

# STATE OF NORTH CAROLINA

**UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM FUNDS**

**CHAPEL HILL, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM FUNDS**

**CHAPEL HILL, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

**THOMAS W. ROSS, PRESIDENT**

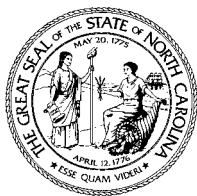
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Directors, University of North Carolina Health Care System

We have completed a financial statement audit of the University of North Carolina Health Care System Funds (System Fund) for the year ended June 30, 2013, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

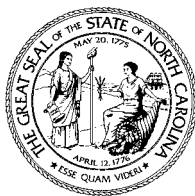
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**Beth A. Wood, CPA**  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
University of North Carolina Health Care System  
Chapel Hill, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina Health Care System Funds (System Fund), a part of the University of North Carolina Health Care System, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System Fund's internal control. Accordingly, we express no such opinion. An audit also

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina Health Care System Funds, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 1, the financial statements present only the University of North Carolina Health Care System Funds (System Fund) and are not intended to present fairly the financial position of the University of North Carolina Health Care System nor the University of North Carolina System, and the results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

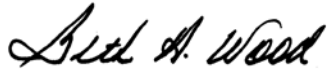
### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2014 on our consideration of the System Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System Fund's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 13, 2014

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## UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM FUNDS MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Introduction

Management's discussion and analysis provides an overview of the financial activities of the University of North Carolina Health Care System (UNC Health Care) Funds (System Fund) for the fiscal year ending June 30, 2013.

UNC Health Care was established November 1, 1998, by *North Carolina General Statute 116-37*. UNC Health Care is governed by a Board of Directors as an affiliated enterprise of the University of North Carolina System. UNC Health Care and UNC Chapel Hill School of Medicine (UNC School of Medicine) are affiliated entities within the University System. The University of North Carolina Faculty Physicians (UNCFP) is the clinical service component of the UNC School of Medicine and provides a full range of care to the patients of UNC Health Care. Rex Healthcare, Inc. (Rex), Chatham Hospital, Inc. (Chatham), and UNC Physicians Network, LLC (UNCPN) are owned and controlled entities within UNC Health Care, an integrated health care provider. High Point Regional Health (High Point) and Caldwell Memorial (Caldwell) were added to UNC Health Care during fiscal year 2013.

The entities listed above collectively perform the operating functions of UNC Health Care and the UNC School of Medicine. The System Fund, conversely, does not perform revenue generating activities. The System Fund functions as a centralized financial clearinghouse for the integrated health care system.

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

### Using the Financial Statements

The Governmental Accounting Standards Board (GASB) requires three basic financial statements: the *Statement of Net Position*, the *Statement of Revenues, Expenses, and Changes in Net Position*, and the *Statement of Cash Flows*.

The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the operations. The *Notes to the Financial Statements* provide information relative to the significant accounting principles applied in the financial statements and further detail concerning the organization and its operations. These disclosures provide

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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information to better understand details, risk and uncertainty associated with the amounts reported and are considered an integral part of the financial statements.

The *Statement of Net Position* provides information relative to the assets, liabilities and net position as of the last day of the fiscal year. 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. Net position on this statement is categorized as investment in capital assets and unrestricted. Management estimates are necessary in some instances to determine current or noncurrent categorization. Overall, the *Statement of Net Position* provides information relative to the financial strength of the System Fund and its ability to meet current and long-term obligations.

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the results of the System Fund's operations, nonoperating activities, and other activities affecting net position, which occurred during the fiscal year. Nonoperating activities include interest income. Other activities include transfers in and transfers out from/to UNC Health Care entities. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the management of the organization's operations and its ability to maintain its financial stability.

The *Statement of Cash Flows* provides information relative to the System Fund's sources and uses of cash for noncapital financing activities and investing activities. The Statement provides a reconciliation of cash balance changes throughout the year and is representative of the activity reported on the *Statement of Revenues, Expenses, and Changes in Net Position* as adjusted for changes in the beginning and ending balances of noncash accounts on the *Statement of Net Position*.

### **Comparison of Two-Year Data for 2012 to 2013**

Audited data for 2013 and 2012 are presented in Table 1 of this report and discussed in the following sections. Discussion in the following sections is pertinent to fiscal year 2013 results and changes relative to ending balances in fiscal year 2012.

### **Analysis of Overall Financial Position and Results of Operations**

#### **Statement of Net Position**

The sub-accounts of the System Fund collectively hold assets of \$129.1 million. Total assets increased by 7.1% over the prior year. Total liabilities increased by 3.8%. Pre-payments of UNC Hospitals' fiscal year 2014 commitments increased by \$11.9 million over last year and account for 30.9% of the System Fund assets and 48.6% of the System Fund liabilities as of June 30, 2013. Assets associated with the Enterprise Fund, the Patient Safety Fund, and the Shared Administrative Services Fund increased due to higher assessments in fiscal year 2013. Total assets increased overall, due to noncurrent assets increasing because of escrow for Certified Public Expenditures (CPE) from other hospitals in the State. Additionally, in order to support the future financial development of the Clinical Departments, the Enterprise Fund

has made investments to expand the departments' clinical facilities. The new facility at Carolina Crossing in Chapel Hill was used to expand the clinics for Ophthalmology and Ear, Nose, and Throat. The Enterprise Fund made contributions toward the upfit costs of \$1,438,864. The clinic's upfit costs continued into fiscal year 2014.

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

Transfers in and out of the System Fund increased during fiscal year 2013, compared to fiscal year 2012. This was largely due to support of two new entities – Highpoint Regional and Caldwell Memorial. Transfers in to the System Fund ultimately exceeded transfers out of the System Fund by \$6.9 million. Thus, Net Position increased by \$6.9 million including interest income.

**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. Because the System Fund provides no revenue-generating services, it is entirely dependent upon the financial wherewithal of the entities within UNC Health Care. In recent years, the largest entities of UNC Health Care have achieved strong operating performance. Their performance has enabled the investments made through the System Fund in support of the clinical, education, and research programs of UNCFP and the UNC School of Medicine. These investments have, in turn, yielded positive results as measured by growth in needed services, expansion of the medical school class and increased research funding. Further, UNC Health Care has been able to support the missions of its newest entities, High Point Regional and Caldwell Memorial.

The conditions impacting UNC Health Care's operating entities constitute the greatest risk to the System Fund. National health policy changes are altering the financial outlook for health systems. Adapting to new models requires greater coordination of patient care, major investments in information technology, and an increased focus on wellness. 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 has begun planning for these changes through a health system-wide planning and implementation process. The acquisitions of High Point Regional and Caldwell Memorial, and the enterprise-wide Epic@UNC implementation are recent examples of activities which will create transformative change at UNC Health Care.

Payments for professional services continue to pressure the performance of physician providers. The pressure is strongest in academic medicine. Funding from major sources, patient care revenues for clinical services, research revenues for research discovery, and education revenue from State appropriated funds are each under pressure and inadequate to fully cover their costs. At the same time, improvements to the Medicaid payment mechanism are helping reduce what have been large and increasing losses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The private health insurance market has driven important changes in patient coverage and in how/when patients seek care. As premiums have increased in a soft employment market, some employers have dropped employer-provided insurance. For others, the premiums have driven plan design decisions that have shifted cost to employees or created disincentives for seeking care, particularly for elective procedures. UNC Health Care relies heavily on privately insured patients as indigent and government payers generally do not cover the full cost of care. As this trend continues, UNC Health Care will face increasing pressure to reduce expenses.

Community-based practices face challenges attributable to similar health care financings and broader economic trends. As such, many community physicians have sought employment within health systems. UNC Health Care formed UNC Physicians Network to facilitate employment of community primary care providers. As a start-up, UNC Physicians Network has required cash infusions to develop central administrative infrastructure and deploy electronic medical records in the physician offices. Additionally, primary care practices historically situated within Rex Hospital, Inc. or UNC Hospitals moved into UNC Physicians Network. The losses from these practices are now incurred by UNC Physicians Network. These capital and operating investments will continue in future years.

Physicians newly employed by UNC Physicians Network also have short-term negative cash flow. Acquiring physical assets at fair market value constitute a relatively small investment. More importantly, UNC Physicians Network incurs operating expenses as providers and their support staffs begin employment with UNC Physicians Network. Conversely, payments for providing patient care typically lag by several months.

Pressure on the State's budget has resulted in sharp cuts to UNC Health Care and the UNC School of Medicine. Since 2009, State appropriated funds have declined by 100%, \$42 million in absolute terms. While State funding covers a relatively small fraction of total operating expenses, these funds have been important contributors to defraying the cost of providing indigent care and education for our medical students, residents, and sub-specialty residents. Sequestration has already had a material effect on UNC Health Care's entities. Similarly, additional federal budget cuts may have a significant impact on clinical revenues through cuts in Medicare payments or research revenue as a result of reductions in the National Institutes of Health (NIH) budget.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

University of North Carolina Health Care System Funds  
Summary of Condensed Financial Statements Totals  
For the Fiscal Years Ended June 30, 2013 and 2012

Table 1

	FY13	FY12	Change	% Change
<b>STATEMENT OF NET POSITION</b>				
Current Assets	\$ 112,853,240	\$ 109,580,867	\$ 3,272,373	3.0%
Capital Assets	1,438,864	0	1,438,864	100.0%
Noncurrent Assets	14,844,132	9,663,073	5,181,059	53.6%
<b>TOTAL ASSETS</b>	<b>129,136,236</b>	<b>119,243,940</b>	<b>8,453,432</b>	<b>7.1%</b>
Current Liabilities	67,159,388	69,324,706	(2,165,318)	(3.1%)
Noncurrent Liabilities	14,844,132	9,663,073	5,181,059	53.6%
<b>TOTAL LIABILITIES</b>	<b>82,003,520</b>	<b>78,987,779</b>	<b>3,015,741</b>	<b>3.8%</b>
Investment in Capital Assets	1,438,864	0	1,438,864	100.0%
Unrestricted Net Position	45,693,852	40,256,161	5,437,691	13.5%
<b>TOTAL NET POSITION</b>	<b>\$ 47,132,716</b>	<b>\$ 40,256,161</b>	<b>\$ 6,876,555</b>	<b>17.1%</b>
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>				
Nonoperating Revenues	\$ 246,674	\$ 353,377	\$ (106,703)	(30.2%)
Transfers In	275,784,961	204,645,345	71,139,616	34.8%
Transfers Out	269,155,080	182,874,059	86,281,021	47.2%
<b>INCREASE IN NET POSITION</b>	<b>6,876,555</b>	<b>22,124,663</b>	<b>(15,248,108)</b>	<b>(68.9%)</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>40,256,161</b>	<b>18,131,498</b>	<b>22,124,663</b>	<b>122.0%</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 47,132,716</b>	<b>\$ 40,256,161</b>	<b>\$ 6,876,555</b>	<b>17.1%</b>

***University of North Carolina Health Care System Funds***  
***Statement of Net Position***  
***June 30, 2013***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents:

Undesignated Funds (Note 2)	\$ 904,493
Designated for UNC Faculty Physicians Program Support (Note 2)	42,649,663
Designated for UNC Faculty Physicians Mission Support (Note 2)	4,673,549
Designated for Shared Administrative Services (Note 2)	352,759
Designated for UNC Faculty Recruitment (Note 2)	7,000,000
Designated for Graduate Medical Education Support (Note 2)	2,000,000
Designated for UNCPN Program Support (Note 2)	10,271,205

Cash and Cash Equivalents Total	67,851,669
Due from UNC Health Care Entities (Note 3)	45,001,571

Total Current Assets	112,853,240
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Noncurrent Assets:

Property, Plant and Equipment	1,438,864
Assets Whose Use is Limited or Restricted (Note 7)	14,844,132

Total Assets	129,136,236
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**LIABILITIES**

Current Liabilities:

Due to UNC Health Care Entities (Note 4)	18,261,673
Due to School of Medicine	9,026,510
Assessments Paid in Advance	39,871,205

Total Current Liabilities	67,159,388
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Noncurrent Liabilities:

Funds Held in Escrow (Note 7)	14,844,132
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Total Liabilities	82,003,520
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**NET POSITION**

Investment in Capital Assets	1,438,864
Unrestricted	45,693,852

Total Net Position	\$ 47,132,716
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The accompanying notes to the financial statements are an integral part of this statement.

***University of North Carolina Health Care System Funds  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Year Ended June 30, 2013***

***Exhibit A-2***

**REVENUES**

Operating Revenues	\$	0
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**EXPENSES**

Operating Expenses		0
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**NONOPERATING REVENUES**

Interest Income		<u>246,674</u>
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**TRANSFERS IN**

Regular Assessments (Note 5)		47,910,374
Special Assessments (Note 5)		94,549,101
Mission Support Assessments (Note 5)		9,853,231
Shared Administrative Services Assessments (Note 5)		<u>123,472,255</u>

Total Transfers In		<u>275,784,961</u>
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**TRANSFERS OUT**

Program Support (Note 6)		139,590,211
Shared Administrative Services (Note 6)		122,754,143
Mission Support (Note 6)		<u>6,810,726</u>

Total Transfers Out		<u>269,155,080</u>
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Increase in Net Position		6,876,555
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**NET POSITION**

Net Position - July 1, 2012		<u>40,256,161</u>
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Net Position - July 1, 2013	\$	<u><u>47,132,716</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

***University of North Carolina Health Care System Funds***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2013***

***Exhibit A-3***

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Transfers In from Entities	\$ 284,473,583
Transfers Out to Entities	(281,275,835)
Payment Received on Note Receivable	9,578,841
Payments on Note Payable	(9,578,541)
Upper Payment Limit Pass-through Payments Received	18,917,011
Upper Payment Limit Pass-through Payments	(16,939,874)
Certified Public Expenditures Payments Received	10,866,695
Certified Public Expenditures Payments to Escrow	(14,844,132)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	<hr/> 1,197,748 <hr/>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Acquisition and Construction of Capital Assets	<hr/> (1,438,864) <hr/>
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Income	<hr/> 246,674 <hr/>
Net Increase in Cash and Cash Equivalents	5,558
Cash and Cash Equivalents - July 1, 2012	<hr/> 67,846,111 <hr/>
Cash and Cash Equivalents - June 30, 2013	<hr/> \$ 67,851,669 <hr/>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	<hr/> \$ 67,851,669 <hr/>
Total Cash and Cash Equivalents - June 30, 2013	<hr/> \$ 67,851,669 <hr/>

The accompanying notes to the financial statements are an integral part of this statement.



**UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM FUNDS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization** - The University of North Carolina Health Care System (UNC Health Care) was established November 1, 1998 by North Carolina General Statute 116-37. UNC Health Care was established by the North Carolina General Assembly 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.

UNC Health Care is governed by a Board of Directors (Board) as an affiliated enterprise of the University of North Carolina (UNC) System. UNC Health Care and UNC-CH are affiliated entities within the University of North Carolina System. The University of North Carolina Faculty Physicians (UNCFP) is the clinical service component of the UNC School of Medicine and provides a full range of care to patients of UNC Health Care. Rex Healthcare, Inc. (Rex), Chatham Hospital, Inc. (Chatham), Highpoint Regional, Caldwell Memorial and UNC Physicians Network, LLC (UNCPN) are owned and controlled entities within UNC Health Care, an integrated health care provider.

The Board's vision for UNC Health Care is to be the nation's leading public academic health care system. The Board authorized the creation of the UNC Health Care System Funds (System Fund) to enable fund transfers among entities in the health system in support of the articulated vision and statutory missions.

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 education missions of UNC Health Care and the UNC School of Medicine, the Enterprise Fund today exists as a sub-account within the System Fund.

Since its formation, the System Fund has broadened its scope to include five distinct funds. These funds function as sub-accounts and collectively constitute the System Fund. These funds are as follows:

**The Enterprise Fund** – The Enterprise Fund provides support for the teaching, research and clinical missions of UNC Health Care and the

UNC School of Medicine. It is funded by assessments against revenues of UNC Hospitals, UNC School of Medicine, UNCFP, and Rex, made at least annually. Assessments to the constituent entities are determined on an annual basis or more often as necessary. UNC Hospitals, UNCFP and Rex make additional mission support contributions to the Enterprise Fund if they have met required organizational goals. The overwhelming majority of transfers from the Enterprise Fund are made to the clinical departments of the UNC School of Medicine and UNCFP for their teaching, research, and clinical programs.

**The Outreach Fund** – The Outreach Fund was initially invested in innovative projects designed to improve the health of the community with particular focus on geriatrics and other underserved constituencies. The initial funds were formed by a one-time contribution from UNC Hospitals. These funds were fully expended by the end of fiscal year 2009. The Outreach Fund was subsequently re-chartered in fiscal year 2010 by a transfer from the Enterprise Fund in the amount of \$10,000,000. These funds are being expended at a rate of \$2,000,000 per year to offset expenses incurred by clinical departments for graduate medical education (GME). These funds will be fully expended by the end of fiscal year 2014.

**The Recruitment Fund** – The Recruitment Fund was established through a special assessment at the end of fiscal year 2010 in the amount of \$7,000,000, to enable critical faculty recruitments to the UNC School of Medicine. The Recruitment Fund is designed to provide salary support for recruitments deemed critical to the missions of the UNC School of Medicine. It was formed by contributions from UNC Hospitals, UNCFP, and several UNC School of Medicine clinical departments in response to a crisis in UNC Health Care's cardiac surgery program. These funds are set aside to enable UNC Hospitals, UNCFP, and the UNC School of Medicine to collaboratively recruit faculty physicians to better serve the people of North Carolina. No funds were expended from the Recruitment Fund in fiscal year 2013.

**The Patient Safety Fund** – The Patient Safety Fund (Performance Improvement and Patient Safety Innovations Fund or PIPSIF) enables UNC Health Care to designate resources specifically intended to improve patient care and further reduce potential harm to patients. UNC Hospitals contributed \$1,000,000 in fiscal year 2012 in support of this effort.

**The Shared Administrative Services Fund** – The Shared Administrative Services Fund is used to assess and allocate administrative expenses for UNC Health Care's centralized services. These services (including but not limited to information technology, human resources, finance, strategic

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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planning, risk management, etc.) are provided more efficiently and effectively on a consolidated basis.

- B. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The System Fund is a part of UNC Health Care, an affiliated enterprise of the multi-campus University of North Carolina System. The University of North Carolina System is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the System Fund, for which the UNC Health Care Board is responsible. *North Carolina G.S. 116-37* grants authority and responsibility to meet patient-care, educational, research, and public service goals of UNC Health Care.

- C. Basis of Presentation** – The accompanying financial statements are presented in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, UNC Health Care is considered to be a single business type activity that qualifies for reporting in a single column. Since the System Fund is a piece of UNC Health Care, it is also presented in a single column.

- D. Basis of Accounting** - The financial statements of the System Fund have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the System Fund receives (or gives) value without directly giving (or receiving) equal value in exchange includes assessments, mission support, and contributions.

- E. Cash and Cash Equivalents** - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

**F. Net Position** - The System Fund's net position is classified as follows:

**Investment in Capital Assets** – This represents the System Fund's total investment in capital assets.

**Unrestricted Net Position** - Unrestricted net position includes resources derived from assessments, mission support, shared administrative services, and interest income.

**G. Transfers In and Transfers Out** - The System Fund supports UNC Health Care and UNC School of Medicine clinical, research, and teaching initiatives based on recommendations by the management team, ultimately approved by the Chief Executive Officer. The transfers in and transfers out reported for the System Fund supporting these initiatives result from the following:

**Regular Assessments** – Ongoing funding needs which are estimated annually based on requests submitted, reviewed and approved, and paid for by monies transferred from UNC Hospitals, UNCFP, UNC School of Medicine, and Rex. Funding amounts required and the corresponding assessments are determined annually but may be revised throughout the year as necessary.

**Special Assessments** – Funding needs that arise during the year that were not identified during the annual budgeting process are approved as needed by the Chief Executive Officer of UNC Health Care.

**Mission Support Assessments and Transfers Out** – UNC Hospitals and UNCFP are entities of UNC Health Care with highly interdependent activities. Mission Support aligns incentives by creating shared organizational goals. The level of support increases with better performance on quality, research, education, patient satisfaction, employee satisfaction, and financial metrics. This approach impels employees across the enterprise to improve in the research, education, and clinical missions.

UNC Hospitals and UNCFP make additional payments to the System Fund if a specific set of predetermined organizational goals are achieved. Mission Support was first established in fiscal year 2009 and has been paid in each subsequent year. UNC Hospitals made additional mission support payments to the System Fund during the fiscal year and the goal is for all of the other UNC Health Care entities to contribute in the future.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Program Support** – The primary function of the System Fund is to support those programs that have been identified as being beneficial to achieving UNC Health Care’s patient care, research, and education mission but that cannot support themselves or otherwise need additional funding to achieve the desired outcome. Program Support payments fill the funding gap for these programs. For the current fiscal year, 53.3% of the program support payments went to UNCFP and UNC School of Medicine.

**Shared Administrative Services Assessments and Transfers Out** – Shared administrative services refers to those administrative functions across UNC Health Care’s affiliated entities that benefit multiple locations and the resulting cost should be shared or allocated across the System. UNC Health Care assesses each entity for services received and then reimburses the entities providing the service and incurring the shared cost. The assessment is established annually based on budgeted shared costs.

### NOTE 2 - DEPOSITS

The System Fund is the name of UNC Health Care’s bank account for central administrative functions. It contains several distinct funds and is subject to the provisions of the Executive Budget Act, except for trust funds identified in *North Carolina General Statutes* 116-36.1 (Regulation of Institutional Trust Funds) and 116-37.2 (Regulation of UNC Hospitals Funds). These statutes primarily apply to the receipts generated by patient billings and other revenues from the operations of UNC Hospitals and UNCFP. As defined in the statutes, these funds may consist of moneys received from or for the operation by an institution of any of its self-supporting auxiliary enterprises or moneys received by an institution in respect to fees and other payments for services rendered by medical, dental or other health care professionals under an organized practice plan approved by the institution or under a contractual agreement between the institution and a hospital or other health care provider.

At June 30, 2013, the amount shown on the Statement of Net Position as current cash and cash equivalents of \$67,851,669, represent the System Fund’s equity position in the State Treasurer’s Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer’s investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer’s Investment Pool (which includes the State Treasurer’s Short-Term Investment Fund) are included in the State of North Carolina’s *Comprehensive*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A reconciliation of deposits and corresponding designations as of June 30, 2013 is as follows:

	Enterprise Fund	Outreach Fund	Recruitment Fund	Patient Safety Fund	Shared Administrative Services Fund	Total
Deposits						
Current						
Undesignated Funds	\$ 0	\$ 0	\$ 0	\$ 904,493	\$ 0	\$ 904,493
Designated for UNCFP Program Support	37,238,481				5,411,182	42,649,663
Designated for UNCFP Mission Support	4,673,549					4,673,549
Designated for Shared Administrative Services					352,759	352,759
Designated for UNC Faculty Recruitment			7,000,000			7,000,000
Designated for Graduate Medical Education Support		2,000,000				2,000,000
Designated for UNCPN Program Support					10,271,205	10,271,205
Total Deposits	<u>\$ 41,912,030</u>	<u>\$ 2,000,000</u>	<u>\$ 7,000,000</u>	<u>\$ 904,493</u>	<u>\$ 16,035,146</u>	<u>\$ 67,851,669</u>

### NOTE 3 - DUE FROM UNC HEALTH CARE ENTITIES

Amounts due from UNC Health Care entities at June 30, 2013 by type and entity were as follows:

	Amount
<b>Assessments</b>	
UNC Hospitals	\$ 8,166,540
UNC Faculty Physicians	5,723,310
Rex Healthcare	9,351,460
Chatham Hospital	198,192
UNC Physicians Network	140,410
Subtotal	23,579,912
<b>Mission Support</b>	
UNC Hospitals	9,412,560
<b>Shared Administrative Services</b>	
UNC Hospitals	9,461,915
UNC Faculty Physicians	1,668,573
Rex Healthcare	416,439
Chatham Hospital	143,170
UNC Physicians Network	319,002
Subtotal	12,009,099
<b>Total Due from Health Care Entities</b>	<u>\$ 45,001,571</u>

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 4 - DUE TO UNC HEALTH CARE ENTITIES

Amounts due to UNC Health Care entities at June 30, 2013 by type and entity were as follows:

	<u>Amount</u>
<b>Allocations</b>	
UNC Faculty Physicians	\$ 7,127,247
<b>Shared Administrative Services</b>	
UNC Hospitals	10,848,160
UNC Faculty Physicians	<u>286,266</u>
Subtotal	<u>11,134,426</u>
<b>Total Due To Health Care Entities</b>	<u><u>\$ 18,261,673</u></u>

### NOTE 5 - TRANSFERS IN

Transfers in by source and entity at June 30, 2013 are as follows:

	<u>Amount</u>
Regular Assessments:	
UNC Hospitals	\$ 31,164,558
UNC Faculty Physicians	13,239,852
Rex Healthcare	2,601,715
Chatham Hospital	305,045
UNC Physicians Network	299,204
UNC School of Medicine	<u>300,000</u>
Total Regular Assessments	<u><u>\$ 47,910,374</u></u>
Special Assessments:	
UNC Hospitals	\$ 52,500,952
UNC Faculty Physicians	7,444,710
Rex Healthcare	<u>34,603,439</u>
Total Special Assessments	<u><u>\$ 94,549,101</u></u>
Mission Support:	
UNC Hospitals	<u><u>\$ 9,853,231</u></u>
Shared Administrative Services:	
UNC Hospitals	\$ 96,066,622
UNC Faculty Physicians	17,167,516
Rex Healthcare	4,571,404
Chatham Hospital	1,510,856
UNC Physicians Network	3,155,857
UNC School of Medicine	<u>1,000,000</u>
Total Shared Administrative Services	<u><u>\$ 123,472,255</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 6 - TRANSFERS OUT**

Transfers out by purpose and entity at June 30, 2013 are as follows:

**Program Support:**

UNC Faculty Physicians	
Anesthesiology	\$ 8,744,101
Emergency Medicine	650,000
Gastroenterology	480,000
Heart & Vascular	1,655,000
Nephrology	657,111
Neurology	2,150,000
Obstetrics Gynecology	1,512,130
Oncology	3,400,000
Orthopaedics	2,594,249
Other	6,665,109
Pediatrics	1,125,000
Psychiatry	1,250,000
Primary Care	850,000
Radiology	1,545,000
Surgery	<u>4,481,000</u>

Total UNCFP Program Support 37,758,700

UNC School of Medicine	13,459,521
UNC Physicians Network	23,121,990
Chatham Hospital	2,000,000
HighPoint Regional Medical Center	50,000,000
Caldwell Memorial Hospital	12,500,000
Piedmont Health	<u>750,000</u>

Total Program Support \$ 139,590,211

**Shared Administrative Services:**

UNC Hospitals	\$ 116,798,540
UNC Faculty Physicians	5,525,124
Rex Healthcare	<u>430,480</u>

Total Shared Administrative Services \$ 122,754,143

**Mission Support:**

UNC Faculty Physicians	<u>\$ 6,810,726</u>
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**NOTE 7 - ESCROW FOR CERTIFIED PUBLIC EXPENDITURES (CPEs)**

With the help of the North Carolina Hospital Association, UNC Health Care has entered into an agreement 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) that chose to assist UNC Health Care



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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System meet 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. This fund will reimburse participating public hospitals for any repayments that should result from this program. The UNC Health Care Enterprise Fund transferred \$14,844,132 to the Escrow Agent, First-Citizens Bank & Trust Company.

### NOTE 8 - RELATED PARTIES

**University of North Carolina Hospitals at Chapel Hill** - The UNC Hospitals at Chapel Hill (UNC Hospitals) is the only state-owned teaching hospital in North Carolina. With a licensed base of 830 beds, this facility serves as an acute care teaching hospital for the University of North Carolina at Chapel Hill. As a state agency, UNC Hospitals conforms to financial requirements established by statutory and constitutional provisions. While UNC Hospitals is exempt from both federal and state income taxes, a small portion of its revenue is subject to the unrelated business income tax.

UNC Hospitals paid \$189,585,363 for assessments, mission support, and shared administrative services to the System Fund. Likewise, the System Fund also made \$116,798,540 in payments to UNC Hospitals for shared administrative services expenses during the year ended June 30, 2013.

**University of North Carolina School of Medicine** – The UNC School of Medicine was assessed and paid the System Fund \$1,300,000 during the year and received \$13,459,521 in program support during the year ended June 30, 2013.

**University of North Carolina Faculty Physicians** – The UNC Faculty Physicians (UNCFP) is the clinical service component of the UNC School of Medicine. At the heart of UNCFP are the approximately 1,200 faculty physicians who provide a full range of specialty and primary care services for patients of UNC Health Care. While the great majority of services are rendered at the inpatient units of UNC Hospitals and the outpatient clinics on the UNC campus, there is a growing range of services provided at clinics in the community. There are 18 clinical departments, one clinical center, two affiliated departments, and two administrative units that collectively form UNCFP.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### **Clinical Departments:**

Anesthesiology	Orthopaedics
Dermatology	Otolaryngology
Emergency Medicine	Pathology & Laboratory Medicine
Family Medicine	Pediatrics
Medicine	Psychiatry
Neurology	Physical Medicine & Rehabilitation
Neurosurgery	Radiation Oncology
Obstetrics & Gynecology	Radiology
Ophthalmology	Surgery

### **Clinical Center:**

Heart & Vascular

### **Affiliated Departments:**

Allied Health Sciences

Carolina Institute for Developmental Disabilities

### **Administrative Units:**

Administrative Office

Ambulatory Administration

While UNCFP is affiliated with the UNC Health Care, the net position of UNCFP is held in UNC Chapel Hill (UNC-CH) trust funds. The operating income and expenses for UNCFP are incorporated into UNC-CH's accounting infrastructure. As such, its operational results are included in the UNC-CH annual audit.

UNCFP paid \$37,852,078 for assessments and shared administrative services to the System Fund over the course of the year. The System Fund also made payments to UNCFP in the amount of \$50,094,550 for program support, mission support, and shared administrative services reimbursements during the year ended June 30, 2013.

**Rex Healthcare, Inc.** - Rex Healthcare, Inc. (Rex) is a not-for-profit corporation and is exempt from federal and North Carolina income taxation as a 501(c)(3) charitable organization. Rex does not conduct active operations but serves as the parent corporation for a multi-entity health care delivery system that was organized to provide health care services to the residents of Wake County, North Carolina and surrounding counties. UNC Health Care acquired Rex in 2000 and is the sole member of the corporation. UNC Health Care appoints eight of the 13 seats on Rex's Board of Trustees and also reviews and approves Rex's annual operating and capital budgets. The principal corporate entities under the common control of Rex are:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Rex Hospital, Inc.** - Rex Hospital, Inc. is a 433-bed hospital located in Raleigh, North Carolina that provides inpatient, outpatient, and emergency services primarily to the residents of Wake County. Rex Hospital operates Rex Cancer Center, Rex Women's Center, and Rex Rehab and Nursing Care Center of Raleigh on its main campus. Rex Hospital has additional campuses in Cary, Wakefield (in Raleigh), Garner, Holly Springs, Knightdale, and Apex. Rex Hospital, Inc. also owns Rex Home Services, Inc.

**Rex Enterprises Company, Inc.** - Rex Enterprises Company, Inc. is a North Carolina for-profit corporation organized to hold investments in various affiliates and to promote the development of real property in support of the mission of Rex. Rex Enterprises Company, Inc. is the sole member of CDP Ventures, LLC, which is a limited liability company organized to own and develop real estate in the Wakefield community of northern Wake County.

**Rex Healthcare Foundation, Inc.** - Rex Healthcare Foundation, Inc. is a North Carolina not-for-profit corporation organized to promote the health and welfare of residents in Rex's service area by promoting philanthropic contributions and public support of Rex.

**Rex Holdings, LLC** - Rex Holdings, LLC was formed in 2007 to provide medical services through various affiliations, joint ventures and independent physician practices. Rex Holdings is the sole member of Rex Physicians, LLC, which was established in 2009 to employ physicians of specialty practices.

Rex paid \$41,776,558 for assessments and shared administrative services to the System Fund and received \$430,480 for shared administrative service expenses during the year ended June 30, 2013.

**Chatham Hospital, Inc.** - Chatham Hospital, Inc. is a private, nonprofit 501(c)(3) corporation that owns and operates a 25-bed critical access facility located in Siler City, North Carolina. The facility operates 21 acute/swing beds and four intensive care beds, along with a complement of surgical suites, emergency room, and ancillary services.

UNC Health Care became the sole member of Chatham Hospital, Inc. on July 1, 2008. The System appoints nine of the 15 members on the Chatham Hospital, Inc. Board and reviews and approves its annual operating and capital budgets.

Chatham paid \$1,815,901 for assessments and shared administrative services to the System Fund and received \$2,000,000 for program support during the year ended June 30, 2013.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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**UNC Physicians Network, LLC (UNCPN)** - Formerly known as Triangle Physician Network, LLC (TPN), UNC Physicians Network (UNCPN) is a wholly-owned subsidiary of UNC Health Care, but a private employer, that owns and operates 32 community-based practices throughout the Triangle (Raleigh, Durham, and Chapel Hill), North Carolina area.

UNCPN is a physician-led network structured to meet the needs of the community and community practice physicians by creating a partnership for physicians and UNC Health Care to face the challenging health care environment.

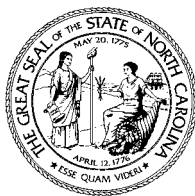
UNCPN paid \$3,455,061 for assessments and shared administrative services to the System Fund and received \$23,121,990 for program support during the year ended June 30, 2013.

**High Point Regional (High Point)** - On March 31, 2013, UNC Health Care became the sole corporate member of High Point Regional Health (High Point), a North Carolina not-for-profit corporation organized to own and operate a 351-bed general acute care hospital facility located in High Point, North Carolina, to promote and advance charitable, educational and scientific purposes, and to provide and support health care services.

At closing, UNC Health Care System, in consideration of the agreements of HighPoint Regional and Community Health Fund, transferred \$30 million as “Closing Contribution” to the Community Health Fund at High Point. In addition to the Closing Contribution, UNC HCS made a payment of \$20 million to High Point Regional for Capital and Non-Capital purchases.

**Caldwell Memorial (Caldwell)** - On May 1, 2013, UNC Health Care became the sole corporate member of Caldwell Memorial Hospital (Caldwell), a private, not-for-profit community hospital in Lenoir, North Carolina. Caldwell is a 110-bed acute care hospital with a provider network of more than fifty primary and specialty care physicians and advanced practice professionals.

At closing, UNC Health Care System, in consideration of the agreements of Caldwell Memorial and Community Health Fund, transferred \$5 million as “Closing Contribution” to the Community Health Fund at Caldwell. In addition to the Closing Contribution, UNC HCS made a payment of \$7.5 million to Caldwell Memorial for Capital and Non-Capital purchases.



**Beth A. Wood, CPA**  
State Auditor

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**Office of the State Auditor**

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Directors  
University of North Carolina Health Care System  
Chapel Hill, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of North Carolina Health Care System Funds (System Fund), a part of the University of North Carolina Health Care System, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 13, 2014.

As discussed in Note 1, the financial statements present only the University of North Carolina Health Care System Funds (System Fund) and are not intended to present fairly the financial position of the University of North Carolina Health Care System nor the University of North Carolina System, and the results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the System Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 13, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
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For additional information contact:

Bill Holmes  
Director of External Affairs