available, the Public Hospitals risk possible Disproportionate Share of Hospital (DSH) overpayments that would require repayment to state or federal agencies. In order to mitigate the Public Hospitals’ risk, UNC Health Care established a reserve fund to be held in escrow. This fund will reimburse participating Public Hospitals for any repayments that should result from this program.

The UNC Health Care Enterprise Fund transferred $14,844,132 for 2012 CPE and $10,732,004 for 2013 CPE to the Escrow Agent, First Citizens Bank & Trust Company. The 2012 and 2013 CPE was deemed no longer necessary, and therefore funds were distributed back to UNC HealthCare. For 2014 no escrow was needed. In May 2018, UNC HCS transferred $61,087,117 for 2015 ($7,783,209), 2016 ($14,518,770) and 2017 (38,785,138) CPE to Escrow Agent, First Citizens Bank & Trust Company.

NOTE 9 // RELATED PARTY TRANSACTIONS

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.

UNC Health Care System Enterprise Fund – The Board of Directors of UNC Health Care authorized and approved the creation of the UNC Health Care System Enterprise Fund (The System Fund) to support UNC Health Care’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 Care. Initially formed as the Enterprise Fund to facilitate investments in support of the clinical, academic and research missions of UNC Health Care 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 Care. 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.

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.

Johnston Health Services Corporation – Effective February 1, 2014, Johnston Memorial Hospital Authority (JMHA) and UNC Health Care 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 Care. UNC Health Care manages the day-to-day operations of JHSC under the terms of a Management Services Agreement entered into and effective November 1, 2013. UNC Health Care has a 35.25 percent membership interest in JHSC.

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 Care to conduct and manage its operations effective April 1, 2014.

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 Care on January 1, 2016 to provide certain management services over an initial term of 10 years.

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 Care on May 17, 2016 to provide certain management services over an initial term of 10 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 Care. 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 Care and their affiliates. The funding source for the Endowment is the $100 million transfer that came from UNC Health Care in April 2000.
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 Care 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 Care 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 our community. UNC Health Care 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 and expenses.

UNC Health Care and its entities participate in the North Carolina Hospital Association's (NCHA's) Advocacy Needs Data Initiative (ANDI) to quantify their Community Benefit. The data for calculating the FY18 Community Benefit is being processed and will be included in NCHA's ANDI report in spring 2019.

NOTE 11 // SUBSEQUENT EVENTS

On September 1, 2018, each of the Boards of Wake Forest Baptist Medical Center (WFBMC), University of North Carolina Health Care System (UNCHCS), and High Point Regional Health (HPRH), in keeping with their respective duties to further their respective charitable missions and oversee their respective organization's charitable assets have agreed to make WFBMC the sole corporate member of HPRH via a member substitution agreement with UNCHCS in exchange for good and valuable consideration.