

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



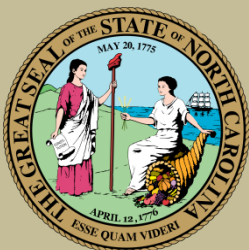
UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM FUNDS

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

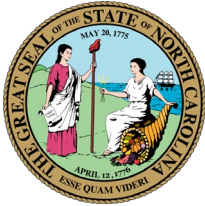
FOR THE YEAR ENDED JUNE 30, 2021

AN AFFILIATED ENTERPRISE OF THE UNIVERSITY OF NORTH CAROLINA
SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, 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 for the year ended June 30, 2021, 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 black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

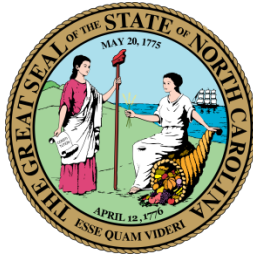


Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

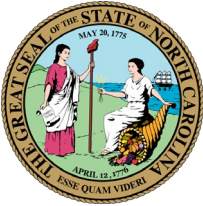
	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
EXHIBITS	
A-1 STATEMENT OF NET POSITION	9
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	10
A-3 STATEMENT OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	29
ORDERING INFORMATION	31

Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of North Carolina Health Care System Funds (System Fund), which is a part of the University of North Carolina Health Care System that is an affiliated enterprise 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, 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University of North Carolina Health Care System Funds, as of June 30, 2021, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University of North Carolina Health Care System Funds and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the University of North Carolina Health Care System Funds are intended to present the financial position, changes in financial position, and cash flows that are only attributable to the transactions of the University of North Carolina Health Care System Funds. They do not purport to, and do not, present fairly the financial position of the University of North Carolina Health Care System

nor the University of North Carolina System as of June 30, 2021, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the financial statements, during the year ended June 30, 2021, the University of North Carolina Health Care System Funds adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, as amended by GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the financial statements, the Statement of Cash Flows has been restated as of July 1, 2020 to correct a prior period misstatement.

Responsibilities of Management for the Financial Statements

The System Fund's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System Fund's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

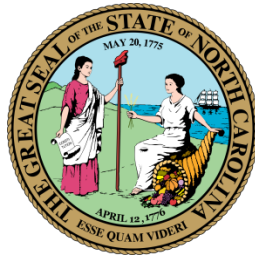
In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2022 on our consideration of the System Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the 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

September 6, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis provides an overview of the financial position of the University of North Carolina Health Care System (UNC Health) Funds (System Fund) for the fiscal year ended June 30, 2021 and includes comparative information for the fiscal year ended June 30, 2020. This discussion and analysis should be read in conjunction with the financial statements and related notes which follow this discussion and analysis.

UNC Health was established November 1, 1998, by *North Carolina General Statute* 116-37. UNC Health is governed by a Board of Directors as an affiliated enterprise of the University of North Carolina System. UNC Health and the 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. Rex Healthcare, Inc. (Rex), Chatham Hospital, Inc. (Chatham), Caldwell Memorial Hospital (Caldwell), UNC Rockingham Health Care, Inc. (Rockingham), UNC Physicians Network, LLC (UNCPN), and UNC Physicians Network Group Practice (UNCPNGP) have been added to the organization since its inception. Entities listed above, along with UNC Hospitals at Chapel Hill (UNCH), collectively perform the operating functions of UNC Health and the UNC School of Medicine. UNC Health has signed management service agreements with various other health care entities across North Carolina which are considered managed entities within UNC Health. See Note 1 for further details regarding these entities. 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. Initially formed as the Enterprise Fund to facilitate investments in support of the clinical, academic, and research missions of UNC Health and the UNC School of Medicine, the Enterprise Fund today exists as a 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. As such, the Enterprise Fund, Patient Safety Fund, and Recruitment Fund each function as sub-accounts within the System Fund.

Using this Financial Report

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*, along with accompanying *Notes to the Financial Statements*.

The *Statement of Net Position* provides the financial position and includes all 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. 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. 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. Nonoperating activities include investment transactions. Other activities include transfers in and transfers out from/to UNC Health Care entities and the UNC School of Medicine. 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 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*.

The *Notes to the Financial Statements* provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, fair value measurements, investment in affiliates, the System Fund's escrow account for certified public expenditures, capital assets, receivables, payables, transfers in and out, related parties, changes in financial accounting and reporting, restatement, and subsequent events. 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 2021 to 2020

Financial results for fiscal year 2021 and 2020 are presented in Table 1 of this report and discussed in the following sections. Discussion in the following sections is related to fiscal year 2021 results and changes relative to ending balances in fiscal year 2020.

Analysis of Overall Financial Position and Results of Operations

Statement of Net Position

The sub-accounts of the System Fund collectively hold assets of \$773.6 million, which is an increase of \$246.5 million, or 46.8%, above the prior year. Current assets decreased \$107.4 million. After the prior period restatement to cash and cash equivalents from the funds held for others current liability, the \$153.1 million decrease to cash and cash equivalents is related to support payments made to UNC School of Medicine and investment purchases as noted below. See Note 14 for further details of the restatement. The current amount due from UNC Health Care Entities increased by \$45.8 million primarily related to the current year accrual for mission support due from UNC Hospitals. Noncurrent assets increased by \$354.3 million, or 112.7% with investments increasing by \$350.3 million. The increase in investments resulted from mainly the additional purchase of investments totaling \$257.3 million and the recognition of the fair market value of \$76.9 million of an investment that was previously recorded at cost which went public in March 2021. See Notes 2 and 11 for further explanation. Assets Whose Use is Limited or Restricted decreased \$9.0 million in relation to the decrease in Funds Held in Escrow explained in the liabilities section below. The noncurrent portion of notes receivable decreased \$22.5 million, primarily in relation to the payment for the Sale of High Point Regional Health (HPRH). Final payment for HPRH was received in September 2021. See Note 5 to the financial statements for further details on notes receivable.

Investments in Affiliates increased \$40.8 million from the additional investment in Johnston Heath Services Corporation. See Note 11 for further information on Investment in Affiliates.

Total liabilities increased \$131.2 million, or 39.7% overall. Current liabilities increased \$100.1 million. Due to School of Medicine increased by \$61.2 million relating to fiscal year 2021 Mission Support and funds related to School of Medicine contracts for Medical Direction and other services. As noted above, after the prior period restatement of Funds Held for Others and Cash and Cash Equivalents, Funds Held for Others increased \$36.6 million primarily from the \$32.8 million of Federal Emergency Management Agency (FEMA) funds and \$4.0 million in U.S. Department of Health and Human Services (HHS) stimulus funds held for UNC Health Care Entities. Total noncurrent liabilities increased \$31.1 million primarily from the \$40.0 million liability incurred for the additional investment in Johnston Health Services Corporation, see Note 11 for further details. Funds Held in Escrow decreased \$8.9 million relating to the decrease in Escrow for Certified Public Expenditures. This was a result of removing the FY17 closed year in the escrow and adding an open year for FY20 to the calculations. The closed year required a higher escrow amount than the year added and therefore, the escrow requirement decreased. See Note 7 to the financial statements for further details on the Escrow for Certified Public Expenditures

Net position increased \$115.3 million compared to fiscal year 2020 due to transfers and other activity and investment income discussed below.

Statement of Revenues, Expenses, and Changes in Net Position

Net investment income was \$122.0 million during fiscal year 2021 which reflects the favorable market conditions during the year, which includes recognizing \$75.2 million in realized and unrealized gains related to an investment in affiliate that went public. Gain on investments in affiliates increased \$5.1 million from 2020 due to the increased ownership in Johnston Health Services Corporation (JHSC).

Transfers into and transfers out of the System Fund increased \$13.2 million and \$22.5 million, respectively, during fiscal year 2021. See Notes 8 and 9 for additional information.

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

UNC Health derives the vast majority of its operating revenues from patient care services. Strong operating performance in the past and earning a positive operating margin during fiscal year 2021 has enabled UNC Health to make investments in support of the clinical, education, and research programs of UNC Faculty Physicians, the UNC School of Medicine, and other network entities. These continued investments, facilitated by the System Fund, have yielded positive results as measured by growth in needed services, expansion of the medical school class, and increased research funding.

UNC Health has adapted to the challenges presented by the COVID-19 pandemic and continues to evolve in order to remain a leader in providing the continuum of services required in health care. Providing these services relies on a variety of options for program and service development as well as significant capital investment. UNC Health utilizes acquisitions, partnerships, network development, contracts, and other means to expand its provision of care as opportunities are developed. Guided by a philosophy of collaboration and partnership with

other providers, UNC Health continues to evaluate options of strategic importance to its development. Acquisitions and affiliations include hospitals, home health, hospice, physician practices and infusion services. We are making significant infrastructure investments to modernize and expand our patient care. The funding for these acquisitions and investments is coordinated through the System Fund.

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

Risk to payment levels for Medicaid patients is expected in fiscal year 2022 with the transition to Medicaid Managed Care. Management is monitoring this closely to ensure minimization of denials and adverse impacts.

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

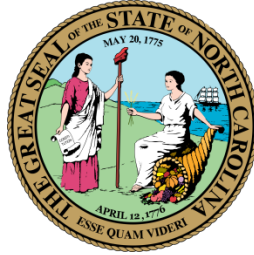
The introduction of the Delta variant and subsequently the Omicron variant, as well as a lower percentage of vaccinated individuals than expected, has created significant surges in fiscal year 2022 and creates continued uncertainty. Given the daily evolution of the COVID-19 pandemic and the global response to curb its spread, management is not able to estimate the effects of the COVID-19 pandemic on its results of operations, financial condition, or liquidity for fiscal year 2022. We continue to carefully monitor this situation at all levels and pursue actions to mitigate the financial effects of the pandemic.

Further information about UNC Health can be found in our annual report available at <https://www.unchealthcare.org/about-us/annual-reports/>.

University of North Carolina Health Care System Funds
Summary of Condensed Financial Statements Totals

	FY21	FY20 (As Restated)	Change	% Change
CONDENSED STATEMENTS OF NET POSITION				
Current Assets	\$ 101,960,307	\$ 209,339,853	\$ (107,379,546)	(51.3%)
Capital Assets, Net	2,921,823	3,287,051	(365,228)	(11.1%)
Noncurrent Assets	668,693,236	314,443,182	354,250,054	112.7%
TOTAL ASSETS	773,575,366	527,070,086	246,505,280	46.8%
DEFERRED OUTFLOWS OF RESOURCES	0	0	0	
Current Liabilities	287,857,129	187,762,360	100,094,769	53.3%
Noncurrent Liabilities	173,401,398	142,301,727	31,099,671	21.9%
TOTAL LIABILITIES	461,258,527	330,064,087	131,194,440	39.7%
DEFERRED INFLOWS OF RESOURCES	0	0	0	
Investment in Capital Assets	2,921,823	3,287,051	(365,228)	(11.1%)
Unrestricted	309,395,016	193,718,948	115,676,068	59.7%
TOTAL NET POSITION	\$ 312,316,839	\$ 197,005,999	\$ 115,310,840	58.5%
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION				
Operating Revenues:	\$ 0	\$ 0	\$ 0	0.0%
Operating Expenses:				
Depreciation	365,228	365,228		0.0%
Operating Loss	(365,228)	(365,228)		0.0%
Nonoperating Revenues (Expenses):				
Investment Income (Net of Investment Expense)	122,009,730	6,317,929	115,691,801	1831.2%
Gain on Investments in Affiliates	6,888,424	1,764,666	5,123,758	290.4%
Other Nonoperating Expenses	(7,021)	(82,159)	(75,138)	(91.5%)
Net Nonoperating Revenues	128,891,133	8,000,436	120,890,697	1511.1%
Transfers In	121,749,042	108,513,539	13,235,503	12.2%
Transfers Out	134,964,107	112,509,367	22,454,740	20.0%
Increase in Net Position	115,310,840	3,639,380	111,671,460	3068.4%
Net Position - Beginning of Year	197,005,999	193,366,619	3,639,380	1.9%
Net Position - End of Year	\$ 312,316,839	\$ 197,005,999	\$ 115,310,840	58.5%

Fiscal year 2021 revenues (excluding transfers in) totaled \$128,898,154 and expenses (excluding transfers out) totaled \$372,249.
Fiscal year 2020 revenues (excluding transfers in) totaled \$8,082,595 and expenses (excluding transfers out) totaled \$447,387.



FINANCIAL STATEMENTS

University of North Carolina Health Care System Funds
Statement of Net Position
June 30, 2021

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2):	
Undesignated Funds	\$ 12,912,666
Designated for UNC School of Medicine Program Support	2,828,312
Designated for UNC Faculty Recruitment	5,750,000
	<hr/>
Cash and Cash Equivalents Total	21,490,978
Due from UNC Health Care Entities (Note 4)	57,330,063
Notes Receivable (Note 5)	22,539,266
Line of Credit (Note 10)	600,000
	<hr/>
Total Current Assets	101,960,307
	<hr/>

Noncurrent Assets:

Investments (Note 2)	476,251,560
Assets Whose Use is Limited or Restricted (Note 2)	67,310,210
Notes Receivable (Note 5)	11,240,787
Investment in Affiliates (Note 11)	113,890,679
Capital Assets - Depreciable, Net (Note 6)	2,921,823
	<hr/>
Total Noncurrent Assets	671,615,059
	<hr/>
Total Assets	773,575,366
	<hr/>

DEFERRED OUTFLOWS OF RESOURCES

0

LIABILITIES

Current Liabilities:

Due to UNC School of Medicine	107,651,924
Other Current Liabilities	13,091,302
Funds Held for Others (Note 12)	167,113,903
	<hr/>
Total Current Liabilities	287,857,129
	<hr/>

Noncurrent Liabilities:

Due to UNC Health Care Shared Administrative Services Fund	66,091,188
Funds Held in Escrow (Note 7)	67,310,210
Other Noncurrent Liabilities	40,000,000
	<hr/>
Total Noncurrent Liabilities	173,401,398
	<hr/>
Total Liabilities	461,258,527
	<hr/>

DEFERRED INFLOWS OF RESOURCES

0

NET POSITION

Investment in Capital Assets	2,921,823
Unrestricted	309,395,016
	<hr/>
Total Net Position	\$ 312,316,839
	<hr/>

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, 2021

Exhibit A-2

OPERATING REVENUES	\$ 0
OPERATING EXPENSES	
Depreciation	365,228
Operating Loss	(365,228)
NONOPERATING REVENUES (EXPENSES)	
Investment Income (Net of Investment Expense of \$376,468)	122,009,730
Gain on Investment in Affiliates	6,888,424
Other Nonoperating Expenses	(7,021)
Net Nonoperating Revenues	128,891,133
TRANSFERS IN	
Regular Assessments (Note 8)	80,140,751
Mission Support Assessments (Note 8)	41,608,291
Total Transfers In	121,749,042
TRANSFERS OUT	
Program Support (Note 9)	87,617,483
Mission Support (Note 9)	47,346,624
Total Transfers Out	134,964,107
Increase in Net Position	115,310,840
NET POSITION	
Net Position - July 1, 2020	197,005,999
Net Position - June 30, 2021	\$ 312,316,839

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, 2021

Exhibit A-3

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers In from Entities	\$ 70,379,129
Transfers Out to Entities	(23,964,569)
Third Party Payor Pass-through Payments Received	10,917,710
Third Party Payor Pass-through Payments	(10,822,283)
Certified Public Expenditures Funds Received	31,357,118
Certified Public Expenditures Funds to Escrow	(8,989,837)
Notes Receivable Repaid by Entities	22,505,688
Lines of Credit Issued to Entities	(1,500,000)
Lines of Credit Repaid by Entities	1,600,000
	<hr/>
Net Cash Provided by Noncapital Financing Activities	91,482,956

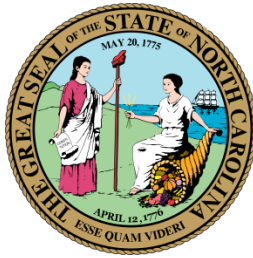
CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	12,772,546
Purchase of Investments and Related Fees	(257,328,721)
	<hr/>
Net Cash Used by Investing Activities	(244,556,175)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(153,073,219)
	<hr/>
Cash and Cash Equivalents - July 1, 2020, as restated	174,564,197
	<hr/>
Cash and Cash Equivalents - June 30, 2021	\$ 21,490,978

NONCASH INVESTING AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 109,237,184
Gain on Investment in Affiliates	6,888,424
Investment in Affiliate Acquired through the Assumption of a Liability	40,000,000

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization** - The University of North Carolina Health Care System (UNC Health) was established November 1, 1998 by *North Carolina General Statute* 116-37. UNC Health 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 is governed by a Board of Directors (Board) as an affiliated enterprise of the University of North Carolina (UNC) System. UNC Health and UNC-CH are 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. UNC Hospitals at Chapel Hill, Rex Healthcare, Inc. (Rex), Chatham Hospital, Inc. (Chatham), UNC Rockingham Health Care, Inc. (Rockingham), Caldwell Memorial Hospital, UNC Physicians Network, LLC (UNCPN), and UNC Physicians Network Group Practices, LLC are owned and controlled entities within UNC Health, an integrated health care provider. UNC Health signed management service agreements with Henderson County Hospital Corporation d/b/a Margaret R. Pardee Memorial Hospital, Nash Health Care Systems, Johnston Health Services Corporation, Wayne Health Corporation, Lenoir Memorial Hospital, and Onslow County Hospital Authority, which are considered managed entities within UNC Health.

The Board's vision for UNC Health 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. Initially formed as the Enterprise Fund to facilitate investments in support of the clinical, academic, and education missions of UNC Health 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 three 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 and the UNC School of Medicine. It is funded by assessments against revenues of UNC Health entities and the UNC School of Medicine, made at least annually. Assessments to the constituent entities are determined on an annual basis or more often as necessary. UNC Hospitals, UNC School of Medicine, and

Rex make additional mission support contributions to the Enterprise Fund if they have met required organizational goals.

The Recruitment Fund - The Recruitment Fund was established through a special assessment at the end of fiscal year 2010 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 and several UNC School of Medicine clinical departments in response to a crisis in UNC Health's cardiac surgery program. These funds are set aside to enable UNC Hospitals and UNC School of Medicine to collaboratively recruit faculty physicians to better serve the people of North Carolina.

The Patient Safety Fund - The Patient Safety Fund (Performance Improvement and Patient Safety Innovations Fund or PIPSIF) enables UNC Health to designate resources specifically intended to improve patient care and further reduce potential harm to patients.

- 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, 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 *Annual Comprehensive 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 General Statute* 116-37 grants authority and responsibility to meet patient-care, educational, research, and public service goals of UNC Health.

- C. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America 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*, and GASB Statement No. 84, *Fiduciary Activities*, the full scope of the UNC Health's activities is considered to be a single business-type activity that qualifies for reporting in a single column in the basic financial statements. Since the System Fund is part of UNC Health, 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, include assessments, mission support, and investment income.

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

- F. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

- G. Assets Whose Use is Limited or Restricted** - This classification represents investments held in escrow for Certified Public Expenditures as discussed further in Note 7.

- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The System Fund capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-40 years

- I. Accounting and Reporting of Fiduciary Activities** - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, custodial funds that are normally expected to be received and disbursed within a 3-month period or otherwise do not meet the fiduciary activity criteria defined by

GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others.

There are no other trust or custodial funds meeting the criteria of a fiduciary activity that are required to be reported in separate fiduciary fund financial statements.

J. 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, and investment income.

K. Revenue and Expense Recognition - The System Fund classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services in connection with the System Fund's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues, such as investment income, include activities that have the characteristics of nonexchange transactions. Transfers in and out are presented separately after nonoperating revenues and expenses.

L. Transfers In and Transfers Out - The System Fund supports UNC Health 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 Health entities and the UNC School of Medicine. Funding amounts required and the corresponding assessments are determined annually but may be revised throughout the year as necessary.

Mission Support Assessments and Transfers Out - UNC Hospitals and UNC School of Medicine are entities of UNC Health 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, UNC School of Medicine, and Rex make additional payments to the System Fund if a specific set of predetermined organizational goals is achieved. Mission support was first established in fiscal year 2009 and has been paid in each subsequent year. UNC Hospitals made mission support payments to the System Fund during fiscal year 2021.

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'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.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The System Fund is the name of UNC Health'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 UNC School of Medicine. 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, 2021, the amount shown on the Statement of Net Position as cash and cash equivalents of \$21,490,978 represents the System Fund's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2021. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

A summary of deposits and corresponding designations as of June 30, 2021 is as follows:

Designation	Enterprise Fund	Recruitment Fund	Patient Safety Fund	Total
Undesignated Funds	\$ 12,904,033	\$ 0	\$ 8,633	\$ 12,912,666
Designated for UNC-SOM Program Support	2,828,312			2,828,312
Designated for UNC Faculty Recruitment		5,750,000		5,750,000
Total Deposits	\$ 15,732,345	\$ 5,750,000	\$ 8,633	\$ 21,490,978

- B. Investments** - Pursuant to *North Carolina General Statute* 116-37(e), all receipts, except for General Fund appropriations, may be invested by the State Treasurer on behalf of UNC Health as allowed in G.S. 147-69.2(b3).

North Carolina General Statute 116-37.2, as revised by Session Law 2011-145, Section 9.6E(c), allows UNC Health's Board to be responsible for the custody and management of funds, including developing policies for deposit, investment, and administration of funds. With this legislative flexibility and under the guidance of the Finance Committee of the Board, the System Fund has made investments as described below.

Investments are subject to the following risks as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*.

Interest Rate Risk: Interest rate risk is the risk the System Fund may face should interest rate variances affect the value of investments. System Fund does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. System Fund does not have a formal policy that addresses credit risk.

UNC Investment Fund, LLC - At June 30, 2021, the System Fund's investments include \$387,248,440 which represents the System Fund's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2021, for the System Fund's non-pooled investments. A portion of these investments are held in escrow for purposes of the Certified Public Expenditures. See Note 7 for further details.

Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	Greater than 5
Debt Securities				
Debt Mutual Funds	\$ 22,539,289	\$ 1,147,075	\$ 12,524,584	\$ 8,867,630
Other Securities				
Alignment (ALHC) Stock	76,869,305			
International Mutual Funds	14,954,842			
Equity Mutual Funds	41,949,894			
Total Non-Pooled Investments	\$ 156,313,330			

At June 30, 2021, the System Fund's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa
Debt Mutual Funds	\$ 22,539,289	\$ 16,423,533	\$ 579,683	\$ 2,409,237	\$ 3,126,836

Rating Agency: Moody's

Total Investments - The following table presents the total investments at June 30, 2021:

Investment Type	Amount
Debt Securities	
Debt Mutual Funds	\$ 22,539,289
Other Securities	
Alignment (ALHC) Stock	76,869,305
International Mutual Funds	14,954,842
Equity Mutual Funds	41,949,894
UNC Investment Fund	387,248,440
Total Investments	\$ 543,561,770

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the System Fund's investments are recorded at fair value as of June 30, 2021. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest

and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the System Fund's investments, including deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2021:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	\$ 22,539,289	\$ 22,539,289	\$ 0	\$ 0
Other Securities				
Alignment (ALHC) Stock	76,869,305	76,869,305		
International Mutual Funds	14,954,842	14,954,842		
Equity Mutual Funds	41,949,894	41,949,894		
Total Investments by Fair Value Level	156,313,330	\$ 156,313,330	\$ 0	\$ 0
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	21,490,978			
UNC Investment Fund	387,248,440			
Total Investments as a Position in an External Investment Pool	408,739,418			
Total Investments Measured at Fair Value	\$ 565,052,748			

Short-Term Investment Fund - Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The System Fund's position in the pool is measured

and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

UNC Investment Fund - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The System Fund's position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized within the fair value hierarchy.

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

NOTE 4 - DUE FROM UNC HEALTH CARE ENTITIES

Amounts due from UNC Health Care Entities at June 30, 2021 by type and entity were as follows:

	<u>Amount</u>
Current Assessments:	
Owned Entities	<u>\$ 57,330,063</u>

Additional information regarding transactions with the entities is included in Note 10.

NOTE 5 - NOTES RECEIVABLE

Effective June 1, 2018, the System Fund extended a \$16,000,000 note receivable to Chatham. The loan was used to retire Chatham's existing debt of the North Carolina Medical Care Commission for its FHA Mortgage Revenue Bonds for the Chatham Hospital Project Series 2007. The unpaid principal amount bears interest at a rate of 2.75%.

Pursuant to the Member Substitution Agreement between UNC Health and Wake Forest Baptist Medical Center (WFBMC) entered into as of March 8, 2018, the purchase price of High Point Regional would be made in installments with a payment on the closing date and then WFBMC will make three subsequent annual payments of \$21,300,000 to UNC Health on the anniversary date of September 1, 2018. While there is a provision for WFBMC to accelerate these payments, no such accelerated payments have been made to date. There is no interest associated with this note receivable.

NOTES TO THE FINANCIAL STATEMENTS

Notes receivable activity for the year ended June 30, 2021 is presented as follows:

Entity	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Chatham Hospital	\$ 13,685,741	\$ 0	\$ 1,205,688	\$ 12,480,053	\$ 1,239,266
Wake Forest Baptist Medical Center	42,600,000		21,300,000	21,300,000	21,300,000
Total Notes Receivable	\$ 56,285,741	\$ 0	\$ 22,505,688	\$ 33,780,053	\$ 22,539,266

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2021, is presented as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets, Depreciable:				
Buildings	\$ 5,478,419	\$ 0	\$ 0	\$ 5,478,419
Less Accumulated Depreciation	2,191,368	365,228		2,556,596
Total Capital Assets, Depreciable, Net	\$ 3,287,051	\$ (365,228)	\$ 0	\$ 2,921,823

NOTE 7 - ESCROW FOR CERTIFIED PUBLIC EXPENDITURES

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

At June 30, 2021, \$79,444,025 was held by the Escrow Agent, First Citizens Bank & Trust Company. Of that amount, UNC Health contributed \$67,310,210 to the fund and is reflected as a liability in Funds Held in Escrow. This amount represents the potential audit risk noted in the paragraph above.

NOTE 8 - TRANSFERS IN

Transfers in by source and entity for the year ended June 30, 2021 were as follows:

	<u>Amount</u>
Regular Assessments:	
Owned Entities	\$ 67,365,376
UNC School of Medicine	<u>12,775,375</u>
Total Regular Assessments	<u>80,140,751</u>
Mission Support Assessments:	
Owned Entities	<u>41,608,291</u>
Total Transfers In	<u><u>\$ 121,749,042</u></u>

Additional information regarding transactions with the entities is included in Note 10.

NOTE 9 - TRANSFERS OUT

Transfers out by purpose and entity for the year ended June 30, 2021 were as follows:

	<u>Amount</u>
Program Support:	
Owned Entities	\$ 6,113,690
UNC School of Medicine	<u>81,503,793</u>
Total Program Support	<u>87,617,483</u>
Mission Support:	
UNC School of Medicine	<u>47,346,624</u>
Total Transfers Out	<u><u>\$ 134,964,107</u></u>

Additional information regarding transactions with the entities is included in Note 10.

NOTE 10 - RELATED PARTIES

University of North Carolina Hospitals at Chapel Hill - UNC Hospitals at Chapel Hill (UNC Hospitals) is the only state-owned teaching hospital in North Carolina. With a licensed base of 951 beds, this facility serves as an acute care teaching hospital for The University of North Carolina at Chapel Hill.

UNC Hospitals was assessed \$98,452,709 in fiscal year 2021 for assessments and mission support to the System Fund. In turn, the System Fund made payments of \$5,889,505 for program support. As of June 30, 2021, the System Fund had receivables of \$55,717,443 from UNC Hospitals.

University of North Carolina School of Medicine - UNC School of Medicine, which includes UNC Faculty Physicians, provides a full range of specialty and

primary care services for patients of UNC Health. While the great majority of services are rendered at the inpatient units of UNC Hospitals and the outpatient clinics on the UNC campus, there is a growing range of services provided at clinics in the community.

UNC School of Medicine was assessed \$12,775,375 in fiscal year 2021 for assessments to the System Fund. In turn, the System Fund made payments of \$128,850,417 for program support and mission support. As of June 30, 2021, the System Fund had payables of \$107,651,924 to UNC School of Medicine.

Rex Healthcare, Inc. - Rex Healthcare, Inc. (Rex) is a North Carolina not-for-profit corporation that provides a wide range of health care services to the residents of the Triangle area of North Carolina. UNC Health is the sole member of Rex.

Rex was assessed \$6,129,670 in fiscal year 2021 for assessments to the System Fund. In turn, the System Fund made payments of \$106,375 for program support. As of June 30, 2021, the System Fund had receivables of \$673,716 from Rex and payables of \$106,375 to Rex.

Chatham Hospital, Inc. - Chatham Hospital, Inc. (Chatham) is a private, not-for-profit corporation that owns and operates a critical access facility located in Siler City, North Carolina. UNC Health is the sole member of Chatham.

Chatham was assessed \$178,126 in fiscal year 2021 for assessments to the System Fund. As of June 30, 2021, the System Fund had receivables of \$60,879. The System Fund extended a \$16,000,000 note receivable to Chatham in fiscal year 2018, of which \$12,480,053 was still outstanding as of June 30, 2021. Of this amount, \$1,239,266 is due in the next year.

UNC Physicians Network, LLC and UNC Physicians Network Group Practices, LLC - UNC Physicians Network, LLC (UNCPN), UNC Physicians Network Group Practices, LLC, and UNC Physicians Group Practices II, LLC (UNCPN GP2) are wholly-owned subsidiaries of UNC Health, but are private employers that own and operate more than 116 community-based practices throughout the Triangle region of North Carolina (Raleigh, Durham, and Chapel Hill) and beyond.

These are physician-led networks structured to meet the needs of the community and community practice physicians by creating a partnership for physicians and UNC Health to face the challenging health care environment.

UNCPN was assessed \$3,335,043 in fiscal year 2021 for assessments to the System Fund. In turn, the System Fund made payments of \$117,810 for program support. As of June 30, 2021, the System Fund had payables of \$23,892 to UNCPN and receivables of \$70,055 from UNCPN GP2.

Effective July 1, 2019 the Boylan Clinic entered into a line of credit agreement for up to \$475,000 with the System Fund for use in operations as necessary. Outstanding draws on this line of credit bear simple interest at a fixed rate of the prime rate as of July 1, 2019 plus 0.75% (6.25%). This agreement was renewed on July 1, 2021 and all unpaid amounts including accrued interest are due on June 30, 2022. As of June 30, 2021, there was no outstanding balance.

Effective July 1, 2020, the Boylan Clinic entered into a line of credit agreement for up to \$200,000 with the System Fund for use in funding income tax payments related to tax liabilities on its earned income. Outstanding draws on this line of credit bear simple interest at a fixed rate of the prime rate as of July 1, 2020 plus 0.75% (4.00%). As of June 30, 2021, there was no balance outstanding. This agreement was renewed on July 1, 2021 and all unpaid amounts including accrued interest are due on June 30, 2022.

Effective July 1, 2018, the Garner Family Practice Clinic entered into a line of credit agreement for up to \$475,000 with the System Fund for use in operations as necessary. Outstanding draws on this line of credit bear simple interest at a fixed rate of the prime rate as of July 1, 2018 plus 0.75% (5.75%). As of June 30, 2021, there was no balance outstanding. This agreement was renewed on July 1, 2021 and all unpaid amounts including accrued interest are due on June 30, 2022.

Effective March 29, 2021, UNC Physicians Group Practices II, LLC (UNC Health Cary Orthopaedic and Sports Medicine Specialists division) entered into a line of credit agreement for up to \$1,500,000 with the System Fund for use in operations as necessary. Outstanding draws on this line of credit bear simple interest at a fixed rate of the prime rate as of March 29, 2021 plus 0.75% (4.00%). As of June 30, 2021, the balance outstanding was \$600,000. All unpaid amounts including accrued interest are due on June 30, 2023.

The following table summarizes the activity in the lines of credit for the year ended June 30, 2021:

Entity	Balance July 1, 2020	Borrowings	Payments	Balance June 30, 2021
UNCPN-GP				
Boylan Clinic	\$ 425,000	\$ 0	\$ 425,000	\$ 0
Garner Family Practice Clinic	275,000		275,000	
	<u>700,000</u>		<u>700,000</u>	
UNCPN-GP2				
Cary Orthopaedics	-	1,500,000	900,000	600,000
Total	<u>\$ 700,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,600,000</u>	<u>\$ 600,000</u>

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

Caldwell was assessed \$658,607 in fiscal year 2021 for assessments to the System Fund. As of June 30, 2021, the System Fund had receivables of \$225,527 from Caldwell and payables of \$20,000 to Caldwell.

UNC Rockingham Health Care, Inc. - UNC Rockingham Health Care, Inc. (Rockingham) is a not-for-profit acute care hospital located in Eden, North Carolina providing inpatient, outpatient, emergency care, and nursing services to communities in north central North Carolina and south central Virginia.

Rockingham was assessed \$219,512 in fiscal year 2021 for assessments to the System Fund. As of June 30, 2021, the System Fund had receivables of \$72,366 from Rockingham and payables of \$21,892 to Rockingham.

UNC Health Care Managed Entities - UNC Health has signed management service agreements with Henderson County Hospital Corporation d/b/a Margaret R. Pardee Memorial Hospital, Nash Health Care Systems, Johnston Health Services Corporation, Wayne Health Corporation, Lenoir Memorial Hospital, and Onslow County Hospital Authority, which are considered managed entities within UNC Health.

Subsequent to June 30, 2021, UNC Health has entered into management service agreements with the following health care organizations: CarolinaEast Health System, Southeastern Regional Medical Center, and Blue Ridge Healthcare System, Inc.

WakeBrook Mental Health Campus - UNC Health agreed to provide, enhance, and expand all services offered in the past at Wake County's WakeBrook facility. Pursuant to agreements with Wake County and Alliance Behavioral Health, UNC Health started operating WakeBrook Crisis and Assessment services on February 1, 2013. WakeBrook is now fully operational, providing behavioral health and medical services in the areas of crisis and assessment, residential facility, detoxification beds, onsite medical care via the primary care clinic and Assertive Community Treatment Team.

The Enterprise Fund has committed to backstop the losses from WakeBrook operations for UNC Health entities.

UNC Health Care Shared Administrative Services Fund - The UNC Health Care Shared Administrative Services Fund (Shared Administrative Services Fund) is used to assess and allocate administrative expenses for UNC Health's centralized services. These services (including but not limited to information systems and technology, human resources, finance, strategic planning, risk management, etc.) represent activities that benefit all of the owned entities and functions to support UNC Health's operations throughout the year. As of June 30, 2021, the System Fund had payables of \$66,091,188 to the Shared Administrative Services Fund.

University of North Carolina Health Care Real Estate Fund (NC Health Properties) - NC Health Properties within UNC Health was created to segregate and track real estate holdings in the name of UNC Health Care System and Health System Properties, LLC. This fund will act as a service center to accumulate costs associated with real estate holdings across various UNC Health entities which will have rental or use agreements with NC Health Properties. As of June 30, 2021, the System Fund had receivables of \$510,077 from NC Health Properties.

NOTE 11 - INVESTMENT IN AFFILIATES

The System Fund has investments in affiliates and joint ventures accounted for using the equity and cost methods. A summary of changes in the investments in affiliates for the year ended June 30, 2021 is presented as follows:

Affiliate	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021
Johnston Health Services Corporation	\$ 67,002,255	\$ 46,888,424	\$ 0	\$ 113,890,679
Alignment Healthcare Partners, LP	6,111,274		6,111,274	0
Total Investment in Affiliates	\$ 73,113,529	\$ 46,888,424	\$ 6,111,274	\$ 113,890,679

Effective February 1, 2014, Johnston Memorial Hospital Authority (JMHA) and UNC Health entered into a Master Agreement to form Johnston Health Services Corporation (JHSC), a joint venture created to achieve the long-term vision of providing high quality health care to the residents of Johnston County, North Carolina. UNC Health provided \$57,600,000 in contributions in exchange for a 35.25% membership interest in JHSC. On November 4, 2020, Rex Healthcare, Inc. formalized a joint operating agreement with JMHA and as a party to the agreement, UNC Health acquired an additional membership interest of 14.65% in JHSC, which is reported under the financial statement category Investment in Affiliates. In exchange for the additional membership, UNC Health agreed to provide \$40 million toward the completion of a hospital tower on Johnston's Clayton Campus over the course of construction. The agreement increases UNC Health membership interest to 49.90% in fiscal year 2021. UNC Health's share of the fiscal year 2021 unrealized gain in this investment is \$6,888,424.

UNC Health owned a small minority ownership interest (less than 5%) in Alignment Healthcare Partners, LP (ALHC), a company that provides population health services to health systems and health plans with current operations in California, Florida, and North Carolina. In prior years, this investment was valued at its cost of \$6,111,274. On March 26 2021, the company went public through an Initial Public Offering (IPO). Subsequently, UNC Health reclassified this investment on its Statement of Net Position from an Investment in Affiliates to Investments and this holding is now reported at fair market value similarly to other investments holdings. See Note 2 for further information.

NOTE 12 - THE CORONAVIRUS PANDEMIC EMERGENCY

The System Fund is holding various coronavirus program funds for distribution to UNC Health entities during the fiscal year 2022. In response to the coronavirus pandemic emergency, the federal government provided grants to the State and the UNC Health entities through various coronavirus program funds appropriated by (1) The Coronavirus Aid, Relief, and Economic Security Act (CARES), (2) The Coronavirus Response and Relief Supplemental Appropriations within the Federal Consolidated Appropriations Act of 2021 (CRRSA), and (3) The American Rescue Plan Act of 2021 (ARP).

Coronavirus program funds held by the System Fund include COVID-19 Response from the Federal Emergency Management Agency (FEMA), Medicare Accelerated and Advanced Payment program advancements from the Centers for Medicare and Medicaid Services (CMS), Provider Relief Fund distributions from the U.S. Department of Health and Human Services (HHS), and vaccination expense reimbursements from the North Carolina Department of Public Safety – Division of Emergency Management (NCEM). The grant revenues from the various coronavirus program funds are contingent upon meeting the terms and conditions of the grant and signed agreements with the funding agencies and incurring qualifying expenditures. Below are the amounts that the System Fund is holding for each of the respective UNC Health entities that are reported as a component of Funds Held for Others on the Statement of Net Position.

Funds Held for	FEMA	CMS	HHS	NCEM	Total
UNC Hospitals	\$ 19,951,021	\$ 0	\$ 0	\$ 0	\$ 19,951,021
Rex Healthcare, Inc.	5,288,060	104,836,312			110,124,372
Chatham Hospital, Inc.	171,402	949,651			1,121,053
UNC Rockingham Health Care, Inc.	2,365,159	4,833,321			7,198,480
Caldwell Memorial Hospital	2,224,660	10,922,236			13,146,896
UNC Faculty Physicians				796,220	796,220
UNC Physicians Network, LLC	2,806,122	5,545,494			8,351,616
UNC Physicians Network Group Practices, LLC				1,326,828	1,326,828
UNC Health Care System			3,964,936		3,964,936
Total coronavirus related program funds	\$ 32,806,424	\$ 127,087,014	\$ 3,964,936	\$ 2,123,048	\$ 165,981,422

The System Fund also holds \$1,132,482 of funds on behalf UNC Health entities unrelated to coronavirus pandemic programs.

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2021, the System Fund implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 84, Fiduciary Activities

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

GASB Statement No. 98, The Annual Comprehensive Financial Report

GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and

postemployment benefit arrangements that are fiduciary activities. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for 90-days or less.

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

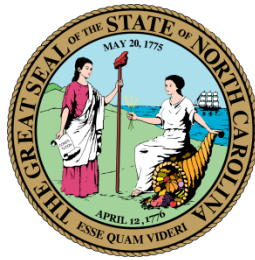
GASB Statement No. 98 establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

NOTE 14 - RESTATEMENT

The financial statements as of June 30, 2020 have been corrected to reflect cash held for the Medicare Accelerated and Advanced Payment program that resulted in an understatement of cash and cash equivalents by \$127,158,965 and an understatement of funds held for others by \$127,158,965. This correction had no effect on net position as of June 30, 2020 or the change in net position for the year then ended. Cash and cash equivalents as of July 1, 2020 on the Statement of Cash Flows has been restated for this correction.

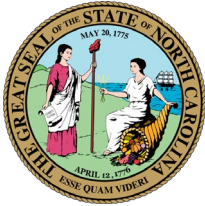
NOTE 15 - SUBSEQUENT EVENT

As of June 30, 2021, the System Fund held 3,289,230 shares of Alignment Healthcare, Inc. with a carrying value of \$76,869,305. This stock is being traded on the Nasdaq stock exchange under the symbol ALHC. The System Fund sold 1,950,000 shares of this stock during the months of October and November 2021 for total proceeds of \$42,146,296.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699
Telephone: (919) 807-7500
Fax: (919) 807-7647
www.auditor.nc.gov

**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**

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) which is a part of the University of North Carolina Health Care System that is an affiliated enterprise 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, 2021, and the related notes to the financial statements, which collectively comprise the System Fund's basic financial statements, and have issued our report thereon dated September 6, 2022.

As discussed in Note 1, the financial statements of the University of North Carolina Health Care System Funds are intended to present the financial position, changes in financial position, and cash flows that are only attributable to the transactions of the University of North Carolina Health Care System Funds. They do not purport to, and do not, present fairly the financial position of the University of North Carolina Health Care System nor the University of North Carolina System as of June 30, 2021, the changes in its financial position, or its cash flows for the year then ended in accordance 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) as a basis for designing 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 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 financial statements. 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

September 6, 2022

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: <http://www.auditor.nc.gov>



To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline:

Telephone: 1-800-730-8477

Internet: <https://www.auditor.nc.gov/about-us/state-auditors-hotline>

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

919-807-7666



This audit required 520 hours at an approximate cost of \$55,120.