



Financials & Statistics

Chapel Hill, North Carolina

For the years ending June 30, 2025, and June 30, 2024

Letter of Transmittal

December 18, 2025

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

Introduction

This Annual Report includes a compilation of the operating results and financial position of the University of North Carolina Health Care System (UNC Health) as established by N.C.G.S 116-350. The financial reports, as presented, represent a summary of data generated by the various entities under the control of the Board of Directors of UNC Health.

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

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

The Financials and Statistics section of the Annual Report presents Management's Discussion and Analysis and pro-forma financial statements for UNC Health and UNCFP. This section also includes selected statistical and financial ratio information. Management's Discussion and Analysis provides an overview of the financial position and operating results. This discussion and analysis should be read in conjunction with the financial statements and the related notes that follow.

Financial Information

Internal Control Structure

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

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

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

Budgetary Controls

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

UNC Health and LITF are subject to the provisions of N.C.G.S 116.350, the Establishment of the University of North Carolina Health Care System. This state statute provides for the establishment of UNC Health and describes its authorities and governance. The statute is a cornerstone of UNC Health's legal foundation, defining its role within the state's public university system and setting forth the parameters under which it may operate.

Cash and Investment Management

UNC Health continues to work with the Office of the State Treasurer and the University of North Carolina Management Company (UNCMC) to maximize the investment earnings for UNC Hospitals based on changes in the General Statutes that were made during the 2005, 2008 and 2011 sessions of the General Assembly. In addition, UNC-CH has allowed UNCFP to invest a portion of their funds in an intermediate fund beginning in fiscal year 2008. Rex also began participating in these funds in fiscal year 2017. Investment earnings subsidize operating income and enable UNC Health to provide more services to the citizens of the state of North Carolina. The cash management policy includes all areas of receipts and disbursements so that investment earnings are maximized, and vendor relations are maintained.

Risk Management

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

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

Acknowledgements

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

Will Bryant
System Chief Financial Officer
The University of North Carolina Health Care System

Management's Discussion and Analysis

Introduction

Management's discussion and analysis provides an overview of the financial position and activities of the University of North Carolina Health Care System (UNC Health) for the fiscal years ending June 30, 2025, and June 30, 2024. The financial statements included for UNC Health – The Statement of Net Position; The Statement of Revenues, Expenses, and Changes in Net Position; and The Statement of Cash Flows – are labeled "pro forma" to demonstrate that they are an aggregation of assets and liabilities and the results of financial activities and not the result of an overall audit of UNC Health by an independent auditor and should not be relied on as such.

UNC Health was established November 1, 1998, and is subject to the provisions of N.C.G.S 116–350. UNC Health is governed by a Board of Directors and is administered as an affiliated enterprise of the University of North Carolina. UNC Faculty Physicians (UNCFP) represents the clinical patient care programs of the UNC School of Medicine (UNC SOM) and is a component unit of UNC Health pursuant to state law. The University of North Carolina Health Care System Funds (System Fund), REX Healthcare, Inc. (REX), Chatham Hospital, Inc. (Chatham), Caldwell Memorial Hospital (Caldwell), UNC Rockingham Health Care (Rockingham), UNC Physicians Network (UNCPN) and UNC Physicians Network Group Practice (UNCPNGP) have been added to the organization since its inception.

General Statutes Chapter 116–350.100 authorizes the UNC Health Board to establish a liability insurance program through the purchase of contracts of insurance or the creation of self-insurance trusts, or through combination of such insurance and self-insurance, to provide the System, UNC Hospitals, component units, System affiliates, and individual health care practitioners with coverage against claims of personal or entity liability based on conduct within the course and scope of health care and related functions undertaken by such entities or individuals as employees, agents, or officers.

The Liability Insurance Trust Fund (LITF) is an unincorporated entity. LITF is a self-insurance program established to provide professional medical malpractice liability coverage for UNC Hospitals and UNCFP, (collectively, the program participants) and is discussed in more detail within the Notes to the Financial Statements. The LITF is also included in the annual report.

Carolina Collaborative Insurance Group LLC (CCIG) was formed as a Delaware Limited Liability Company (LLC) on November 28, 2023, and holds a captive insurance license pursuant to the Insurance Act of North Carolina. The Company is wholly owned

by UNC Health. CCIG provides primary coverage for employed physicians, and the UNC Health owned hospitals. CCIG also provides general liability, excess liability, and cyber coverage and reinsures the excess liability program and directly insures UNC Health under a deductible reimbursement policy for workers' compensation risks. CCIG's limit of liability varies for each coverage. CCIG is also included in the annual report.

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

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

On June 2, 2025, JHSC entered into a member substitution agreement with UNC Health. As a result, effective July 1, 2025, JMHA transferred its membership interest in JHSC to UNC Health, which established UNC Health as the sole corporate member of the JHSC. This will fully integrate JHSC into UNC Health and it will operate as a unified entity under the UNC Health brand. This member substitution agreement represents a significant organizational change that begins immediately after the reporting period. In conjunction with the member substitution agreement, the joint operating agreement with REX was terminated. This change does not impact the fiscal year ended June 30, 2025, but management chose to disclose this to users recognizing the significant change in operations and governance.

UNC Health owns and/or controls the net assets and financial operations of UNC Hospitals, the System Fund, REX, Chatham, Caldwell, Rockingham, UNCPN and UNCPNGP. In contrast, UNC-CH owns and controls the net assets and financial operations of UNCFP. The UNC Health Board of Directors governs and oversees physician credentialing, quality and patient safety, and resident training and acts to review and advise on the financial activities of UNCFP. Final direct control of the monetary operations of UNCFP remains within UNC-CH.

The physicians who provide patient care at UNC Hospitals and in the UNC-CH clinics are employees of UNC-CH. Most non-physician employees who assist in providing patient care and the associated administrative, billing and collection services are employees of UNC Health.

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

Pro forma consolidated financial statements for UNC Health are presented, which include UNC Hospitals, the System Fund, REX, Chatham, Caldwell, Rockingham, UNCPN, UNCPNGP, LITF and UNCFP. UNCFP's Statement of Net Position, and Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the fiscal years ending June 30, 2025, and 2024 are also included since these financial activities are not separately disclosed elsewhere.

Using This Financial Report

UNC Health's financial statements provide information regarding its financial position and results of operations as of June 30, 2025, and 2024 and the years then ended. The Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows comprise the basic financial statements required by the Governmental Accounting Standards Board (GASB).

In accordance with GASB, the *pro forma* financial statements are presented and follow reporting concepts similar to those used by private-sector health organizations. These statements offer short and long-term financial activities about its operations. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the operations. The Notes to the Financial Statements provide information relative to the significant accounting principles applied in the financial statements and further details concerning the organization and its operations. These disclosures provide information to better understand details, risk and uncertainty associated with the amounts reported and are considered an integral part of these *pro forma* financial statements.

Pro Forma Statement of Net Position

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

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

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

Pro Forma Statement of Cash Flows

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

Notes to the Financial Statements

Notes to the *pro forma* financial statements are designed to give the reader additional information concerning UNC Health and further support the statements noted above. These disclosures provide information to better understand details, risks, and uncertainty associated with the amounts reported and are considered an integral part of the financial statements.

Comparison of Two-Year Data for 2024 to 2023

Data for 2025 and 2024 are presented in this report and discussed in the following sections. Discussion in the following sections is pertinent to fiscal year 2025 results and changes relative to ending balances in fiscal year 2024.

Financial Analysis

STATEMENT OF NET POSITION

Total assets increased year over year by \$805.3 million. Current assets increased by \$387 million, and the increase was driven by Cash and Investments, Estimated Third Party Settlements, and Inventories. Noncurrent assets increased \$418.3 million and the increase was driven by positive investment returns and continued investment in our facilities and equipment.

Deferred outflows of resources increased \$31.4 million from non-cash adjustments related to Governmental Accounting Standards Board (GASB) No. 68 and Statement No. 75 as it relates to the State of North Carolina Teacher's and State Employee's Retirement System Plan and other postemployment benefits as well as hedging derivatives.

The increase in liabilities is attributed to the combined non-cash change in the net pension liability and net other postemployment benefits liability recorded in accordance with GASB Statements No. 68 and No. 75 within the noncurrent section.

Deferred inflows of resources decreased \$83.3 million from the recognition of differences between actual and expected pension plan experience, including investment performance, related to the pension plan and other postretirement benefits in accordance with GASB No. 68 and Statement No. 75, as well as a decrease in lease-related deferred inflows.

Net position increased \$794.2 million or 22.4% year over year as described in more detail in the statement of revenues, expenses, and changes in net position.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

UNC Health generated operating income of \$533.9 million (7.2% operating margin) in fiscal year 2025. The main drivers of revenue are from volume and Healthcare Access & Stabilization Program (HASP) recognition. Volumes outperformed budget and continued to rebound in patients with higher acuity cases and overall compared to the prior year. Revenue includes the recognition of \$416 million of HASP revenue that was allocated among the entities.

Operating expenses increased primarily in Salaries and Benefits as well as Medical & Surgical Supplies. Salaries and benefits are driven primarily by volume. Medical & Surgical Supplies also increased due to overall volume, retail and contract pharmacy expenses and inflation. Contracted Services also increased year over year due to UNC Health's Forward Together efficiency initiatives.

Nonoperating income increased \$25.2 million year over year due to strong investment returns.

Transfers increased year over year and are primarily in support of the UNC School of Medicine.

CAPITAL ASSETS

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

A variety of significant capital projects are also underway throughout UNC Health.

The Surgical Tower will provide new space and modernize a significant number of operating and intensive care rooms located on the UNC Medical Center campus. This project was under construction in fiscal year 2024 but opened in August 2024.

The Neuroscience Hospital continued construction throughout fiscal year 2025 and is expected to be completed in fiscal year 2026. The renovations are being done to accommodate new patient behavior health and medical rooms and also to address updated regulatory requirements and ensure continued safety for our behavioral health patients.

The second phase of the central generator plant project is underway and will provide power to the chiller plants at UNC Medical Center. This project is expected to be completed in fiscal year 2027.

Caldwell began work on the Capstone II project during the year. This \$33 million project will modernize four areas in the Hospital and create additional space to accommodate future growth. Departments included are the Cath Lab, clinical laboratory, food services including the cafeteria and new inpatient pharmacy space.

LONG-TERM DEBT ACTIVITY

UNC Hospitals and REX each have existing debt and may issue additional debt in the future should the need arise to finance capital and construction projects.

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

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

S&P Global Ratings (S&P) and Moody's Investors Service (Moody's) rate UNC Hospitals' bonds as AA and Aa3, respectively. S&P and Moody's, rate REX's bonds as AA- and A2, respectively. In its most recent rating review completed in the fourth quarter of 2024, S&P issued a stable outlook for UNC Hospitals and Rex's bond rating, while Moody's upgraded their outlook for both UNC Hospitals and Rex to positive, from stable.

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 during the current fiscal year has enabled UNC Health to continue to make investments in support of the clinical, education, and research programs of UNCFP, UNC SOM, and other network entities. These investments have yielded positive results, as measured by growth in needed services, expansion of the medical school class and increased research funding.

UNC Health continues to be 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, ongoing capital investment. Guided by a philosophy of collaboration and partnership with other providers, UNC Health continues to evaluate potential partnerships of strategic importance to its growth and development.

Third-party payors, including governmental sponsored programs, continue to migrate from fee-for-service to fee-for-value payment models. UNC Health Care has positioned itself to be a leader in the new health care environment that will ultimately reimburse differently for services currently provided to our patients. Significant investments have been made in population health care in response to a value-based reimbursement regulatory environment. We have implemented programs aimed at different aspects of population health management at each of our medical institutions. UNC Health Alliance, LLC (UNCHA), a subsidiary of UNCPN, is a clinically integrated network designed to enable private practice community physicians to enter into value-based contracts jointly with UNC Health and third-party payors, with the goal of increasing quality and better managing total cost of care.

Behavioral health is an ongoing area of focus as UNC Health evaluates the most effective opportunities to provide care to the populations served. In December 2022, the North Carolina Department of Health and Human Services and UNC Health agreed to partner to convert the R.J. Blackley Alcohol and Drug Abuse Treatment Center in Butner, N.C., into a 54-bed inpatient psychiatric hospital for children and adolescents called the UNC Hospitals Youth Behavioral Health. This facility opened in November 2023 and offers a first-of-its-kind model of mental health care for children and teens. Our patients need and this facility provides a short-term hospitalization to stabilize a mental illness. It is one of the only facilities in the state to care for children with acute psychiatric conditions and co-occurring developmental disabilities or substance use conditions.

UNC Health provides care without charge and at amounts less than its established rates to patients who meet

qualifying criteria. People who have no health insurance coverage, no coverage from another third party, or who obtain services not covered by their health insurance are eligible for a 40% discount on charges. No application is required for this discount although some exceptions apply (e.g. cosmetic procedures).

Many North Carolinians require additional financial support for the care they need. As of 2025, North Carolina Residents with a household income at or below 250% of the Federal Poverty Guidelines may apply for Financial Assistance (Charity Care). A family of four with a household income at or below \$80,375 would qualify, as would an individual with income at or below \$39,125.

If approved, Financial Assistance will apply to medically necessary services, after all third-party coverage has been collected (some exceptions apply).

UNC Health's future financial trajectory and operating results are subject to certain risks and uncertainties due to the recently enacted One Big Beautiful Bill (OBBB) Act. This new legislation is expected to significantly impact our primary revenue sources, particularly with changes to Medicare and Medicaid reimbursement rates and expanded patient cost-sharing requirements.

These regulatory changes create significant risks, including an increase in uncompensated care and a potential decrease in patient volumes. This could put pressure on our operating margins and increase the administrative burden associated with verifying coverage and addressing patient financial inquiries. The full financial impact is uncertain and will depend on multiple factors, including patient utilization trends and UNC Health's continued implementation of successful cost-containment and operational efficiency strategies. Management is assessing these risks through financial modeling in order to develop appropriate strategies, but there can be no assurance that UNC Health will be able to fully mitigate the financial adverse effects of the OBBB Act.

Management's ongoing commitment is to maintain high quality patient care, innovation, and very satisfied patients while exercising appropriate expense management. 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 continuing to develop 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.

Pro Forma Statement of Net Position (Unaudited)

For the Years Ended June 30, 2025 and June 30, 2024

	2025	restated 2024
Current Assets		
Cash and Investments	\$ 797,190,000	\$ 540,565,000
Patient Accounts Receivable Net	606,326,000	589,382,000
Estimated Third Party Settlements	178,110,000	103,179,000
Other Assets Whose Use is Limited or Restricted	479,480,000	459,921,000
Inventories	147,320,000	126,875,000
Prepaid Expenses and Other Current Assets	65,750,000	67,183,000
Total Current Assets	2,274,176,000	1,887,105,000
Noncurrent Assets		
Investments and Assets Whose Use is Limited or Restricted	617,124,000	532,044,000
Other Noncurrent Assets	2,955,353,000	2,675,712,000
Property Plant and Equipment, Net	2,865,001,000	2,811,422,000
Total Noncurrent Assets	6,437,478,000	6,019,178,000
Total Assets	\$8,711,654,000	\$7,906,283,000
Deferred Outflows of Resources	762,016,000	730,555,000
Total Assets and Deferred Outflows	\$ 9,473,670,000	\$ 8,636,838,000
Current Liabilities		
Accounts and Other Payables	439,830,000	383,288,000
Accrued Salaries and Benefits	327,055,000	419,209,000
Current Portion of Long Term Debt	28,393,000	27,887,000
Estimated Third Party Settlements - Current	195,650,000	177,147,000
Other Current Liabilities	351,218,000	343,148,000
Total Current Liabilities	1,342,146,000	1,350,679,000
Noncurrent Liabilities		
Noncurrent Portion of Long Term Debt	1,114,815,000	1,099,386,000
Estimated Third Party Settlements - Noncurrent	117,491,000	124,847,000
Other Noncurrent Liabilities	2,219,281,000	2,092,837,000
Total Noncurrent Liabilities	3,451,587,000	3,317,070,000
Total Liabilities	4,793,733,000	4,667,749,000
Deferred Inflows of Resources	334,464,000	417,779,000
Net Position	4,345,473,000	3,551,310,000
Total Liabilities, Deferred Inflows of Resources and Net Position	\$9,473,670,000	\$8,636,838,000

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

For the Years Ended June 30, 2025 and June 30, 2024

	2025	restated 2024
Operating Revenues		
Net patient service revenue	\$ 6,742,538,000	\$ 5,988,872,000
Other operating revenues	661,273,000	638,508,000
Total Operating Revenues	7,403,811,000	6,627,380,000
Operating Expenses		
Salaries and benefits	3,709,655,000	3,470,069,000
Medical and surgical supplies	1,799,642,000	1,581,815,000
Contracted services	759,376,000	696,049,000
Other supplies and services	280,938,000	269,666,000
Depreciation and amortization	273,595,000	262,412,000
Interest expense	46,689,000	45,482,000
Total Operating Expenses	6,869,895,000	6,325,493,000
Operating Income (Loss)	533,916,000	301,887,000
Nonoperating Income (Loss)		
Investment income, net	319,099,000	303,729,000
CARES Act Stimulus	63,634,000	23,657,000
Other, net	(38,720,000)	(8,657,000)
Nonoperating Income, Net	344,013,000	318,729,000
Excess (Deficit) of Revenues and Gains Over Expenses and Losses	877,929,000	620,616,000
Health Care System Transfers	(83,766,000)	(77,902,000)
Change in Net Position	794,163,000	542,714,000
Net Position - Beginning of Period	3,551,310,000	3,008,596,000
Net Position - End of Period	\$ 4,345,473,000	\$ 3,551,310,000

Pro Forma Statement of Cash Flows (Unaudited)

For the Years Ended June 30, 2025 and June 30, 2024

	2025	restated 2024
Operating Activities		
Receipts from patients and third-party payors	\$ 6,654,334,000	\$ 5,871,356,000
Payments to and on behalf of employees	(3,775,611,000)	(3,390,084,000)
Payments to suppliers	(2,900,302,000)	(2,681,853,000)
Other receipts	627,030,000	660,208,000
Net Cash Provided by Operating Activities	605,451,000	459,627,000
Noncapital Financing Activities		
Health Care System transfers	51,601,000	(83,080,000)
Other payments	80,393,000	2,679,000
Net Cash Provided by Noncapital Financing Activities	131,994,000	(80,401,000)
Capital and Related Financing Activities		
Interest paid on capital debt	(33,254,000)	(28,244,000)
Interest paid on leases	(4,145,000)	(2,836,000)
Principal paid on revenue bond maturity	(10,886,000)	(16,614,000)
Principal paid on capital lease and notes payable	(64,685,000)	(53,272,000)
Acquisition and construction of capital assets	(231,289,000)	(315,465,000)
Transfer to construction fund	344,000	-
Net Cash Used/Provided by Capital and Related Financing Activities	(343,915,000)	(416,431,000)
Investing Activities		
Interest income	220,473,000	212,704,000
Investment income, net	(322,380,000)	(183,376,000)
Net Affiliated Activity	5,681,000	6,352,000
Other receipts, net	(40,679,000)	(11,652,000)
Net Cash Used/Provided by Investing Activities	(136,905,000)	24,028,000
Net Increase in Cash and Cash Equivalents	256,625,000	(13,177,000)
Cash and Cash Equivalents - Beginning of Period	540,565,000	553,742,000
Cash and Cash Equivalents - End of Year	\$ 797,190,000	\$ 540,565,000

Statement of Net Position (Unaudited)

For the Years Ended June 30, 2025 and June 30, 2024

	2025	restated 2024
Current Assets		
Cash and Investments	\$ 4,001,000	\$ 39,749,000
Patient Accounts Receivable Net	48,808,000	61,151,000
Estimated Third Party Settlements	86,517,000	87,843,000
Other Assets Whose Use is Limited or Restricted	106,296,000	102,127,000
Inventories	5,000	2,000
Prepaid Expenses and Other Current Assets	17,024,000	17,468,000
Total Current Assets	262,651,000	308,340,000
Noncurrent Assets		
Investments and Assets Whose Use is Limited or Restricted	527,000	527,000
Other Noncurrent Assets	71,629,000	63,792,000
Total Noncurrent Assets	72,156,000	64,319,000
Total Assets	\$ 334,807,000	\$ 372,659,000
Current Liabilities		
Accounts and Other Payables	\$ 94,192,000	\$ 61,033,000
Accrued Salaries and Benefits	63,788,000	71,348,000
Total Current Liabilities	157,980,000	132,381,000
Noncurrent Liabilities		
Other Noncurrent Liabilities	66,512,000	62,116,000
Total Noncurrent Liabilities	66,512,000	62,116,000
Total Liabilities	224,492,000	194,497,000
Net Position	110,315,000	178,162,000
Total Liabilities and Net Position	\$ 334,807,000	\$ 372,659,000

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

For the Years Ended June 30, 2025 and June 30, 2024

	2025	restated 2024
Operating Revenues		
Net patient service revenue	\$ 636,067,000	\$ 583,480,000
Other operating revenues	149,594,000	160,594,000
Total Operating Revenues	785,661,000	744,074,000
Operating Expenses		
Salaries and benefits	784,176,000	701,965,000
Medical and surgical supplies	26,690,000	17,264,000
Contracted services	105,030,000	89,226,000
Other supplies and services	44,401,000	31,192,000
Total Operating Expenses	960,297,000	839,647,000
Operating Income (Loss)	(174,636,000)	(95,573,000)
Nonoperating Income (Loss)		
Investment income, net	8,531,000	7,402,000
Other, net	(40,037,000)	(11,345,000)
Nonoperating Income, Net	(31,506,000)	(3,943,000)
Excess (Deficit) of Revenues and Gains Over Expenses and Losses	(206,142,000)	(99,516,000)
Health Care System Transfers	138,295,000	171,088,000
Change in Net Position	(67,847,000)	71,572,000
Net Position - Beginning of Period	178,162,000	106,590,000
Net Position - End of Period	\$ 110,315,000	\$ 178,162,000

Statement of Cash Flows (Unaudited)

For the Years Ended June 30, 2025 and June 30, 2024

	2025	restated 2024
Operating Activities		
Receipts from patients and third-party payors	\$ 649,738,000	\$ 558,444,000
Payments to and on behalf of employees	(787,342,000)	(691,353,000)
Payments to suppliers	(156,311,000)	(139,025,000)
Other receipts	145,426,000	162,773,000
Net Cash Used/Provided by Operating Activities	(148,489,000)	(109,161,000)
Noncapital Financing Activities		
Health Care System transfers	147,742,000	171,088,000
Net Cash Provided by Noncapital Financing Activities	147,742,000	171,088,000
Investing Activities		
Interest income	8,531,000	7,402,000
Investment income, net	(3,495,000)	(4,603,000)
Other receipts, net	(40,037,000)	(11,345,000)
Net Cash Provided by Investing Activities	(35,001,000)	(8,546,000)
Net Increase in Cash and Cash Equivalents	(35,748,000)	53,381,000
Cash and Cash Equivalents - Beginning of Period	39,749,000	(13,632,000)
Cash and Cash Equivalents - End of Year	\$ 4,001,000	\$ 39,749,000

Pro Forma Selected Statistics and Ratios (*Unaudited*)

For the Years Ended June 30, 2025 and June 30, 2024

	2025	restated 2024
Patient Service Statistics		
Discharges	90,807	87,873
Patient Days	625,429	607,155
Observation Day Equivalents	37,447	34,073
Deliveries	10,217	10,103
Adjusted Discharges	220,490	212,535
Adjusted Patient Days	1,370,986	1,327,955
CMI Adjusted Discharges	422,831	407,471
CMI Adjusted Patient Days	2,700,880	2,617,204
ED Visits	255,117	250,644
wRVUs	13,868,136	13,133,233
Surgical Cases	68,663	66,008
Cath Lab	17,397	16,242
EP Lab	11,087	10,663
Structural Heart	939	874
Chemotherapy	105,052	99,690
Radiation Therapy	66,071	63,093
Imaging	875,607	836,149
Endoscopy	36,414	34,189
Transplants	426	414

Notes to the Pro Forma Financial Statements

NOTE 1 // SIGNIFICANT ACCOUNTING POLICIES

A. Organization – The University of North Carolina Health Care System (UNC Health) was originally established November 1, 1998, by N.C.G.S. 116-37. This G.S. was repealed and replaced on October 3, 2023, with G.S. 116-350. UNC Health is governed and administered as an affiliated enterprise of The University of North Carolina system with its stated purpose to provide patient care, facilitate the education of physicians and other health care providers, conduct research collaboratively with the health sciences schools of the University of North Carolina at Chapel Hill (UNC-CH) and render other services designed to promote the health and well-being of the citizens of North Carolina.

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

Caldwell Memorial Hospital (Caldwell) – Caldwell is a private, not-for-profit community hospital in Lenoir, North Carolina and is an acute care hospital with a provider network of over 100 primary and specialty care physicians and advanced practice professionals. UNC Health became the sole corporate member of Caldwell on May 1, 2013.

Carolina Collaborative Insurance Group, LLC (CCIG) – CCIG is a self-insurance program that was organized by UNC Health. This entity was established to provide Hospital Professional and General Liability, Physician's Professional Liability, Workers Compensation and Cyber insurance for the owned and managed entities participating in the program.

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

trustee positions. UNC Health's Board reviews and approves all board nominations as well as Chatham's annual operating and capital budgets.

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

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

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

The University of North Carolina Faculty Physicians – Formerly known as UNC Physicians & Associates, University of North Carolina Faculty Physicians (UNCFP) is the clinical service component of the UNC School of Medicine. At the heart of UNCFP are the approximately 1,500 physicians who provide a full range of specialty and primary care services for patients of UNC Health. While the great majority of services are rendered at the inpatient units of UNC Hospitals and the outpatient clinics on the UNC campus, there is a growing range of services provided at clinics in the community. There are 23 clinical departments and 4 administrative units that collectively form UNCFP.

Clinical Departments:

Health Sciences	Radiology
Anesthesiology	Surgery
Dermatology	Urology
Emergency Medicine	Carolina Institute for
Family Medicine	Developmental Disabilities
Medicine	(CIDD)
Neurology	Treatment and Education of
Neurosurgery	Autistic and
Obstetrics & Gynecology	Communication
Ophthalmology	Handicapped Children
Orthopaedics	(TEACCH)
Otolaryngology	
Pathology & Laboratory	Administrative Units:
Medicine	Administrative Office
Pediatrics	(Finance, Benefits, HR,
Physical Medicine &	Administration)
Rehabilitation	Shared Services
Psychiatry	Faculty Practice Patient
Radiation Oncology	Access Center and Front-
	End Operations

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

The University of North Carolina Hospitals (UNC Hospitals)

The University of North Carolina Hospitals at Chapel Hill (UNC Hospitals) is the only state-owned teaching hospital in North Carolina. With a licensed base of 1,001 beds, this facility serves as an acute care teaching hospital for The University of North Carolina at Chapel Hill. UNC Hospitals consists of North Carolina Memorial Hospital, North Carolina Children’s Hospital, North Carolina Neurosciences Hospital, North Carolina Women’s Hospital, North Carolina Cancer Hospital, and UNC Hospitals Hillsborough. As a state agency, UNC Hospitals is required to conform to financial requirements established by various statutory and constitutional provisions.

UNC Physicians Network, LLC (UNCPN) – UNCPN is a North Carolina limited liability corporation organized to meet the needs of community practice physicians and offers a partnership for both physicians and UNC Health to face the challenging health care environment. Acting through its network of 170

practices, UNCPN provides health care to patients from several locations throughout the Triangle area (Raleigh, Durham and Chapel Hill) and surrounding counties in North Carolina.

UNC Physicians Network Group Practices, LLC (UNCPN-GP)

UNCPN-GP is also a North Carolina limited liability corporation organized to meet the needs of community practice physicians and offers a partnership for both physicians and UNC Health to face the challenging health care environment. UNCPN-GP is wholly owned by UNC Health but is a private employer.

University of North Carolina Health Care Health Insurance Fund (HCS Health Insurance)

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

University of North Carolina Health Care Real Estate Fund (NC Health Properties)

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

UNC Rockingham Health Care (Rockingham)

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

University of North Carolina Health Care Shared Administrative Services Fund (Shared Administrative Services Fund)

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

University of North Carolina Health Care System Funds (System Fund)

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

B. Basis of Presentation

The accompanying financial statements present all activities under the direction of the UNC Health Board of Directors. The financial statements for UNC Health are presented as a pro-forma compilation of the various statements generated by its separate entities.

Caldwell, Chatham, REX, Rockingham, UNC Hospitals, UNCPN, and UNCPN-GP issue their own audited financial statements while UNCFP is included as a part of the audited statements for the UNC-CH.

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

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

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

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

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

F. Cash and Cash Equivalents – This classification includes all highly liquid investments with an original maturity of three

months or less when purchased including deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF account has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

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

H. Patient Accounts Receivable, Net – Net patient accounts receivable consists of unbilled (in-house patients, inpatients discharged but not final billed and outpatients not final billed) and billed amounts. Payment of these charges comes primarily from managed care payors, Medicare, Medicaid and, to a lesser extent, the patient. The amounts recorded in the financial statements are net of charity care, contractual allowances, avoidable and other losses, and allowances for bad debt to determine the net realizable value of accounts receivable.

Reserves for these deductions are recorded based on the historical collection percentage realized for each payor and projections for future collection rates. Flexible payment arrangements have been established to optimize collection of past-due accounts, and any amounts payable beyond one year are classified as non-current assets.

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

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

K. Assets Whose Use Is Limited or Restricted – Current assets whose use is limited or restricted include the debt

service funds established with the trustee in accordance with the bond indenture agreements and donor restrictions. The debt service funds are used to pay bond interest and principal as it becomes due. Noncurrent assets whose use is limited or restricted include the bond proceeds for construction projects, the funds required by the bond indenture agreements, funds in the maintenance reserve fund that will be used to acquire or construct future property, plant or equipment and the money on deposit with LITF.

L. Property Plant and Equipment – Property, plant and equipment are recorded at cost or acquisition value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Expenditures for repairs and maintenance are charged to expense as incurred. The costs for major renewals and betterments are capitalized and depreciated over the estimated useful lives of the assets. Upon disposition, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is credited or charged to nonoperating revenues and expenses.

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

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

N. Current and Noncurrent Portions of Long-Term Debt – These categories represent debt issued for the construction of buildings and the acquisition of equipment. The current amount is the portion of debt due within one year, and the balance is reflected as noncurrent. The debt instruments have fixed, variable or synthetically fixed rates with final maturity in fiscal year 2050. The interest rates in effect on June 30, 2025, ranged from 1.43% to 5%. When applicable, debt is reported net of unamortized discount, premium and deferred loss on refunding. Amortization of these amounts is done using either the effective interest method or the straight-line method.

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

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

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

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

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

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

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

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

Medicaid reimburses inpatient services under the Medicare

DRG system with some modifications. Medicaid reimburses outpatient services on a percent of charge methodology using a previous ratio of cost to charges. In addition to the fee for service reimbursement, we receive an inpatient UPL payment for traditional Medicaid. Managed Medicaid is reimbursed under the same fee for service methodology and rates. In addition, Managed Medicaid receives supplemental payments for both inpatient and outpatient services. There are two distinct programs, DPP (Directed Payment Program) and HASP (Healthcare Access and Stabilization Program). These programs increase Managed Medicaid reimbursement up to the average commercial rate (ACR).

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

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

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

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

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

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

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This

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

NOTE 2 // ESTIMATED THIRD-PARTY SETTLEMENTS

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

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

NOTE 3 // CAPITAL ASSETS

A summary of capital assets as of June 30:

	FY2025	FY2024
Land and Improvements	\$ 161,100,000	\$ 160,772,000
Buildings and Improvements	2,623,293,000	2,168,392,000
Equipment	1,482,917,000	1,351,378,000
Computer Software	282,958,000	273,308,000
Goodwill	7,705,000	7,705,000
Right of Use	813,655,000	699,734,000
Construction in Progress	228,706,000	612,357,000
Gross PP&E	\$5,600,334,000	\$5,273,646,000
Accumulated Depreciation	(2,735,333,000)	(2,462,224,000)
Net PP&E	\$2,865,001,000	\$2,811,422,000

NOTE 4 // LONG-TERM DEBT

A summary of outstanding bond debt and related issuance costs as of June 30, 2025, was:

	Total FY2025	Total FY2024
Rex Series 2015A Bonds	50,000,000	50,000,000
Rex Series 2015B Bonds	100,000,000	100,000,000
Rex Series 2020A Bonds	193,585,000	195,945,000
Rex Series 2020B Bonds	40,945,000	47,375,000
UNCH Series 2001 Bonds	66,000,000	73,000,000
UNCH Series 2003 Bonds	31,195,000	38,300,000
UNCH Series 2016 A Bonds	74,945,000	74,945,000
UNCH Series 2016 B Bonds	25,000,000	25,000,000
UNCH Series 2019 Bonds	149,995,000	149,995,000
UNCH Series 2021 Bonds	17,510,000	20,270,000
Face Value of Bonds Outstanding	\$ 749,375,000	\$ 774,830,000
Deferred Costs - Premium on Issuance	63,969,258	66,633,354
Net Value Outstanding	\$ 813,344,258	\$ 841,463,354
Current Portion of Bonds	27,010,000	26,055,000
Current Portion of Notes	1,383,191	1,345,714
Other Current Debt	0	486,064
Total Current Bonds and Notes	\$ 28,393,191	\$ 27,886,778
Noncurrent Portion of Bonds	786,334,258	815,408,354
Noncurrent Portion of Notes	5,928,851	7,422,526
Total Noncurrent Bonds and Notes	\$ 792,263,109	\$ 822,830,880
Deferred Costs - Loss on Refunding	(2,007,658)	(2,548,861)
Hedging Liability	(703,818)	(525,559)
Deferred Bond Activity	\$ (3,074,420)	\$ (3,074,420)

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

Annual requirements to pay principal and interest (including swap arrangements) on the bonds outstanding on June 30, 2025 are:

Fiscal Year	Principal	Interest	Total
2026	\$ 27,010,000	\$ 30,027,375	\$ 57,037,375
2027	27,790,000	29,283,035	57,073,035
2028	28,780,000	28,515,855	57,295,855
2029	29,790,000	27,707,627	57,497,627
2030	31,085,000	26,814,349	57,899,349
2031 - 2035	95,370,000	119,824,230	215,194,230
2036 - 2040	92,415,000	99,807,011	192,222,011
2041 - 2045	192,430,000	72,320,064	264,750,064
2046 - 2050	224,105,000	25,514,608	249,619,608
Total	\$ 784,775,000	\$ 459,814,154	\$ 1,208,589,154

Annual requirements to pay principal and interest on the outstanding notes payable on June 30, 2025, are:

Fiscal Year	Principal	Interest	Total
2026	\$ 1,383,191	\$ 183,734	\$ 1,566,925.00
2027	1,421,712	145,212	1,566,924.00
2028	1,461,306	105,619	1,566,925.00
2023	1,502,002	64,923	1,566,925.00
2030	1,543,832	23,093	1,566,925.00
Total	\$ 7,312,043	\$ 522,581	\$ 7,834,624

NOTE 5 // PENSION PLANS

UNC Health has a variety of retirement plans available to its permanent full-time employees. The majority of employees of UNC Hospitals and UNCFP are members of the Teachers' and State Employees' Retirement System (TSERS) as a condition of employment. TSERS is a cost-sharing, multiple-employer, defined-benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer. Graduate medical residents, temporary employees and permanent part-time employees with appointments of less than 30 hours per week are not covered by the plan. Employees hired after January 1, 2024, are no longer eligible for the TSERS plan.

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

become eligible to receive distributions when they terminate employment or retire. Employees hired from January 1, 2024, to June 30, 2024, are eligible for ORP.

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

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

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

NOTE 6 // OTHER EMPLOYMENT BENEFITS

UNC Health offers a full menu of employment benefits to its employees through various third-party carriers. These include medical insurance, dental coverage, short-term and long-term disability benefits and life insurance coverage.

UNC Hospitals and UNCFP participate in State-administered programs that provide health insurance and life insurance to current and eligible former employees. Funding for the health care benefit is financed on a pay-as-you-go basis based upon actuarial reports. Due to the implementation of GASB 75, liability for retiree health care benefits provided by the program is now carried by employers proportionately. State employees hired after January 1, 2024, are not eligible for the State-administered program and participate in the UNC Health health and life insurance programs.

UNC Hospitals and UNCFP participate in the Disability Income Plan of North Carolina (DIPNC). DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Due to the implementation of GASB 75, the liability for long-term disability benefits provided by the program is now carried by employers proportionately. State employees hired after January 1, 2024, are not eligible for DIPNC.

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

NOTE 7 // RISK MANAGEMENT

UNC Health is exposed to various risks of loss related to torts; theft of damage to and the destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and various employee plans for health, dental and accident. These exposures to loss are handled by a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year. Liability Insurance Trust Fund – UNC Hospitals and UNCFP participate in the Liability Insurance Trust Fund (the Fund), a claims-servicing public entity risk pool for professional liability protection. The Fund acts as a servicer of professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid.

Carolina Collaborative Insurance Group, LLC – The owned and managed entities participate in Carolina Collaborative Insurance Group, LLC (CCIG) a domiciled special purposes captive insurance company. CCIG provides Hospital Professional, General Liability, and Physician's Professional Liability coverage. Workers Compensation is a self-insurance program. Cyber liability is a deductible program.

The following entities are provided with coverage:

- UNC Caldwell
- UNC Chatham
- UNC Health Care System
- UNC Hospitals
- UNC Faculty Practice
- UNC Physicians Network
- UNC Rex
- UNC Rockingham

UNCH and UNC FP Hospital and Professional Liability will remain insured by the UNC Liability Insurance Trust Fund.

CCIG provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. CCIG is exempt from federal and state income taxes, and but is subject to regulation by the North Carolina Department of Insurance. Coverage is self-funded by contributions from participants. Contributions are based on the actuarially determined funding level for a given plan year.

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

Additional disclosures relating to the funding status and obligations of the Fund and CCIG are set forth in the audited financial statements of the Liability Insurance Trust Fund and

Carolina Captive Insurance Group, LLC. Copies of this report may be obtained from The University of North Carolina Liability Insurance Trust Fund, 5221 Paramount Parkway, Suite 410, Morrisville, NC 27560.

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

With the help of the North Carolina Hospital Association, UNC Health entered into an agreement with other Public Hospitals in North Carolina to receive the benefit of additional Certified Public Expenditures (CPEs) (as defined by Federal Regulation 45 CFR 95.13 and 42 CFR 433.51) from public hospitals (as defined in the North Carolina State Plan for Medicaid payments) which decided to assist UNC Health in meeting its obligations to fund the remaining Disproportionate Share Hospital (DSH) allotment. DSH payments are special payments for hospitals which serve a disproportionate share of low income patients. By making additional CPE's available, the public hospitals risk possible DSH overpayments that would require repayment to state or federal agencies. In order to mitigate the public hospitals' risk, UNC Health established a reserve fund to be held in escrow. The fund will reimburse participating public hospitals for any repayments that should result from this program. At June 30, 2025, \$53,975,948 was held by the Escrow Agent, First Citizens Bank & Trust Company.

NOTE 9 // RELATED PARTY TRANSACTIONS

Appalachian Regional Healthcare System - Appalachian Regional Healthcare System operates Watauga Medical Center, Charles A. Cannon Jr. Memorial Hospital, and Appalachian Regional Behavioral Healthcare. It serves patients primarily from Watauga, Avery, and other neighboring counties. Appalachian Regional Healthcare System signed a management services agreement with UNC Health on July 1, 2022, to provide certain management services over an initial term of 10 years.

Blue Ridge Health - The system includes one hospital with two locations, a wellness center, a continuing care retirement community and nearly 120 primary care physicians. Blue Ridge provides graduate medical education programs for medical school graduates and students in osteopathic medicine. Specifically, UNC Health and Blue Ridge intend to build a leading healthcare option for UNC Health's Mountain Region, form a high-performing network of facilities and clinicians and expand Blue Ridge's clinical programs and service lines as well as provide access to research and clinical trials leverage UNC Health's existing population health solutions and explore innovative rural healthcare models that will make UNC Health and Blue Ridge a leader in value-based care regionally and across the state. On April 22, 2021, Blue Ridge Health System signed a management services agreement with UNC Health.

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

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

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

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

On June 2, 2025, JHSC entered into a member substitution agreement with UNC Health. As a result, effective July 1, 2025, JMHA transferred its membership interest in JHSC to UNC Health, which established UNC Health as the sole corporate member of the JHSC. This will fully integrate JHSC into UNC Health and it will operate as a unified entity under the UNC Health brand. This member substitution agreement represents

a significant organizational change that begins immediately after the reporting period. In conjunction with the member substitution agreement, the joint operating agreement with REX was terminated. This change does not impact the fiscal year ended June 30, 2025, but management chose to disclose this to users recognizing the significant change in operations and governance.

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

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

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

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

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

of transfers between entities of UNC Health. As such, the Enterprise Fund, Outreach Fund, Patient Safety Fund, Recruitment Fund, and Shared Administrative Services Fund each function as subaccounts of the System Fund.

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

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

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

NOTE 10 // COMMUNITY BENEFITS

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

NOTE 11 – CARES Act and Other Federal Funding

In response to the novel coronavirus (COVID-19) global pandemic the government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act, among other things, authorized funding to hospitals and other healthcare providers to be distributed through the Provider Relief Fund (PRF). These funds are not required to be repaid provided the recipients attest to, and comply with, certain terms and conditions, including among other things, that the funds are being used for lost operating revenues and COVID-19 related expenses.

UNC Health recognized the entire amount of the PRF grants during the years ended June 30, 2025, and 2024, as permitted by the terms and conditions, as other non-operating revenue given that the amount of lost operating revenues exceeded the amounts received. The funds received from HHS are subject to specific terms, conditions and audit by HHS. Noncompliance with any of the terms or conditions is grounds for HHS to recoup some or all of the payments received by UNC Health. Management believes it has complied with the terms and conditions.

As part of the COVID-19 federal funding efforts, UNC Health applied for FEMA reimbursement for qualified expenses in support the community during the pandemic. We have diligently followed the FEMA process and have now started to receive reimbursement. We expect to receive these funds in FY24 and FY25.

NOTE 12 – CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

UNC Health has implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 101, Compensated Absences

GASB Statement No. 102, Certain Risk Disclosures

GASB 101 improves the recognition and measurement guidance for compensated absences by establishing a unified recognition and measurement model that requires liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The Statement also amends certain previously required disclosures. The adoption of GASB 101 did not have a material impact on the combined financial statements of UNC Health.

GASB 102 requires disclosures to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosures will provide users with timely information regarding certain

concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, the adoption of GASB 102 required additional disclosure regarding the recently enacted One Big Beautiful Bill Act. See Note 13.

NOTE 13 // RISKS RELATED TO LEGISLATIVE AND REGULATORY CHANGE (ONE BIG BEAUTIFUL BILL ACT)

On July 4, 2025, the U.S. government enacted the "One Big Beautiful Bill Act" (OBBBA), which includes changes to the tax code and modifications to federal healthcare programs, including Medicare and Medicaid. This new law introduces potential financial and operational risks for UNC Health as the OBBBA is implemented over the next five year, and its full impact is not yet known.

- Revenue cycle risk: The OBBBA includes provisions that adjust eligibility criteria and reduce federal funding for certain Medicaid and Affordable Care Act (ACA) marketplace coverage. These changes could increase the number of uninsured individuals and decrease overall reimbursement rates, adversely impacting net patient service revenue and resulting in an increase in uncollectible patient accounts. UNC Health is actively analyzing the potential revenue cycle impacts, which are highly dependent on the state-specific Medicaid policy interpretations and the ultimate number of patients whose coverage is impacted.
- Billing and compliance risk: The OBBBA has directed significant federal investment into artificial intelligence (AI) tools designed to detect fraudulent billing and utilization patterns, especially within Medicare and Medicaid programs. While technology is intended to identify fraudulent use, it creates a risk of billing errors or false positives that could lead to denied claims, payment delays, and potential penalties. UNC Health is evaluating and updating its billing workflows, software, and compliance protocols to mitigate this risk.
- Operational and liquidity risk: Changes to reimbursement rates, coupled with ongoing inflationary pressures on labor, drug, and supply costs, may impact UNC Health's future operating margins and cash flow. The bill also increases regulatory oversight of private equity and other investments in healthcare, which could impact the availability of capital for operational improvements. These factors may affect UNC Health's future liquidity and ability to fund strategic initiatives and capital expenditures.
- Forward-looking statement: This disclosure is based on current interpretations of the OBBBA and is subject to change. UNC Health has modeled a range of potential financial outcomes based on various assumptions, but the actual impact could differ materially from current estimates. UNC Health will continue to monitor developments and adjust its risk mitigation strategies and financial reporting as more information becomes available.

NOTE 14 // SUBSEQUENT EVENTS

On June 2, 2025, JHSC entered into a member substitution agreement with UNC Health. As a result, effective July 1, 2025, JMHA transferred its membership interest in JHSC to UNC Health, which established UNC Health as the sole corporate member of the JHSC. This will fully integrate JHSC into UNC Health and it will operate as a unified entity under the UNC Health brand. In conjunction with the member substitution agreement, the joint operating agreement with REX was terminated.

On August 15, 2025, UNC Health executed a new Master Trust Indenture (MTI) as part of its ongoing efforts to strengthen financial and operational practices. Under the new MTI, UNC Health, UNC Hospitals, and Rex comprise the single obligated group. The updated MTI adopts more flexible covenants, reduces the risk of non-compliance across multiple entities, decreases the number of required audits, allows for more efficient movement of funds within UNC Health, and streamlines the process for issuing new debt. These changes are designed to simplify operations and increase organizational agility.

Also subsequent to the reporting period, the UNC Health Board of Directors authorized the refunding of the outstanding North Carolina Medical Care Commission Health Care Facilities Revenue Bonds (UNC Rex Healthcare Series 2015A, 2015B-1, and 2015B-2). This action follows the Board's approval to consolidate its two previously separate obligated groups (UNC Hospitals and Rex Healthcare) into a single obligated group under a new master trust indenture, pursuant to UNC Health's statutory debt issuance authority. Management evaluated the existing debt, which included \$50.0 million of fixed-rate Series 2015A bonds and \$98.8 million of variable-rate Series 2015B bonds. After careful consideration, management recommended a Total Return Swap (TRS) refinancing approach, offering attractive variable rate funding and increased flexibility without the necessity of a public offering. JP Morgan was selected as the financing partner for the replacement bond structure.

The refunding is expected to generate significant interest cost savings and enhance the efficiency of UNC Health's debt management. Pricing for the TRS is set at SIFMA + 0.35%. The refunding series 2015B-1 & 2015B-2 was executed under the newly established MTI and closed August 15, 2025, while the 2015A closed September 1, 2025. No adjustments to the combined financial statements are required as a result of this subsequent event; however, disclosure is provided to inform users of the anticipated impact on future debt service and overall financial position.

UNC Health has evaluated subsequent events from June 30, 2025, through December 2025. No additional material events were recognized other than as previously disclosed.