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Last year, in our first joint letter as Board Chair and Interim CEO of UNC Health Care, we talked about the development of both near and far-reaching strategies for the organization while maintaining a laser focus on improving the health of all North Carolinians. A year later, we are pleased to report that our efforts are yielding success.

GROWING TO SERVE
As we detail in the “System Update” section of this document (pg 4), UNC Health Care continued its growth in service to the people of North Carolina. During and after the Fiscal Year ending June 30, 2019, we held several ground breaking ceremonies and witnessed the beginning of new facility construction, especially in the fast-growing Triangle region.

While some projects are longer term, such as the surgical tower in Chapel Hill set to open in 2022, others will be realized sooner, including expansion of services in Wake County with a new 50-bed hospital in Holly Springs, opening in 2021, and a new cancer center also opening in 2021.

HEALTHY-BASED CARE
Our industry, and in particular North Carolina, continue to move toward more value-based payment arrangements for the patients we serve and away from traditional “fee for service.” In value-based care, or “healthy-based care” as we like to call it, there is a focus on delivering high-quality care and coordination across all healthcare settings — to improve outcomes and lower the cost of care. As we make this transition, we have implemented 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 healthcare systems.

In addition, we are excited to report that we are achieving success. The Next Generation ACO (UNC Senior Alliance) performance for 2018 was recently released and showed our quality performance at 98.6%, which earned us the top spot among 34 pay-for-performance programs across the country.

WE ARE UNC HEALTH: TRANSFORMATION STRATEGY

In the first quarter of 2020, UNC Health Care began transitioning to a new name, UNC Health, and introduced a new logo. UNC Health signifies our commitment to not simply treat patients for sickness, injury and other conditions, but to a greater focus on health and wellness.

The transition to UNC Health is part of a greater transformation effort to create a unified strategy, unified operating model and a unified culture in order to ensure our long-term success and to meet our mission of caring for the people of North Carolina.

Our transformation strategy boldly defines our roadmap over the next five to 10 years. A key change that will position us well to achieve the strategic plan is a new operating model, which is our first major change in system structure in decades, and provides us with a modernized and integrated approach to meeting our customers’ needs. UNC Health will focus on culture as well, capitalizing on elements of our existing culture that are strong and sustainable, and developing new elements, such as new system-wide core values, that will provide us with the foundation of how we will work in the future.

WHAT’S NOT CHANGING?

We will continue to nourish what has always made us an attractive employer and service provider, including:

• Our mission “to improve the health and well-being of the people of North Carolina”
• Our academic excellence, rooted in research, teaching, discovery, and innovation
• Our commitment to clinical and service excellence
• A focus on our people and supporting, developing and recognizing them

HOW WILL THESE CHANGES HELP US ACHIEVE OUR VISION?

We are charting a new course for ourselves — one that reflects our aspirations, values and the high expectations customers have in today’s healthcare marketplace. These changes will help us adopt business and medical practices that will move us away from a siloed structure that is creating friction for customers, physicians and other team members, and move toward a more responsive, customer-focused, integrated system that will allow us to grow as an organization and as individuals.

We are proud to continue serving as North Carolina’s healthcare system, caring for patients from all 100 counties. We continue to leverage the world-class research conducted in the UNC School of Medicine and we translate that innovation to life-saving and life-changing therapies, procedures, and techniques for the patients who rely on us. We are UNC Health.

Sincerely,

Wesley Burks, M.D.
CEO
UNC Health

Charles D. Owen, III
Chair
UNC Health Board of Directors
In FY 2018-2019, UNC Health laid a foundation for the future, and made its mark on the present. As an organization, UNC Health is undertaking an ambitious plan to reimagine what it means to be North Carolina’s health system.

Ground was broken on multiple new hospital facilities, clinics, and medical office buildings, moving us closer to our goal of providing North Carolinians with the very best care as close to home as possible.

Across the state, in the classroom, and in the lab, UNC Health continued to deliver care that combines empathy and expertise, pursue discovery, and educate the next generation of healthcare providers.
ENVISIONING AN INTEGRATED, UNITED SYSTEM

In 2019, UNC Health set an ambitious plan in motion. A vision to create a more unified, integrated UNC Health system that better cares for the people of North Carolina and fully utilizes the talents of the 33,000 North Carolinians employed across the system.

Over the course of 2019, key progress was made in this effort, progress that laid a foundation for more integrated care delivery and regional operations.

A major aspect of this strategic vision is the creation of a unified workplace culture that connects all of those 33,000 colleagues to the organization’s mission: improving the health and well-being of the people of North Carolina, and to UNC Health’s shared values.

Over 2019, thousands of leaders from across UNC Health have taken part in leadership trainings to improve their skills in guiding the work of their teams.

To support the vision for greater integration, UNC Health announced a number of leadership changes to meet our needs today and into the future.

“We are modernizing our leadership structure to create a more effective and efficient process for decision making and truly placing the patient at the center of all we do,” said Dr. Wesley Burks, CEO of UNC Health. “We are committed to serving the people of North Carolina, and to the academic and clinical excellence that make this such a special place to work, teach, learn, conduct research and care for patients. These talented leaders will help transform UNC Health for the future.”

33,000+ Colleagues Across the System

$5.4 Billion Net Operating Revenues
Construction continues on the new seven-story, 330,000 square foot Surgical Tower on the UNC Medical Center campus in Chapel Hill with completion expected in 2022.

3.5 Million Clinic Visits
120,000 Surgeries Performed
Modernizing and Expanding Clinical Care:
It was a busy fiscal year for golden shovels across UNC Health.

In March 2019, ground was broken on a new 50-bed hospital in Holly Springs. This facility will feature an emergency department, labor delivery, operating rooms and inpatient beds, providing care for the fast-growing community of Holly Springs and Southern Wake County. The facility is scheduled to open in 2021.

In April, UNC Health hosted a groundbreaking for the new Eastowne Medical Office Building in Chapel Hill. The six-story, 150,000-square-foot Eastowne building and parking structure is scheduled to open in 2020. The building will house specialty practices such as cardiology, pulmonary, endocrinology, hematology and more. There will be a urology clinic, outpatient imaging and laboratory. The goal is to relocate more outpatient services from the congested main campus at UNC Medical Center to a setting with easier parking and access.

In May, a groundbreaking celebration was held for a new cancer center at UNC REX in Raleigh. The new $65 million facility is being built across the street from Rex's main Raleigh campus. The new Center will more than double the space dedicated to cancer care on the UNC REX campus, and help streamline the work of multidisciplinary oncology teams.

The facility was designed to improve patient care with input from patients and their families, physicians, nurses and other colleagues. New services offered will include a “Quality of Life Clinic” with a variety of support services for cancer patients, including behavioral healthcare, palliative care, massage therapy, holistic treatment and more. New infusion bays will be designed to support patients and their families. The new location also allows for ample and easy-to-access parking for patients and families.

Construction continues on the new seven-story, 330,000 square foot Surgical Tower on the UNC Medical Center campus in Chapel Hill with completion expected in 2022.

Clinical Honors and Awards:
Multiple UNC Health hospitals were honored by U.S. News & World Report for clinical excellence. UNC Medical Center in Chapel Hill was ranked nationally across five adult specialties. Seven pediatric specialties were also ranked among the nation’s best.

As part of its Best Hospitals rankings, U.S. News evaluated more than 4,500 hospitals for their handling of nine surgical procedures and chronic conditions: colon cancer surgery, lung cancer surgery, COPD, heart failure, heart bypass surgery, aortic valve surgery, abdominal aortic aneurysm repair, knee replacement and hip replacement.

Nearly a third of hospitals earned a rating of high performing in at least one procedure or condition, but only 57 standouts, barely one percent of hospitals evaluated, got that top rating in all nine. UNC REX Healthcare was among this one percent.

Both Nash UNC Health Care in Rocky Mount, NC and Wayne UNC Health Care in Goldsboro, NC were rated high performing in the common adult condition of Heart Failure.

Johnston Health in Smithfield, NC was rated high performing in the common adult conditions of Heart Failure and Chronic Obstructive Pulmonary Disease (COPD).

In overall ratings, UNC Medical Center was ranked by U.S. News as the #2 hospital in North Carolina and the Triangle. UNC REX was ranked the #3 hospital in the Triangle and the #7 hospital in the state.

Leapfrog Hospital Safety Grade uses 28 measures of publicly available hospital safety data to assign grades to more than 2,600 U.S. acute-care hospitals twice per year. UNC Medical Center in Chapel Hill, UNC REX Healthcare in Raleigh, Johnston Health in Smithfield and Wayne UNC Health in Goldsboro all received A’s on Leapfrog’s Fall 2019 report. UNC REX is the only hospital in North Carolina — and one of only 36 across the country — to receive straight A’s since Leapfrog began grading hospitals for safety in 2012.
We care holistically about patients and each other.

It is our privilege to serve the people of North Carolina.

We demonstrate kindness and compassion in every interaction.

We are better together than we are apart.

Our effective collaboration is key to providing quality care.

We are building an inclusive and equitable culture that encourages and supports the diverse voices of our patients and each other.

We make a difference by improving lives every day and training the next generation of healthcare leaders.

Our research is changing the world.

We provide innovative care.

Each of us takes ownership of, and accountability for, doing the right thing.

We empower and trust each other to step up.

We support each other and hold each other accountable in our work.
Excellence in All Aspects of Academic Mission:
In 2019, the UNC School of Medicine was once again rated by U.S. News & World Report as the nation's top training program in Primary Care Medicine.

“Earning the number one ranking for primary care is a tremendous recognition of our commitment to provide the highest quality primary care possible,” said Cristy Page, MD, MPH, Executive Dean of the UNC School of Medicine.

“I’m incredibly proud to be a part of our team effort dedicated to training the next generation of primary care doctors to meet the health needs of our state and nation.”

The UNC School of Medicine has surpassed $500 million in research funding, marking a major milestone for the School’s expanding research enterprise. In FY19, the UNC School of Medicine received a total of $510,750,975 in funding, an increase of more than $48 million from FY18.

The numbers also reflect the breadth of the School of Medicine’s research enterprise, with 17 Departments, Centers, and Institutes receiving at least $10 million in funding, and 31 receiving at least $4 million in FY19.

“The $500 million milestone of research funding is a tremendous achievement. Not only are we growing in total awards, but we are growing in overall scientific impact, improving the health and wellbeing of North Carolinians and others whom we serve,” said Page. “We look forward to celebrating this success and many more to come.”
U.S. News & World Report Rankings

UNC Medical Center (Chapel Hill, NC)

Nationally Ranked Adult Specialties:
- Ear, Nose & Throat #16
- Cancer #27
- Gynecology #29
- Nephrology #29
- Gastroenterology & GI Surgery #42

High Performing Adult Specialties:
- Psychiatry
- Pulmonology & Lung Surgery
- Rheumatology

UN Children’s (Chapel Hill, NC)

Nationally Ranked Children’s Specialties:
- Diabetes and Endocrinology #16
- Pulmonology #16
- Orthopedics #23
- Nephrology #30
- Cancer #36
- Gastroenterology & GI Surgery #36
- Urology #37

U.S. News & World Report’s “Best Hospitals”

Nationally Ranked Adult Specialties 2019–2020

U.S. News & World Report’s “Best Children’s Hospitals”

Nationally Ranked Children’s Specialties 2019–2020
UNC Medical Center (Chapel Hill, NC)
- Abdominal Aortic Aneurysm Repair
- Aortic Valve Surgery
- Chronic Obstructive Pulmonary Disease (COPD)
- Colon Cancer Surgery
- Heart Bypass Surgery
- Heart Failure
- Cancer Surgery

UNC REX HEALTHCARE (Raleigh, NC)
- Abdominal Aortic Aneurysm Repair
- Aortic Valve Surgery
- Chronic Obstructive Pulmonary Disease (COPD)
- Colon Cancer Surgery
- Heart Bypass Surgery
- Heart Failure
- Hip Replacement
- Knee Replacement
- Lung Cancer Surgery

Nash UNC Health Care (Rocky Mount, NC)
- Heart Failure

Wayne UNC Health Care (Goldsboro, NC)
- Heart Failure

Johnston UNC Health Care (Smithfield, NC)
- Heart Failure
- Chronic Obstructive Pulmonary Disease (COPD)


Nearly a third of hospitals earned a rating of high performing in at least one procedure or condition, but only 57 standouts, barely one percent of hospitals evaluated, got that top rating in all nine. UNC REX HEALTHCARE was among this one percent.
UNC Health is inextricably linked to the UNC School of Medicine, and there is no better way to showcase their synergy than through the innovation of our physicians and researchers that span every department of the school and every part of our hospitals, clinics, and medical campus in Chapel Hill.

In FY19, the UNC School of Medicine received a total of $510,750,975 in external research funding, an increase of more than $48 million from the prior year.

In February 2020, the Blue Ridge Institute for Medical Research published its annual list of the top NIH-funded research universities for Federal FY 2019. The UNC School of Medicine ranked 17th overall and 6th among peer public institutions with $316,414,062 in funding from the NIH in 2019. This represents an increase of more than $23 million. All basic science departments were ranked in the top 10 in NIH funding. All were in the top five among public universities, with genetics and biomedical engineering both ranked #1 among public universities. Nine clinical departments were ranked in the top 25 in NIH funding, with obstetrics & gynecology ranking highest at 3rd.

HIGHLY CITED

Of note, 21 school of medicine faculty were named by Thomas Reuters as Highly-Cited Researchers, an annual list that recognizes the most influential researchers of the past year, demonstrated by the production of multiple highly-cited peer-reviewed published papers that rank in the top 1% by citations for field and year in Web of Science.

In 2019, fewer than 6,300, or 0.1% of the world’s researchers, across 21 research fields, earned this exclusive distinction.
FOUR SOM FACULTY, INITIATIVE NAMED HEALTH CARE HEROES

The Triangle Business Journal’s 2019 Health Care Heroes Award winners included four UNC School of Medicine faculty members, as well as the UNC Health Care Dementia-Friendly Hospital Initiative, which was created by the UNC School of Medicine Division of Geriatric Medicine and the UNC Center for Aging and Health. Funded by a grant from The Duke Endowment, the initiative trained staff at UNC Hospitals’ Hillsborough Campus in best practices of dementia-friendly care and is currently expanding to three additional UNC Health Hospitals: NC Memorial Hospital in Chapel Hill; Pardee UNC Health Care in Hendersonville, and Wayne UNC Health Care in Goldsboro. Eventually, a total of 3,900 employees from multiple disciplines and departments will be trained in dementia-friendly care across all four hospitals.

The other UNC School of Medicine healthcare hero award winners included:

Catherine Coe, MD, assistant professor in the UNC Department of Family Medicine, worked closely to help develop UNC’s three-year MD curriculum — the Fully Integrated Readiness of Service Training (FIRST) program and currently serves as the Director for FIRST.

Stuart Gold, MD, is Distinguished Professor of Pediatrics, Chief of the Division of Pediatric Hematology-Oncology, a member of the UNC Lineberger Comprehensive Cancer Center, and Vice Chair of Diversity and Patient Engagement at the NC Cancer Hospital.

Andrea Hayes-Jordan, MD, is the Chief of the Division of Pediatric Surgery and Surgeon in Chief at the NC Children’s Hospital. A UNC Lineberger Member, she was the first surgeon to perform cytoreductive surgery and Hyperthermic Intraperitoneal Chemotherapy (HIPEC) in a pediatric patient, surgeries that can last between 12 and 22 hours to remove hundreds of abdominal tumors.

Mahesh Sharma, MD, associate professor in the Department of Surgery, is the Section Chief of Congenital Cardiac Surgery and co-director of the NC Children’s Heart Center. He has served as a leader of Pediatric cardiovascular surgery, artificial heart technology, adult congenital cardiothoracic surgery, transplantation heart and lung, since joining UNC in 2018.

NEW COMPANY FOR DRUG DEVELOPMENT

UNC-Chapel Hill and Deerfield Management entered into a partnership in October 2018 to create Pinnacle Hill, a company seeking to discover new medicines to address the significant unmet medical needs of our times. Deerfield has committed $65 million of targeted funding and to provide drug development expertise in support of promising new drug research across a wide range of areas.

Pinnacle Hill focuses on drug research projects that are approved and directed by a joint steering committee comprised of members from UNC-Chapel Hill and Deerfield leadership teams. Each selected project has the potential to receive funding to support investigational new drug-enabling studies. The inaugural UNC members of the joint committee are: Terry Magnuson, PhD, UNC-Chapel Hill’s vice chancellor for research and the Sarah Graham Kenan professor of genetics in the UNC School of Medicine; Dhiren Thakker, PhD, distinguished professor and interim dean of the UNC Eshelman School of Pharmacy and interim director of the Eshelman Institute for Innovation; Blossom Damania, PhD, the Boshamer Distinguished professor of microbiology and immunology and vice dean for research in the UNC School of Medicine.
CAR-T: INNOVATIONS IN IMMUNOTHERAPY

Stand Up To Cancer, an independent research funding and advocacy group, announced in January an $8 million grant to a top team of scientists to develop therapies that use a person’s immune cells to recognize and attack T-cell lymphoma, a group of rare cancers of the blood and immune system. Helen Heslop, MD, of Baylor College of Medicine, will direct the team and the University of North Carolina Lineberger Comprehensive Cancer Center’s Gianpietro Dotti, MD, will serve as co-leader.

The SU2C Meg Vosburg T-Cell Lymphoma Dream Team will develop and study chimeric antigen receptor T-cell (CAR-T) therapies, which involve modifying a person’s immune cells to treat T-cell lymphoma. The team is named in memory of Meg Vosburg, a lifelong learner, educator, and humanitarian, who died from T-cell lymphoma in 2018 at the age of 51.

The multi-institutional Dream Team includes six researchers from UNC Lineberger: Anne Beaven, MD, investigator; Gianpietro Dotti, MD, co-leader; Paul Eldridge, PhD, investigator; Natalie Grover, MD, young investigator; Joel Parker, PhD, investigator and Barbara Savoldo, MD, PhD, investigator. Patty Spears, who chairs the UNC Lineberger Patient Research Advocacy Group, was appointed as advocate. The team’s other members are from the Wake Forest Baptist Medical Center Comprehensive Cancer Center, Baylor College of Medicine and the University of Texas MD Anderson Cancer Center.
FIRST-OF-A-KIND POSTPARTUM DEPRESSION DRUG

In August of 2018, UNC researchers led by Samantha Meltzer-Brody, MD, MPH, director of Perinatal Psychiatry Program at the UNC School of Medicine, reported the results from the multi-site phase 2 and 3 clinical trials of brexanolone injection that were not only promising, but could change the way postpartum depression (PPD) is treated.

Brexanolone injection works differently than existing anti-depressant medications. “With current anti-depressant SSRIs (selective serotonin reuptake inhibitors) it could take four to six weeks to get a treatment response. In the brexanolone trials, we saw patients starting to feel better within days,” said Meltzer-Brody, the Assad Meymandi Distinguished Professor and Chair of the UNC Department of Psychiatry and Director of the UNC Center for Women’s Mood Disorders.

In March 2019, the U.S. Food and Drug Administration approved brexanolone as the first new class of anti-depressants in decades and the first drug specifically indicated for PPD. The weeks and months immediately following birth are a critical period for mother-infant bonding, which makes this new drug a game-changer for new moms.

PROGRESS IN PANCREATIC CANCER CARE

Scientists at the University of North Carolina Lineberger Comprehensive Cancer Center discovered a technique to make pancreatic cancer cells reliant on one energy source and then starve them of it — a finding that has led to clinical studies of a novel treatment strategy for one of the deadliest cancers.

Published in March in the journal Nature Medicine, researchers led by UNC Lineberger’s Channing Der, PhD, the Sarah Graham Kenan Professor of Pharmacology at the UNC School of Medicine, reported promising results from early laboratory studies of a treatment strategy that forces pancreatic cancer to rely on a type of energy production called autophagy, also known as “self-eating,” in which cells recycle their own parts for energy. Their preclinical studies demonstrated the benefit of combining a treatment that forces the cells to rely more heavily on autophagy with another compound that can indirectly block that same energy pathway once they are reliant on it for fuel.

GATES GRANTS FOR WOMEN’S HEALTH

In May 2019, the UNC Department of Obstetrics and Gynecology received two grants totaling $14 million from the Bill and Melinda Gates Foundation to develop technologies to make pregnancy safer. For the first grant, the Fetal Age Machine Learning Initiative (FAMILI), UNC researchers led by Jeffrey Stringer, MD, professor and Director of the Division of Global Women’s Health, are developing a portable obstetric ultrasound for settings where expert sonographers are not available. They have partnered with Google to build computer vision AI models that can be deployed on a smart phone. Field testing will begin in mid 2020. Using funds from a second grant, the Limiting Adverse Birth Outcomes in Resource-Limited Settings (LABOR) Study will allow researchers to leverage new tools in wearable sensors and AI to make the intrapartum period safer. Researchers are enrolling 15,000 pregnant women in Zambia, Ghana, and India and monitoring maternal and fetal physiology with wearables. These data — coupled with an exhaustive documentation of all diagnoses, interventions, and outcomes — will allow precision medicine experts at the UNC School of Medicine and the UNC Gillings School of Global Public Health to develop new models to identify at-risk women and diagnose pregnancy complications before they occur.
Based on these findings, researchers at the University of Texas MD Anderson Cancer Center are planning a clinical trial of two medications to test this strategy in pancreatic cancer patients. The project is supported by a dual institution grant from the Pancreatic Cancer Action Network (PanCAN). Similar findings from researchers at the Huntsman Cancer Institute, published simultaneously in a Letter in Nature Medicine, have also led to clinical trials.

A separate UNC Lineberger study published in November 2018 showed how researchers could help predict resistance to treatments for pancreatic cancer. In Clinical Cancer Research, a journal of the American Association for Cancer Research, researchers led by UNC Lineberger’s Jen Yeh, MD, and Naim Rashid, PhD, reported findings for how two subtypes of pancreatic cancer respond to treatments differently. Importantly, they found that one subtype of the disease showed poor responses to common therapies, and also had worse survival.

UNC VAPING EXPERTS: RESEARCH AND MEDIA

The UNC School of Medicine is home to several top-rated researchers who study the effects of electronic cigarettes on lung health and overall health. Robert Tarran, PhD, a professor in the department of cell biology and physiology and member of the UNC Marsico Lung Institute, led a study published in the American Journal of Respiratory and Critical Care Medicine showing that the lungs of vapers — like the lungs of smokers — have elevated levels of certain protease enzymes, a condition known to cause emphysema in smokers. The researchers also found that the nicotine in vaping liquids is responsible for the increase in protease enzymes.

“Our findings in this study indicate that vaping may not be safer than cigarette smoking,” said Tarran, who was a featured contributor to several media outlets reporting on the sudden hospitalizations and deaths related to vaping.

Ilona Jaspers, PhD, professor of pediatrics, associate professor of microbiology and immunology, and director of the UNC Toxicology Program, Deputy Director of the UNC Center for Environmental Medicine Asthma and Lung Biology, has conducted research showing how vaping changes cells and genes in the airways in similar and different ways from what’s been documented in smokers. She has also been a highly sought after voice on the health effects of e-cigarettes, presenting research around the world at medical centers, schools, and academic conferences.

“Comparing vaping to smoking is a wrong comparison,” Jaspers said. “We should compare vaping to nothing at all, because there are kids who would never have started smoking who are becoming addicted to nicotine through e-cigarette use.”
BRAIN STIMULATION TO TREAT CHRONIC PAIN, DEPRESSION

For the first time, researchers at the UNC School of Medicine led by Flavio Frohlich, PhD, associate professor in the UNC Department of Psychiatry, showed they could target one brain region with a weak alternating current of electricity, enhance the naturally occurring brain rhythms of that region, and significantly decrease symptoms associated with chronic lower back pain.

The results, published in the Journal of Pain and presented at the Society for Neuroscience conference in San Diego in November 2018, suggest that doctors could one day target parts of the brain with new noninvasive treatment strategies, such as transcranial alternating current stimulation, or tACS, which researchers used in this study to boost the naturally occurring brain waves they theorized were important for the treatment of chronic pain.

Co-first author Julianna Prim, a graduate student mentored by Karen McCulloch, PT, PhD, in the Department of Allied Health Sciences at the UNC School of Medicine, who works closely with Frohlich's lab, said, “If brain stimulation can help people with chronic pain, it would be a cheap, non-invasive therapy that could reduce the burden of opioids, which we all know can have severe side effects.”

Chronic pain is the leading cause of disability in the world, but there is not consensus among scientists that brain activity plays a causal role in the condition.

In March 2019, Frohlich’s lab tACS successfully targeted a naturally occurring electrical pattern in a specific part of the brain and markedly improve depression symptoms in about 70 percent of participants in a clinical study. The research, published in Translational Psychiatry, lays the groundwork for larger research studies to use a tACS to treat people diagnosed with major depression.

TARGETING TUMORS

A team led by UNC Lineberger members Tim Gershon, MD, PhD, associate professor of Neurology, and Kirk Wilhelmsen, MD, PhD, associate professor of genetics and neurology, published the first study to use high-throughput single cell gene expression analyses to study how the diversity of cells within brain tumors allows tumors to overcome targeted therapy. This work, which will be published in Nature Communications, showed that brain tumors include many different types of cells, and that while some of these cell types are treatment responsive, others are treatment resistant. The work makes a strong case for the idea that cancers contain cells resistant to specific treatments even before treatment starts, and that combinations of therapies will be needed to treat all of the different cell types within a brain tumor.
BREAKTHROUGHS IN ANGELMAN SYNDROME

Angelman syndrome is a genetic disease with no cure. Children grow up with severe intellectual disabilities and a range of other problems, arguably the worst of which are epileptic seizures. Now researchers led by Ben Philpot, PhD, Kenan Distinguished Professor in the Department of Cell Biology and Physiology, have found evidence that genetic therapy may prevent the enhanced seizure susceptibility.

Published in the Journal of Clinical Investigation, the research marks the first time scientists were able to reduce seizure susceptibility in mice by activating a dormant copy of the UBE3A gene so it could replace the faulty mutant version. While replacing the faulty gene in juveniles reduced seizures, replacing the faulty gene in adult mice had no effect.

The UNC School of Medicine scientists also found evidence that the loss of this gene in Angelman syndrome promotes seizures by impairing the normal activity of inhibitory neurons — cells that normally keep brain circuits from being overstimulated.

“These findings should be very useful in the development and testing of therapies for Angelman syndrome,” said Philpot, a member of the UNC Autism Research Center.

Philpot’s lab also conducted research using Angelman syndrome animal models to show that CBD could benefit kids and adults with this serious condition.

“There is an unmet need for better treatments for kids with Angelman syndrome to help them live fuller lives and to aid their families and caregivers,” said Philpot, PhD, associate director of the UNC Neuroscience Center. “Our results show CBD could help the medical community safely meet this need.”

This past summer, the National Institutes of Health awarded two separate grants totaling $6.1 million to Mark Zylka, PhD, director of the UNC Neuroscience Center. The first project will test a CRISPR/Cas9-based gene therapy for Angelman syndrome in mice and human neurons. When the maternal copy of the gene UBE3A does not work properly, the result is Angelman Syndrome. The paternal copy is normally turned off, or silenced, but has the potential to serve as a backup for the faulty maternal copy. Zylka’s lab is using gene editing to unsilence the dormant paternal copy of UBE3A.

“There is currently no effective treatment or cure for Angelman syndrome,” said Zylka, the W.R. Kenan Distinguished Professor of Cell Biology and Physiology. “Our research will provide the first preclinical evidence that CRISPR/Cas9 can be used to enduringly ‘unsilence’ the paternal UBE3A gene in mice and ‘unsilence’ paternal UBE3A in cultured human neurons. This new knowledge has the potential to advance a first-of-its kind treatment for a pediatric-onset autism spectrum disorder.”

The second NIH grant builds on research published in Cell by the Zylka lab, and seeks to better understand how a genetic mutation in UBE3A contributes to certain characteristics of autism. Zylka and Philpot.
UNC Children’s Heart Program
Fights for Infant’s Life ... 
Culminating in Successful 
Heart Transplant

Diagnosed with a congenital heart condition while still in utero, Suzi Leahy’s unborn son, Jett, was given “little chance of survival,” yet he beat the odds thanks to the life-saving care of the N.C. Pediatric Heart Center at UNC Children’s Hospital in Chapel Hill, NC.

Jett celebrated his first birthday in September 2019, but it was a very tough road from diagnosis to birthday celebration.

During a fetal echocardiogram, Suzi was informed that her unborn son had been diagnosed with an unbalanced atrioventricular septal defect (AVSD), a congenital heart defect (CHD) in which there are holes in the wall separating the right atrium and the left atrium of the heart.

Rather than having a mitral valve on the left side that separates the upper and lower chambers and a tricuspid valve that separates the upper and lower chambers on the right side, Jett had a common AV valve, atrioventricular valve. Not only that, but the AV valve was shifted over, so blood was not getting into one of the pumping chambers, causing it to be underdeveloped.

In the 37th week of the pregnancy, Suzi and husband Anthony met with Dr. Mahesh Sharma, Chief of Congenital Cardiac Surgery and Co-Director of the NC Children’s Heart Center.

Jett is Born & the Fight Begins
Jett was born at 39 weeks in September 2018. A week after birth, he was having a hard time breathing. Without the wall separating the chambers of the heart, blood was flowing into Jett’s lungs, making it hard for him to breathe. In late December, Dr. Sharma and his team treated Jett with a pulmonary artery band to ease the severity of the disease and to limit blood to his lung so the pneumonia could improve.

The Road to Heart Transplant
The operation to place the band included unforeseen challenges. Dr. Sharma called on his Co-Director of the NC Pediatric Heart Center at UNC Children’s Hospital and Chief of the Division of Pediatric Cardiology, Dr. Tim Hoffman, to meet with Suzi and the family.

During surgery, Jett’s heart did not tolerate the PA banding. For reasons that are not completely clear, the stress the band placed on the heart caused it to develop an arrhythmia that stopped his heart. He was saved by being placed on extracorporeal membrane oxygenation (ECMO), a treatment that uses a pump to circulate blood through an artificial lung back into the bloodstream. This system provided heart-lung bypass support outside of Jett’s body.

Jett’s heart recovered after the surgery, but his heart failure persisted, making his heart too weak for corrective surgery. The team decided to pursue heart transplantation, and Jett was placed on the transplant wait list. Jett was only three months old. His family waited for five weeks.
Donor Heart is Identified
A week after Jett’s second cardiac arrest, Dr. Sharma called Suzi. “Jett was O+ blood type, but the blood type of the donor was A+ so they were an ABO-incompatible match, which I told her could come with some complications. But, because Jett was less than a year old, his immune system hadn’t fully developed. That could work in our favor in helping suppress his immune system enough so that it would accept the donor heart,” explained Sharma.

As few as 500-600 pediatric heart transplantation procedures are performed worldwide each year, limited by the number of heart transplants in infants is the shortage of suitable donor organs. Infants often present in poor clinical condition, and waiting list mortality is higher than in adults, with instances of between 23% and 50% reported in some studies.

Transplant Surgery is a Go
Although the entire process was lengthy, the heart was implanted in less than one hour. It was the first ABO-incompatible heart transplant in UNC’s history. Performing heart transplants requires an expert team of doctors across multiple disciplines, but performing an ABO-incompatible transplant requires another level of care due to the complexities of the case.

“Dr. Sharma greeted me first,” Suzi remembers. “He opened his arms and hugged me right and said, ‘We did it. Your son is doing amazing!’” “I was so relieved,” Suzi said. “I waited by those doors and saw the team turn the corner with Jett, and they were all smiling. I kissed his little hand and fell to my knees and cried, thanking God for saving him.”

Complete Team Approach Creates Success
“Jett and his family became part of our family,” explains Dr. Hoffman. “Transplant is never successful unless it is a complete team approach between the providers and family. When there are strong bonds between providers and family, this leads to the best outcomes possible;”

Jett turned one in September 2019 and has been doing incredible since his discharge. While he still faces some medical challenges, Jett smiles and laughs all day. He is eating regularly, having started on baby foods, and is meeting his growth milestones. Not only did Jett survive; he is learning to thrive.

Incredible Team at UNC Children’s
“The entire team at UNC is incredible,” gushed mom, Suzi. “Everyone from the PICU nurses who are like family to us, to the cardiology team, to all the people who supported us in a million ways during our stay at the Children’s hospital. I wholly recommend UNC Children’s hospital, because it's truly a remarkable place.”
By collaborating with non-profit partners we experience team building and fun, and become part of the conversation — and solution — to address important issues and needs facing our community. Issues such as affordable housing, greater access to healthy food education, mental health support for active duty servicemen and women and supporting schoolchildren. We also supported efforts across the Triangle to help school children succeed through a hands-on Stuff the Bus effort that our colleagues rallied behind.

All of these are carrying out our mission to improve the health and well-being of our community.

This past year, we partnered with NC Med Assist to host a Mobile Free Pharmacy event in Wake County. More than 30 colleagues, volunteered to sort, set-up and distribute over-the-counter medication to nearly 300 Wake County residents in Southeast Raleigh. Volunteer Pharmacists were available to answer questions about drug interactions and safe disposal of medications. In addition, our Heart and Vascular mobile team was onsite to administer Peripheral Arterial Disease (PAD) screenings, which identified 11 patients for follow-up care.

Our colleagues braved both freezing cold and high temperatures to build two new Habitat for Humanity homes in the Triangle. The first was built in Southeast Raleigh for a deserving family in honor of UNC REX’s 125th anniversary. The second was constructed in Hillsborough in support of Habitat’s continued push for affordable housing in Orange County for homeowners age 55+. More than 400 colleagues participated in the construction, giving more than 2,000 hours of time. These were the fifth and sixth Habitat homes sponsored by UNC Health in the past 10 years.

Keeping a home's pantry stocked is a challenge for many North Carolinians. To address this, we partnered with Food Lion and the Food Bank of Central & Eastern North Carolina to open a food pantry at UNC REX Hospital in Raleigh. Patients who indicate struggles with food access, or who are considered food insecure, are prescribed a visit to the Food Pantry with their hospital discharge paperwork. Each patient receives a three-day supply of healthy food, enough for a family of four, including fresh produce, staple items and healthy snacks. This is one of the first food pantries operated by a community hospital in North Carolina, and one of only a handful across the country.

In the community we enhanced access to healthy food by supporting farmers’ markets. This included hosting a market on our campus in Hillsborough, providing $10 in matching “Market Bucks” for people using their SNAP/EBT card to purchase fruits and vegetables.
School children who may have otherwise gone hungry during the summer months were helped by our colleagues who rolled up their sleeves for the Food Bank of Central & Eastern North Carolina’s Annual Sort-A-Rama event. When school is out, children often miss the two meals they were receiving during school hours. Sort-A-Rama helps fill the summer meal gap providing food throughout the summer. In 2019 over 200,000 meals were packaged and distributed to families.

Providing teachers the tools they need for students to succeed is the goal of Governor Roy Cooper’s annual school supply collection drive. Our colleagues donated thousands of much-needed supplies for students in need. Boxes and backpacks were stuffed full of notebooks, pencils, markers, and healthy snacks which were distributed to school children in greatest need across the Triangle.

Advocating for excellent educational opportunities where all students are given the knowledge and tools necessary to be successful is key to building and sustaining a healthy community. Each Friday, colleagues volunteer their time to read for 30-40 minutes with a struggling 2nd grade reader through the Partners Read Program. This one-on-one support builds a child’s confidence, improves their reading skills and promotes a love of reading. In addition to reading with students, colleagues assembled more than 550 summer literacy kits for Partners Read children.

We also made connections with older students interested in pursuing careers in healthcare through the Health Careers Symposium in Chapel Hill. Hosted by the Office of Volunteer Services, the Symposium enables high school students from across the state to take a deep dive into the field of healthcare during lectures provided by clinical staff, interactive activities and a tour of the UNC Medical Center. This year more than 200 students learned about Neonatal Critical Care.

In support of our active duty military, UNC Health provided a Community Impact Grant to the USO-NC’s Warrior Reset Program. The Warrior Reset Program is a spouse/family mental health, intervention/suicide prevention and resiliency program focused on giving military leaders the hands-on training and tools to better lead and support their troops. The program also benefits participants by reestablishing and improving their own psychological readiness, increased awareness of mental health issues, physical and nutritional health, financial literacy and relationships.

Our Wellness Centers in Chapel Hill and Cary again offered local residents a chance to improve their health through Healthiest You. This free, six-week program is presented by 97.9 FM WCHL and provided participants complimentary use of the UNC Wellness Centers, fitness motivation and health education from the Center’s staff and encouragement from their team’s coaches to stay on track. Participants also received the opportunity to explore the benefits of swimming, walking, rock climbing, and group fitness classes, such as yoga, high intensity interval training, dance kinetics, indoor cycling, aqua fitness, TRX, and more. Prizes are awarded to the top individuals included a free one-year membership to the UNC Wellness Centers.

Efforts such as these demonstrate our commitment to the communities we serve. We continue to explore new and inventive partnerships that extend our reach beyond the walls of our hospitals. Only by working together can we overcome the challenges faced by our communities and help all North Carolinians live healthier lives.
## 2018–19 Volunteer Highlights

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Volunteer Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNC REX</td>
<td>127,017</td>
</tr>
<tr>
<td>UNC Medical Center</td>
<td>98,476</td>
</tr>
<tr>
<td>UNC Johnston Health</td>
<td>35,641</td>
</tr>
<tr>
<td>UNC Lenoir</td>
<td>33,258</td>
</tr>
<tr>
<td>UNC Pardee</td>
<td>30,389</td>
</tr>
<tr>
<td>UNC Nash</td>
<td>21,132</td>
</tr>
<tr>
<td>UNC Caldwell</td>
<td>14,461</td>
</tr>
<tr>
<td>UNC Rockingham</td>
<td>13,538</td>
</tr>
<tr>
<td>UNC Wayne</td>
<td>13,772</td>
</tr>
<tr>
<td>UNC Hospice</td>
<td>3,772</td>
</tr>
</tbody>
</table>

391,456 Total volunteer hours
System Wide
UNC Senior Alliance NGACO Medicare Beneficiary Services in FY 2019
(NGACO = Next Generation Accountable Care Organization)

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGACO Beneficiaries Actively Engaged in ICM</td>
<td>3,450</td>
</tr>
<tr>
<td>NGACO Beneficiaries Receiving Home Health Services</td>
<td>3,200</td>
</tr>
<tr>
<td>Medical Visit Rides Provided to NGACO Beneficiaries</td>
<td>2,692</td>
</tr>
<tr>
<td>NGACO Beneficiaries Receiving Paramedicine Services</td>
<td>128</td>
</tr>
<tr>
<td>NGACO Beneficiaries Using Skilled Nursing Facility (SNF) Waiver</td>
<td>61</td>
</tr>
</tbody>
</table>

UNC Senior Alliance is UNC Health’s statewide, physician-led accountable care organization, transforming healthcare delivery and payment models on behalf of over 3,000 physicians, including community-based physicians along with those owned by and affiliated with UNC Health. With a focus on population health management, UNC Senior Alliance works closely with physician partners to manage quality, cost and access to care for their patients.
FINANCIALS AND STATISTICS

CHAPEL HILL, NORTH CAROLINA
For the years ending June 30, 2019, and June 30, 2018
LETTER OF TRANSMITTAL

February 6, 2020

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), 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 organization structure can be found in the Notes to Financials section of the Annual Report.

The Annual Report is compiled to provide useful information about the entity’s operations and programs and to ensure its accountability to the citizens of North Carolina. While UNC Health 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 explanation 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, Caldwell, Rockingham and UNCPN are audited annually by an independent third-party CPA firm. 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, 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 Communications & Marketing.

Mark F. Miller
Chief Financial Officer & Treasurer
The University of North Carolina Health Care System
UNC HEALTH
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Chapel Hill, NC

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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
Retired Chief Operating Officer, First Citizens Bank
Raleigh, NC
INTRODUCTION

Management’s discussion and analysis provides an overview of the financial position and activities of the University of North Carolina Health Care System (UNC Health Care) for the fiscal years ending June 30, 2019, and June 30, 2018. 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 at Chapel Hill (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 (UNC SOM), REX Healthcare, Inc. (REX), Chatham Hospital, Inc. (Chatham), Caldwell Memorial Hospital (Caldwell), UNC Rockingham Health Care (Rockingham), UNC Physicians Network (UNCPN) and UNC Physicians Network Group Practice (UNCPNGP) have been added to the organization since its inception. Conversely, High Point Regional Health System and Affiliates (High Point) was sold to Wake Forest Baptist Medical Center effective September 2018.

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

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.

On September 27, 2019, the boards of REX and JHSC approved a non-binding Letter of Intent to combine operations via a Joint Operating Agreement. This proposed partnership will expand the organizations’ long history of collaboration to enhance care, improve outcomes and increase access for patients in Johnston and Wake counties. The tentative agreement calls for a long-term commitment to opening new medical facilities in Johnston County, expanding clinical services offered and more. A more formal partnership is expected to be finalized in the coming months.

UNC Health Care owns and/or controls the net assets and financial operations of UNC Hospitals, REX, Chatham, Caldwell, Rockingham, UNCPN and UNCPNGP. In contrast, UNC-CH owns and controls the net assets and financial operations of UNCFP. The UNC Health 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 UNC-CH. The physicians who provide patient care at UNC Hospitals and in the UNC-CH clinics are employees of UNC-CH. Most non-physician employees who assist in providing patient care and the associated administrative, billing and collection services are employees of UNC Health 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, Caldwell, Rockingham, UNCPN and UNCPNGP) are separately audited on an annual basis and have received unqualified opinions for their prior year reports. The financial activities of UNCFP are included in the financial statements and audit report of UNC-CH. LITF is also audited separately on an annual basis. Since an audit on the aggregation of financial information for these entities cannot be
efficiently obtained, we have used the term “pro forma” to describe the financial statements presented.

Pro forma consolidated financial statements for UNC Health Care are presented, which include UNC Hospitals, REX, Chatham, Caldwell, Rockingham, UNCPN, UNCPNPG, LITF and UNCFP. Statement of Net Position, and Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the fiscal years ending June 30, 2019 and 2018 are also included since these financial activities are not separately disclosed elsewhere. High Point was sold to Wake Forest Baptist Medical Center effective September 2018 and has been removed from all financial statements for comparison purposes.

USING THIS FINANCIAL REPORT
UNC Health Care’s financial statements provide information regarding its financial position and results of operations as of June 30, 2019 and 2018 and the years then ended. The Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows comprise the basic financial statements required by the Governmental Accounting Standards Board (GASB).

In accordance with GASB, the pro forma financial statements are presented and follow reporting concepts similar to those used by private-sector health organizations. These statements offer short and long-term financial activities about its operations. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the operations. The Notes to 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 2019 TO 2018
Data for 2019 and 2018 are presented in this report and discussed in the following sections. Discussion in the following sections is pertinent to fiscal year 2019 results and changes relative to ending balances in fiscal year 2018.

Financial Analysis
STATEMENT OF NET POSITION
Total assets increased by $502.2 million or 11.5 percent during fiscal year 2019. Current assets increased $312.2 million due largely to the increase in cash that resulted from the sale of High Point. Noncurrent assets increased $190 million due largely to pay down of long term debt.

Deferred outflows of resources increased $55.4 million from adjustments related to Governmental Accounting Standards Board (GASB) No. 68 and Statement No. 75 as it relates to the State of North Carolina Teacher’s and State Employee’s Retirement System Plan and other postemployment benefits.

Total liabilities increased $96.4 million from June 30, 2018. Current liabilities increased $46.4 million and were driven by accounts payable and accrued salaries and benefits due to the timing of the associated accruals. The largest change in Noncurrent Liabilities was related to the pay down of long term debt.

Deferred inflows of resources increased $109.8 million 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 $544.3 million year over year and was driven by strong 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 $270.6 million (6.4% operating margin) in fiscal year 2019 which is attributed to net revenue growth combined with a collaborative approach to managing expenses. Aggressive cost containment efforts continued in nongrowth areas. In order to remain financially strong, to reinvest in new facilities, and to retain the most highly trained workforce, UNC Health Care's ongoing goal is to average an annual operating margin of at least 4 percent.

Nonoperating gains of $99.3 million were driven by positive investment returns resulting in an increase in net assets of $369.9 million, an 8.8 percent margin prior to taking Other Changes in Net Assets and Transfers into account. The $170.6 million in transfers is due primarily from the sale of High Point.

Discussion of Capital Asset and Long-Term Debt Activity

Capital investment remained strong in fiscal year 2019 with the most notable transactions being expenditures related to the construction of a new surgical tower at UNC Hospitals which 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 UNC Hospitals' campus. REX also began construction of a new Cancer Center on Blue Ridge Road in Raleigh, directly across the street from the main hospital campus. The four story, 145,000 square foot facility will provide the latest cancer treatment and services for an expanding population of patients from across Eastern North Carolina. REX also began construction on a 50-bed community hospital at its campus in Holly Springs. The hospital will serve the medical needs of the fast growing region of southwest Wake County and beyond with emergency care, labor and delivery, surgery and more. The facility is expected to open in 2021. Other notable investments include the completion of the master facility plan at Caldwell during fiscal year 2019 which includes significant upgrades to and the enlargement of the surgical facilities. In the spring of 2019, construction began on a new 27 inpatient bed facility and clinic on the main campus of Caldwell. This facility will serve people in the community living with mental health conditions and provide a holistic program of evidence based psychiatric treatment and team based medical care and education.

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, 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.

On September 16, 2019, the Board of Directors of UNC Health Care approved a resolution for the issuance of UNC Hospitals revenue bonds to finance the final phase of construction of the new surgical pavilion to replace operating suites and support facilities. The University of North Carolina Board Of Governors ratified this bond issue at its September 20, 2019 meeting. UNC Hospitals intends to borrow up to $150,000,000 through the financing.

The Board of Directors of UNC Health Care and REX also approved the issuance of North Carolina Medical Care Commission Health Care Facilities Revenue Bonds to finance the construction of two projects, a new hospital and associated support facilities in Holly Springs, North Carolina and a new outpatient cancer center and associated parking to be located on the main campus in Raleigh, North Carolina. Additional proceeds will be used to pay the costs of issuance and interest accruing during the construction period. This issuance is expected to be up to $200,000,000.

S&P Global Ratings (S&P) and Moody’s Investors Service (Moody’s) rate UNC Hospitals’ bonds as AA and Aa3, respectively. S&P and Moody’s, rate REX’s bonds as AA- and A2, respectively. All of these ratings have stable outlooks. 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 UNCFP, UNC SOM, 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 promote the health and well-being of the citizens of North Carolina. We are addressing these demands in a number of ways including a continued expansion of access points as well as streamlining operations to maximize efficiencies.

UNC Health Care continues implementation of a health care delivery system that provides the continuum of services now required in health care. This strategy relies on a variety of options for program and service development. UNC Health Care utilizes acquisitions, partnerships, network development, contracts, and other means as opportunities are developed. Guided by a philosophy of collaboration and partnership with other providers of care, UNC Health Care continues to evaluate options of strategic importance to its development. Acquisitions and affiliations include those in areas such as home health, hospice, physician practices and infusion services.

UNC Health Care has a Performance Improvement (“PI”) program in operation that focuses on both enhancing the quality of services provided and containing the cost of those services. The PI program is guided by a Performance Improvement Plan and Strategic Quality Goals that are updated and evaluated on a regular basis. The PI program uses process improvement, guidelines and pathways, and statistical techniques to continually improve both clinical and administrative services. Employee and patient satisfaction measurement assist UNC Health Care in continually monitoring its performance. Patient safety and eliminating preventable harm are major components of the PI program.

“Carolina Care” is UNC Health Care's brand of patient care and service. The goal of Carolina Care is to model consistent behaviors that
enhance the patient experience. UNC Hospitals consistently performs above the 80th percentile with patient satisfaction scores. During the past two years, an initiative to improve patient engagement has resulted in an increase of over 10% in patients using MyChart to access appointments and test results and to communicate with their doctors.

UNC Health Care has made significant investments in population health care to prepare for a value-based reimbursement regulatory environment. UNC Health Alliance, LLC, a subsidiary of UNCPN, is a clinically integrated network designed to enable private practice community physicians to enter into value contracts jointly with UNC Health Care and third party payors, with the goal of increasing quality and better managing the cost of care. UNC Senior Alliance, LLC, is also a subsidiary of UNCPN and has entered into an agreement with the Centers for Medicare and Medicaid Services as an Accountable Care Organization (ACO) for Medicare recipients effective January 1, 2017. This ACO will involve some of the hospitals in UNC Health Care, employed physicians and participating community physicians in private practice.

UNC Health Care management is committed to proper expense management while maintaining high quality patient care, innovation, and very satisfied patients. Our teams continue to focus on our Commitment to Caring patient experience which has proven to be a differentiator in care delivered by UNC Health Care for many years.

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 implement these changes through a health system-wide planning and implementation process.
## Pro Forma Statement of Net Position

For the Years Ended June 30, 2019 and June 30, 2018

<table>
<thead>
<tr>
<th><strong>Current Assets</strong></th>
<th>2019*</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Investments</td>
<td>$787,382,000</td>
<td>$530,226,000</td>
</tr>
<tr>
<td>Patient Accounts Receivable Net</td>
<td>438,607,000</td>
<td>428,035,000</td>
</tr>
<tr>
<td>Estimated Third Party Settlements</td>
<td>47,608,000</td>
<td>46,715,000</td>
</tr>
<tr>
<td>Other Assets Whose Use is Limited or Restricted</td>
<td>212,768,000</td>
<td>158,551,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>80,037,000</td>
<td>107,804,000</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>29,632,000</td>
<td>12,439,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$1,596,034,000</td>
<td>$1,283,770,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Noncurrent Assets</strong></th>
<th>2019*</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments and Assets Whose Use is Limited or Restricted</td>
<td>1,529,454,000</td>
<td>1,385,180,000</td>
</tr>
<tr>
<td>Other</td>
<td>184,410,000</td>
<td>208,604,000</td>
</tr>
<tr>
<td>Property Plant and Equipment, Net</td>
<td>1,551,896,000</td>
<td>1,481,994,000</td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td>3,265,760,000</td>
<td>3,075,778,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>4,861,794,000</td>
<td>4,359,548,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Deferred Outflows of Resources</strong></th>
<th>2019*</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets and Deferred Outflows</strong></td>
<td>$5,156,772,000</td>
<td>$4,599,167,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Current Liabilities</strong></th>
<th>2019*</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts and Other Payables</td>
<td>308,442,000</td>
<td>257,615,000</td>
</tr>
<tr>
<td>Accrued Salaries and Benefits</td>
<td>244,938,000</td>
<td>182,364,000</td>
</tr>
<tr>
<td>Current Portion Long Term Debt</td>
<td>32,781,000</td>
<td>29,028,000</td>
</tr>
<tr>
<td>Estimated Third-Party Settlements</td>
<td>112,799,000</td>
<td>145,748,000</td>
</tr>
<tr>
<td>Other</td>
<td>101,498,000</td>
<td>139,269,000</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>800,458,000</td>
<td>754,024,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Noncurrent Liabilities</strong></th>
<th>2019*</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncurrent Portion of Long Term Liabilities</td>
<td>2,122,578,000</td>
<td>2,255,013,000</td>
</tr>
<tr>
<td>Estimated Third Party Settlements</td>
<td>72,206,000</td>
<td>64,768,000</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>95,856,000</td>
<td>113,721,000</td>
</tr>
<tr>
<td><strong>Total Noncurrent Liabilities</strong></td>
<td>2,290,640,000</td>
<td>2,433,502,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>3,091,098,000</td>
<td>3,187,526,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Deferred Inflows of Resources</strong></th>
<th>2019*</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET POSITION</strong></td>
<td>$1,471,429,000</td>
<td>$927,177,000</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td>$5,156,772,000</td>
<td>$4,599,167,000</td>
</tr>
</tbody>
</table>

* Includes LITF (Liability Insurance Trust Fund) and excludes High Point to facilitate comparability.

** Restated to reflect the inclusion of LITF and the exclusion of High Point.
# Pro Forma Statement of Revenues, Expenses and Changes in Net Position

*For the Years Ended June 30, 2019 and June 30, 2018*

<table>
<thead>
<tr>
<th></th>
<th>2019*</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Patient Service Revenue</td>
<td>$3,992,753,000</td>
<td>$3,661,581,000</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>214,483,000</td>
<td>249,488,000</td>
</tr>
<tr>
<td><strong>Net Operating Revenue</strong></td>
<td>$4,207,236,000</td>
<td>$3,911,069,000</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>2,329,960,000</td>
<td>2,215,030,000</td>
</tr>
<tr>
<td>Medical and Surgical Supplies</td>
<td>870,449,000</td>
<td>773,871,000</td>
</tr>
<tr>
<td>Contract Services</td>
<td>362,207,000</td>
<td>380,487,000</td>
</tr>
<tr>
<td>Other Supplies and Services</td>
<td>207,122,000</td>
<td>211,037,000</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>145,738,000</td>
<td>145,521,000</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>21,147,000</td>
<td>22,620,000</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$3,936,623,000</td>
<td>$3,748,566,000</td>
</tr>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td>$270,613,000</td>
<td>$162,503,000</td>
</tr>
<tr>
<td><strong>Nonoperating Revenues (Expenses)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Income (Loss)</td>
<td>114,538,000</td>
<td>123,237,000</td>
</tr>
<tr>
<td>Net Other Nonoperating Revenues (Expenses)</td>
<td>(15,260,000)</td>
<td>1,518,000</td>
</tr>
<tr>
<td><strong>Net Nonoperating Revenues (Expenses)</strong></td>
<td>$99,278,000</td>
<td>$124,755,000</td>
</tr>
<tr>
<td><strong>Income Before Other Expenses</strong></td>
<td>$369,891,000</td>
<td>$287,258,000</td>
</tr>
<tr>
<td>Other Changes in Net Assets</td>
<td>3,761,000</td>
<td>7,062,000</td>
</tr>
<tr>
<td>Transfers</td>
<td>170,600,000</td>
<td>(29,248,000)</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>$544,252,000</td>
<td>$265,072,000</td>
</tr>
</tbody>
</table>

*Includes LITF (Liability Insurance Trust Fund) and excludes High Point to facilitate comparability.

**Restated to reflect the inclusion of LITF and the exclusion of High Point.
## PRO FORMA STATEMENT OF CASH FLOWS

*For the Years Ended June 30, 2019 and June 30, 2018*

<table>
<thead>
<tr>
<th>Cash Flows From Operating Activities</th>
<th>JUNE 2019*</th>
<th>JUNE 2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Received from Patients and Third Parties</td>
<td>$3,955,778,000</td>
<td>$3,586,666,000</td>
</tr>
<tr>
<td>Cash Payments to Employees for Services</td>
<td>(2,230,829,000)</td>
<td>(1,827,185,000)</td>
</tr>
<tr>
<td>Cash Payments to Suppliers for Goods and Services</td>
<td>(1,374,836,000)</td>
<td>(1,529,292,000)</td>
</tr>
<tr>
<td>Cash Payments to Medical Malpractice</td>
<td>(7,853,000)</td>
<td>(15,403,000)</td>
</tr>
<tr>
<td>Other Cash Receipts</td>
<td>224,789,000</td>
<td>245,709,000</td>
</tr>
<tr>
<td><strong>Net Cash Provided (Used) by Operating Activities</strong></td>
<td>567,049,000</td>
<td>460,495,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows From Noncapital Financing Activities</th>
<th>JUNE 2019*</th>
<th>JUNE 2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer to/from HCS</td>
<td>(192,120,000)</td>
<td>(29,822,000)</td>
</tr>
<tr>
<td><strong>Net cash Provided (Used) by Noncapital Financing Activities</strong></td>
<td>(192,120,000)</td>
<td>(29,822,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows From Capital Financing and Related Financing Activities</th>
<th>JUNE 2019*</th>
<th>JUNE 2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds From Issuance of Long Term Debt</td>
<td></td>
<td>17,292,000</td>
</tr>
<tr>
<td>Interest Paid on Capital Debt</td>
<td>(21,147,000)</td>
<td>(20,824,000)</td>
</tr>
<tr>
<td>Principal Paid on Revenue Bond Maturity</td>
<td>(18,940,000)</td>
<td>(82,536,000)</td>
</tr>
<tr>
<td>Principal Paid on Capital Lease and Notes Payable</td>
<td>(26,676,000)</td>
<td></td>
</tr>
<tr>
<td>Capital Grants</td>
<td></td>
<td>1,769,000</td>
</tr>
<tr>
<td>Acquisition and Construction of Capital Assets</td>
<td>(215,640,000)</td>
<td>(188,148,000)</td>
</tr>
<tr>
<td><strong>Net Cash Provided (Used) by Capital and Related Financing Activities</strong></td>
<td>(282,403,000)</td>
<td>(272,447,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows From Investing Activities</th>
<th>JUNE 2019*</th>
<th>JUNE 2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>25,364,000</td>
<td>21,155,000</td>
</tr>
<tr>
<td>Investment Activity</td>
<td>(9,117,000)</td>
<td>(38,885,000)</td>
</tr>
<tr>
<td>Net Affiliated Activity</td>
<td>148,383,000</td>
<td>(73,058,000)</td>
</tr>
<tr>
<td><strong>Net Cash Provided (Used) from Investing Activities</strong></td>
<td>164,630,000</td>
<td>(90,788,000)</td>
</tr>
</tbody>
</table>

| CASH PROVIDED (USED) | $257,156,000 | $67,438,000 |
| BEGINNING CASH BALANCE | 530,226,000 | 462,788,000 |
| ENDING CASH BALANCE | $787,382,000 | $530,226,000 |

* Includes LITF (Liability Insurance Trust Fund) and excludes High Point to facilitate comparability.
** Restated to reflect the inclusion of LITF and the exclusion of High Point.
## PRO FORMA STATEMENT OF NET POSITION

*For the Years Ended June 30, 2019 and June 30, 2018*

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>RESTATED 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$109,979,000</td>
<td>$100,684,000</td>
</tr>
<tr>
<td>Patient Accounts Receivable Net</td>
<td>39,753,000</td>
<td>39,164,000</td>
</tr>
<tr>
<td>Estimated Third Party Settlements</td>
<td>37,825,000</td>
<td>35,307,000</td>
</tr>
<tr>
<td>Other Receivables</td>
<td>76,985,000</td>
<td>27,679,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>290,000</td>
<td>394,000</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>-</td>
<td>7,228,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>264,832,000</strong></td>
<td><strong>210,456,000</strong></td>
</tr>
<tr>
<td><strong>NONCURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>78,761,151</td>
<td>80,607,000</td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td><strong>78,761,000</strong></td>
<td><strong>80,607,000</strong></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>343,593,000</strong></td>
<td><strong>291,063,000</strong></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and Other Payables</td>
<td>55,861,000</td>
<td>50,782,000</td>
</tr>
<tr>
<td>Accrued Salaries and Benefits</td>
<td>44,213,000</td>
<td>39,830,000</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>100,074,000</strong></td>
<td><strong>90,612,000</strong></td>
</tr>
<tr>
<td><strong>NONCURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>47,487,000</td>
<td>38,869,000</td>
</tr>
<tr>
<td><strong>Total Noncurrent Liabilities</strong></td>
<td><strong>47,487,000</strong></td>
<td><strong>38,869,000</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>147,561,000</strong></td>
<td><strong>129,481,000</strong></td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td><strong>196,032,000</strong></td>
<td><strong>161,582,000</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND NET POSITION</strong></td>
<td><strong>$343,593,000</strong></td>
<td><strong>$291,063,000</strong></td>
</tr>
</tbody>
</table>
# Pro Forma Statement of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2019 and June 30, 2018

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>RESTATED 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Patient Service Revenue</td>
<td>$484,831,000</td>
<td>$451,826,000</td>
</tr>
<tr>
<td>Other Operating Revenue</td>
<td>127,969,000</td>
<td>121,812,000</td>
</tr>
<tr>
<td><strong>Net Operating Revenues</strong></td>
<td><strong>612,800,000</strong></td>
<td><strong>573,638,000</strong></td>
</tr>
</tbody>
</table>

| **Operating Expenses** |               |               |
| Salaries and Benefits | 500,033,000   | 474,437,000   |
| Medical and Surgical Supplies | 32,323,000   | 29,217,000   |
| Contract Services       | 77,532,000    | 74,392,000    |
| Other Supplies and Services | 17,098,000   | 23,961,000   |
| **Total Operating Expenses** | **626,986,000** | **602,007,000** |

**Net Operating Income (Loss)**

|                      | (14,186,000) | (28,369,000) |

| **Nonoperating Revenues (Expenses)** |               |               |
| Investment Income (Loss)             | 3,769,000     | 4,738,000     |
| Net Other Nonoperating Revenues (Expenses) | (424,000)   | 49,000        |
| **Net Nonoperating Revenues (Expenses)** | **3,345,000** | **4,787,000** |

| **Income Before Other Expenses** |               |               |
| Income Before Other Expenses       | (10,841,000) | (23,582,000)   |
| Transfers                           | 45,291,000   | 54,702,000   |

**Increase in Net Position**

|                      | $34,450,000 | $31,120,000 |

The University of North Carolina Health System
2019 Annual Report

The University of North Carolina Health System
## Pro Forma Statement of Cash Flows

For the Years Ended June 30, 2019 and June 30, 2018

<table>
<thead>
<tr>
<th>Cash Flows From Operating Activities</th>
<th>June 2019 Actual</th>
<th>June 2018 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Received from Patients and Third Parties</td>
<td>$481,724,000</td>
<td>$455,952,000</td>
</tr>
<tr>
<td>Cash Payments to Employees for Services</td>
<td>(477,348,000)</td>
<td>(458,461,000)</td>
</tr>
<tr>
<td>Cash Payments to Suppliers for Goods and Services</td>
<td>(127,337,000)</td>
<td>(120,507,000)</td>
</tr>
<tr>
<td>Cash Payments to Medical Malpractice</td>
<td>(1,218,000)</td>
<td>(4,771,000)</td>
</tr>
<tr>
<td>Other Cash Receipts</td>
<td>76,897,000</td>
<td>116,858,000</td>
</tr>
<tr>
<td><strong>Net Cash Provided (Used) By Operating Activities</strong></td>
<td>(47,282,000)</td>
<td>(10,929,000)</td>
</tr>
</tbody>
</table>

| Cash Flows From Capital Financing and Related Financing Activities | | |
|---------------------------------------------------------------|------------------|
| UNC Health Care Grants | 52,833,000 | 54,750,000 |
| **Net Cash Provided (Used) by Capital and Related Financing Activities** | 52,833,000 | 54,750,000 |

| Cash Flows From Investing Activities | | |
|--------------------------------------|------------------|
| Investment Activity | 3,744,000 | 6,398,000 |
| Purchase and Sale of Investments, Net of Fees | (27,061,000) | |
| **Net Cash Provided (Used) from Investing Activities** | 3,744,000 | (20,663,000) |

<table>
<thead>
<tr>
<th>Cash Provided (Used)</th>
<th>9,295,000</th>
<th>23,158,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Cash Balance</td>
<td>100,684,000</td>
<td>77,526,000</td>
</tr>
<tr>
<td>Ending Cash Balance</td>
<td>$109,979,000</td>
<td>$100,684,000</td>
</tr>
<tr>
<td>PATIENT SERVICE STATISTICS</td>
<td>2019*</td>
<td>2018*</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Discharges</td>
<td>86,891</td>
<td>81,948</td>
</tr>
<tr>
<td>Patient Days</td>
<td>574,489</td>
<td>516,442</td>
</tr>
<tr>
<td>Observation Day Equivalents</td>
<td>31,035</td>
<td>27,718</td>
</tr>
<tr>
<td>Deliveries</td>
<td>9,586</td>
<td>9,256</td>
</tr>
<tr>
<td>Adjusted Discharges</td>
<td>191,133</td>
<td>172,014</td>
</tr>
<tr>
<td>Adjusted Patient Days</td>
<td>1,036,861</td>
<td>915,108</td>
</tr>
<tr>
<td>CMI Adjusted Discharges</td>
<td>338,120</td>
<td>316,716</td>
</tr>
<tr>
<td>CMI Adjusted Patient Days</td>
<td>1,932,493</td>
<td>1,715,614</td>
</tr>
<tr>
<td>ED Visits</td>
<td>229,709</td>
<td>195,294</td>
</tr>
<tr>
<td>wRVUs</td>
<td>8,505,689</td>
<td>7,672,538</td>
</tr>
<tr>
<td>Surgical Cases</td>
<td>63,695</td>
<td>61,755</td>
</tr>
<tr>
<td>Cath Lab</td>
<td>16,353</td>
<td>15,167</td>
</tr>
<tr>
<td>EP Lab</td>
<td>16,336</td>
<td>13,377</td>
</tr>
<tr>
<td>Structural Heart</td>
<td>540</td>
<td>435</td>
</tr>
<tr>
<td>Chemotherapy</td>
<td>88,672</td>
<td>90,111</td>
</tr>
<tr>
<td>Radiation Therapy</td>
<td>66,494</td>
<td>65,409</td>
</tr>
<tr>
<td>Imaging</td>
<td>744,217</td>
<td>692,854</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>29,146</td>
<td>27,217</td>
</tr>
<tr>
<td>Transplants</td>
<td>400</td>
<td>413</td>
</tr>
</tbody>
</table>

*Excludes High Point for comparability.
NOTE 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 affiliated enterprise of The University of North Carolina system with its stated purpose to provide patient care, facilitate the education of physicians and other health care providers, conduct research collaboratively with the health sciences schools of the University of North Carolina at Chapel Hill (UNC-CH) and render other services designed to promote the health and well-being of the citizens of North Carolina.

The original legislation included the University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) and the clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill (UNC SOM) including University of North Carolina Physicians and Associates (UNC P&A). As of January 1, 2015, 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), Caldwell Memorial Hospital (Caldwell), UNC Physicians Network (UNCPN), UNC Physicians Network and Group Practice (UNCPNGP) have been added to the organization since its inception. More recently, UNC Rockingham Health Care (Rockingham), a non-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. Conversely, High Point Regional Health System and Affiliates (High Point) was sold to Wake Forest Baptist Medical Center effective September 2018.

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

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 UNC 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 UNC Health Care’s 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 (UNCFP) – UNCFP is the clinical service component of UNC SOM. At the heart of UNCFP are the approximately 1,059 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 CH campus, there is a growing range of services provided at clinics in the community. There are 22 clinical departments and 4 administrative units that collectively form UNCFP.

CLINICAL DEPARTMENTS:

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

ADMINISTRATIVE UNITS:

- Administrative Office
- Ambulatory Administration
- Funds Flow Admin
- Shared Services (Home Office)

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.

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

REX Healthcare, Inc. (REX) – REX is a North Carolina not-for-profit corporation organized to provide support for a wide range of services offered through UNC Health Care and its affiliates to the residents of the Triangle area of North Carolina.

UNC Health Care is the sole member of REX. REX is the sole member and parent corporation of Rex Hospital, Inc. (Rex Hospital). Both REX and Rex Hospital are separate, non-profit 501(c)(3) corporations, organized under the laws of North Carolina and each is governed by a separate board of directors. As of May 30, 2019 REX no longer has a 13-member Board of Trustees. As of the that date, REX has a Board of Directors consisting of three members in order to better serve the interests of REX and provide greater flexibility and convenience in terms of administration. UNC Health Care appoints all three seats on REX’s Board of Directors. Rex Hospital is governed by a Board of Directors consisting of not less than nine or more than thirteen members. The president of Rex Hospital serves as an ex-officio voting member of the Rex Hospital Board of Directors. All of the other members of the Rex Hospital Board of Directors are elected by UNC Health Care. UNC Health Care reviews and approves REX’s, including Rex Hospital’s, annual operating and capital budgets.
Health care operations are managed by Rex Hospital. REX, the parent corporation, acts as a supporting organization for UNC Health Care and certain affiliates. REX may perform management and administrative functions and overall planning and coordination, as well as provide shared services, for the benefit of UNC Health Care. REX is a component unit of UNC Health Care and its financial data is incorporated into the comprehensive annual financial report of UNC Health Care.

**Chatham Hospital, Inc. (Chatham)** – Chatham is a private, nonprofit corporation that owns and operates a critical access facility located in Siler City, North Carolina. UNC Health Care is the sole member of Chatham. The Chatham Board consists of 7 to 15 members including the Chatham President and Chief of Staff serving as ex-officio trustees while residents of Chatham’s service area are required to hold one third of the trustee positions. UNC Health Care’s Board reviews and approves all board nominations as well as Chatham’s 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 UNC Health Care to face the challenging health care environment. Acting through its network of 96 practices, UNCPN provides health care to patients from several locations throughout the Triangle area (Raleigh, Durham and Chapel Hill) and surrounding counties in North Carolina.

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

**Caldwell Memorial Hospital (Caldwell)** – Caldwell is a private, not-for-profit community hospital in Lenoir, North Carolina and is an acute care hospital with a provider network of approximately 60 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 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 provides 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 UNC Health Care’s 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, UNCPN-GP, Rockingham, Caldwell and LITF issue their own audited financial statements while UNCFP is included as a part of the audited statements for 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 assets, liabilities and net assets of UNCFP, which are included in the audited financial statements for 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, UNCPN-GP, Rockingham, Caldwell and LITF 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, its monthly financial statements 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.

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

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

**H. PATIENT ACCOUNTS RECEIVABLE, NET** – Net patient accounts receivable consist of unbilled (in-house patients, inpatients discharged but not final billed and outpatients not final billed) and billed amounts. Payment of these charges comes primarily from managed care payors, Medicare, Medicaid and, to a lesser extent, the patient. The amounts recorded in the financial statements are net of 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 LITF.

M. PROPERTY, PLANT AND EQUIPMENT – Property, plant and equipment are recorded at cost at date of acquisition or acquisition value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. 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 debt due within one year, and the balance is reflected as noncurrent.

The debt instruments have fixed, variable or synthetically fixed rates with final maturity in fiscal year 2045. The interest rates in effect on June 30, 2019 ranged from 0.91% to 5.00%. When applicable, debt is 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.

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.

Net Position, under generally accepted accounting principles, would be further categorized as the amounts (1) Invested in Capital Assets, (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 under reimbursement agreements with Medicare, Medicaid, certain insurance carriers, health maintenance organizations and preferred provider organizations, which provide for payments that are generally less than established billing rates. The difference between established rates and the estimated amount collectible is recognized as revenue deductions on an accrual basis.

Charity care represents health care services that were provided free of charge or at amounts that are less than the established rates to individuals who meet the criteria of UNC Health Care’s charity care and uninsured policy. For UNC Hospitals and UNCF, 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. Medicare 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 2.5 percent of net patient service revenue. The MSTF funds are at the Dean’s discretion for the support of projects such as program development and recruitment incentives for new department chairs.
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:

<table>
<thead>
<tr>
<th></th>
<th>FY2019</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Improvements</td>
<td>$135,222,468</td>
<td>$132,921,243</td>
</tr>
<tr>
<td>Buildings and Improvements</td>
<td>1,578,101,233</td>
<td>1,514,870,653</td>
</tr>
<tr>
<td>Equipment</td>
<td>1,154,579,741</td>
<td>1,083,400,506</td>
</tr>
<tr>
<td>Computer Software</td>
<td>241,756,662</td>
<td>227,748,146</td>
</tr>
<tr>
<td>Goodwill</td>
<td>11,805,250</td>
<td>7,704,529</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>139,542,672</td>
<td>101,340,357</td>
</tr>
<tr>
<td>Gross PP&amp;E</td>
<td>$3,261,008,026</td>
<td>$3,067,985,434</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(1,709,112,026)</td>
<td>(1,585,991,434)</td>
</tr>
<tr>
<td>Net PP&amp;E</td>
<td>$1,551,896,000</td>
<td>$1,481,994,000</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>TOTAL FY2019</th>
<th>TOTAL FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rex Series 2010A Bonds</td>
<td>$83,205,000</td>
<td>$89,130,000</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>84,400,000</td>
<td>86,400,000</td>
</tr>
<tr>
<td>UNCH Series 2003 Bonds</td>
<td>70,125,000</td>
<td>75,810,000</td>
</tr>
<tr>
<td>UNCH Series 2009 Bonds</td>
<td>17,620,000</td>
<td>20,765,000</td>
</tr>
<tr>
<td>UNCH Series 2010 Bonds</td>
<td>32,845,000</td>
<td>35,030,000</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>FACE VALUE OF BONDS OUTSTANDING</td>
<td>$538,140,000</td>
<td>$557,080,000</td>
</tr>
<tr>
<td>Deferred Costs - Premium on Issuance</td>
<td>2,556,509</td>
<td>2,868,049</td>
</tr>
<tr>
<td>NET VALUE OUTSTANDING</td>
<td>$540,696,509</td>
<td>$559,948,049</td>
</tr>
<tr>
<td>Current Portion of Bonds</td>
<td>19,630,000</td>
<td>18,940,000</td>
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<tr>
<td>Current Portion of Notes</td>
<td>5,923,765</td>
<td>4,448,120</td>
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<tr>
<td>Other Current Debt</td>
<td>415,618</td>
<td>4,486,321</td>
</tr>
<tr>
<td>TOTAL CURRENT BONDS AND NOTES</td>
<td>$25,969,383</td>
<td>$27,874,441</td>
</tr>
<tr>
<td>Noncurrent Portion of Bonds</td>
<td>521,066,509</td>
<td>527,921,351</td>
</tr>
<tr>
<td>Noncurrent Portion of Notes</td>
<td>33,826,261</td>
<td>44,189,854</td>
</tr>
<tr>
<td>Other Noncurrent Debt</td>
<td>986,107</td>
<td>6,000,524</td>
</tr>
<tr>
<td>TOTAL NONCURRENT BONDS AND NOTES</td>
<td>$555,878,876</td>
<td>$578,111,693</td>
</tr>
<tr>
<td>Deferred Costs - Loss on Refunding</td>
<td>(6,533,250)</td>
<td>(7,353,371)</td>
</tr>
<tr>
<td>Hedging Liability</td>
<td>9,608,481</td>
<td>7,919,195</td>
</tr>
<tr>
<td>DEFERRED BOND ACTIVITY</td>
<td>$3,075,231</td>
<td>$565,824</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.
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 UNC Hospitals and eligible faculty of UNC CH may join the Program instead of TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program. Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

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

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

In addition to the employer plans, UNC Health 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.

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 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.

UNC Hospitals and UNCFP participate in LITF. As noted earlier, LITF is a claims-servicing public entity risk pool for professional liability protection. The Fund acts as a servicer of professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid. Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Fund.

Additional disclosures relative to the funding status and obligations of LITF are set forth in the audited financial statements of the Liability Insurance Trust Fund. Copies of this report may be obtained from The University of North Carolina Liability Insurance Trust Fund, 211 Friday Center Drive, Hedrick Building - Room 1007, Chapel Hill, NC, 27517.
NOTE 8 // ESCROW FOR CERTIFIED PUBLIC EXPENDITURES (CPES)

With the help of the North Carolina Hospital Association, UNC Health Care entered into an agreement with other Public Hospitals in North Carolina to receive the benefit of additional Certified Public Expenditures (CPES) (as defined by Federal Regulation 45 CFR 95.13 and 42 CFR 433.51) from public hospitals (as defined in the North Carolina State Plan for Medicaid payments) which decided to assist UNC Health Care in meeting its obligations to fund the remaining Disproportionate Share Hospital (DSH) allotment. DSH payments are special payments for hospitals which serve a disproportionate share of low income patients. By making additional CPES available, the public hospitals risk possible DSH overpayments that would require repayment to state or federal agencies. In order to mitigate the public hospitals’ risk, UNC Health Care established a reserve fund to be held in escrow. The fund will reimburse participating public hospitals for any repayments that should result from this program. As of June 30, 2019, $68,604,711 was held by the 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 UNC CH 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 UNC SOM agreed to finance the Enterprise Fund. The System Fund enables fund transfers among entities of UNC Health Care 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 UNC SOM, 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, and Recruitment Fund each function as subaccounts of the System Fund.

Henderson County Hospital Corporation dba 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 UNC 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 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 signed a management service agreement engaging UNC Health Care to conduct and manage its operations effective April 1, 2014.

Wayne Health Corporation – Wayne 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 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 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 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.

Onslow County Hospital Authority (Onslow) – Onslow is the sole member of Onslow Memorial Hospital, Inc., which operates Onslow Memorial Hospital, a not-for-profit hospital located in Jacksonville, North Carolina. The hospital serves patients primarily from Onslow and neighboring counties. Onslow entered into a management services agreement with UNC Health Care, effective January 1, 2019, to provide certain management services for purposes of managing Onslow Memorial Hospital over an initial term of two (2) years.
NOTE 10 // COMMUNITY BENEFITS

In addition to providing care without charge, or at amounts less than established rates to certain patients identified as qualifying for charity care, UNC Health 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.

NOTE 11 // SUBSEQUENT EVENTS

On September 16, 2019, the Board of Directors of UNC Health Care approved a resolution for the issuance of UNC Hospitals revenue bonds to finance the final phase of construction of a new surgical pavilion to replace operating suites and support facilities. The University of North Carolina Board of Governors ratified this bond issue at its September 20, 2019 meeting. On December 5, 2019, UNC Hospitals finalized the issuance of revenue bonds with a par amount of $149,995,000.

In September 2019, the Boards of REX and UNC Health Care approved the issuance of North Carolina Medical Care Commission Health Care Facilities Revenue Bonds to finance the construction of two projects, a new hospital and associated support facilities in Holly Springs, North Carolina and a new outpatient cancer center and associated parking to be located on the main campus in Raleigh, North Carolina. Subsequent approval has been received by the Local Government Commission and the North Carolina Medical Care Commission to issue the bonds. The bonds are expected to close in February 2020 with a par amount of $199,725,000.

On September 27, 2019, the boards of REX and JHSC approved a non-binding Letter of Intent to combine operations via a Joint Operating Agreement. This proposed partnership will expand the organizations’ long history of collaboration to enhance care, improve outcomes and increase access for patients in Johnston and Wake counties. The tentative agreement calls for a long-term commitment to opening new medical facilities in Johnston County, expanding clinical services offered and more. A more formal partnership is expected to be finalized in the coming months.
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