

GROWING

THE UNIVERSITY OF NORTH CAROLINA
HEALTH CARE SYSTEM



2007 ANNUAL REPORT



UNC
HEALTH CARE



UNC
HEALTH CARE

LEADING

TEACHING

CARING

Cover Photo: Construction of the new North Carolina Cancer Hospital, clinical home of UNC Lineberger Comprehensive Cancer Center, opening in Chapel Hill, NC, late 2009.

T A B L E O F C O N T E N T S

Introduction

Greeting	4
LEADING: UNC takes the initiative to fight a killer.....	6
TEACHING: School of Medicine looks for ways to advance its mission.....	10
CARING: Preparing today for the needs of tomorrow.....	12
Letter of Transmittal	16
The Board of Directors.....	20
UNC Health Care System Reporting Structure	21

Financials and Statistics

Management's Discussion and Analysis	24
Pro forma Statement of Net Assets	29
Pro forma Statement of Revenues and Expenses	30
Pro forma Statement of Cash Flows	31
UNC Physicians & Associates Statement of Net Assets (Unaudited).....	32
UNC Physicians & Associates Statement of Revenues and Expenses (Unaudited)	33
UNC Physicians & Associates Statement of Cash Flows (Unaudited)	34
Pro forma Selected Statistics and Ratios	35
Notes to the Annual Report	36



*To rise to the
challenges UNC
Health Care will
soon face, employees
will need more
than dedication.*

G R E E T I N G

Dear Friends:

UNC Health Care is pleased to provide its annual accounting of our activities, accomplishments and financial results to the people of North Carolina. We are grateful for your interest in our system and believe it is our responsibility to open our doors, both literally and figuratively, to the citizens of this state.

Our system's motto – Leading. Teaching. Caring. – describes our mission as the state's leading public academic medical center, the only public safety-net health care facility and the first public school of medicine in North Carolina. Our health care system has always been, and always will be, focused on improving the health of North Carolinians.

Throughout this report, you will meet a small sample of our dedicated staff, who breathe life into our mission and improve the lives of patients and their families in every corner of the state.

We also want to share with you how we are preparing for the future and the changes it will bring – including changes that may not be seen or felt for years to come.

First, we expect explosive population growth. The U.S. Census Bureau predicts that 4 million people will arrive in North Carolina between 2000 and 2030, bringing our population to 12 million – a 50 percent increase. That surge in new residents will propel North Carolina to seventh place among the nation's most populous states. A physician shortage is predicted to accompany the surge in popula-

tion. Within 20 years, North Carolina will have 25 percent fewer primary care physicians than it should.

Second, despite decreases in cancer deaths, cancer is now the leading cause of death in North Carolina. Over the next 20 to 30 years, state public health officials say the number of cancer cases will double. But as grim as these statistics sound, there is also hope: Cancer diagnoses may be going up, but so is the survival rate for many cancers. Increasingly, cancer is becoming a chronic disease. But it's an expensive and complex one, to be sure, and cancer survivors look to their health care system as a lifeline.

Third, we are preparing to care for an older population. As baby boomers reach their 60s and beyond, they will not only require health care, but given their level of technical and medical sophistication, they will demand the best care.

The only way to ensure that we meet the health needs of tomorrow is to invest in our capabilities today. I am pleased to say that we already are doing just that, thanks in large measure to the support we continue to receive from our state leaders.

Many exciting things are happening on our campus that support our mission and prepare us for the future. These include:

- The construction of the N.C. Cancer Hospital adjacent to the four hospitals on the UNC

campus. The cancer hospital, slated to open in 2009, will provide patients with the very best care and treatment, while supporting the innovative research we have come to expect from the Lineberger Comprehensive Cancer Center. It is our desire that this hospital become the leading public comprehensive cancer hospital in the country.

- The creation of the University Cancer Research Fund by the North Carolina General Assembly. We applaud this visionary investment by our legislature and vow to be vigilant stewards of the Fund, which eventually will be the equivalent of a \$1 billion endowment. We will use this funding to support promising work by UNC researchers looking for better ways to detect, treat and – with hope – cure cancer.
- The creation of the Academy of Educators at the School of Medicine. The Academy raises the profile of the teaching component of our work, which is sometimes overshadowed by the more urgent or newsworthy developments of our research and clinical care roles. The Academy currently supports 75 fellows, all of whom have devoted their careers to teaching future physicians.

These initiatives, and others throughout our system, motivate our employees and encourage our patients. We must maintain our stable financial base to ensure this important work continues for years to come, while at the same time continuing to offer world-class care to everyone who needs it, regardless of their ability to pay. We owe the citizens of North Carolina no less.

The second half of this report consists of financial statements for the UNC Health Care System (UNC HCS). They are pro forma due to the complexities of blending the system's various

entities. The statute that created the system mandates that the operations of the University of North Carolina Hospitals (UNCH) and the clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill (the University) shall be governed by the board of directors of the UNC Health Care System. Rex Healthcare, Inc. (REX) and various community-based clinics have been added since the legislation creating the UNC Health Care System was passed.

While Rex and UNC Hospitals are individually audited, the operations of the clinical patient care programs of the University's School of Medicine, which are defined as UNC Physicians & Associates, are included in the overall audit of the University. The production of consolidated financial statements for the UNC Health Care System and a separate audit would be difficult, if not impossible, to obtain. We believe that these pro forma statements are the best way to reflect the overall operations of the UNC Health Care System. Further discussion of the financial statement pro forma presentation and its implications can be found in the Management's Discussion and Analysis section as well as in the notes to the report.

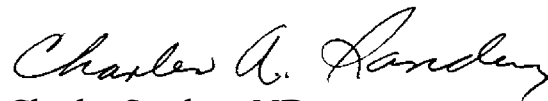
On behalf of all the care providers, staff, researchers and educators in the UNC Health Care System, we thank you for your continued support.

Sincerely,



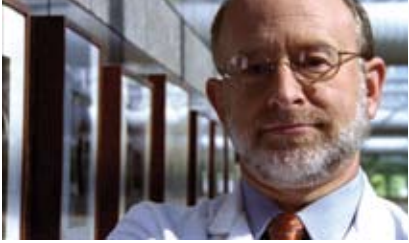
William L. Roper, MD, MPH

*Chief Executive Officer
University of North Carolina Health Care System*



Charles Sanders, MD

*Chair, Board of Directors (November 2007–Present)
University of North Carolina Health Care System*



LEADING

UNC takes the initiative to fight a killer

To many passers-by, the steel and concrete rising from a construction site on Chapel Hill's Manning Drive looks like the shell of an ordinary building. But to Tomma Hargraves of Cary, the construction project means that greater hope is on its way for people whose lives have been touched by cancer – people like Tomma herself.

This building will become the N.C. Cancer Hospital, the fifth hospital on the UNC campus and the state's only public cancer hospital.

The 50-bed, seven-story hospital will provide complete cancer care and research facilities under one roof and will enable cancer physicians to treat more than twice as many patients as they currently see. It will also become the clinical home of the

UNC Lineberger Comprehensive Cancer Center (Lineberger), one of the nation's premier comprehensive cancer centers and the only public cancer center in the state.

In the fall of 2007, Tomma completed nine months of aggressive treatment for advanced lung cancer under the care of Lineberger's Dr. Mark Socinski. At the end of the year, she finished participating in a clinical trial at Lineberger for a new vaccine treatment designed to prevent the cancer from recurring.

"It's been a joy for me to watch the building go up," Tomma said. "UNC Health Care wants it to be the best public cancer research hospital in the country and, based on my experiences here, I think it will be."



Greater hope is on its way for people whose lives have been touched by cancer.

One of the nation's premier comprehensive cancer centers and the only public cancer center in the state.



The N.C. Cancer Hospital may be UNC Health Care's most visible commitment to preventing, detecting and treating cancer, but it's not the only one. With the recent creation of the University Research Cancer Fund, UNC Health Care is well-positioned to become the leading public institution for cancer research and clinical care in the nation.

The N.C. General Assembly established the University Cancer Research Fund in August 2007 with an initial allocation of \$25 million. The Fund eventually will be the equivalent of a \$1 billion endowment. The money will be used to create state-of-the-art research labs and support UNC cancer researchers working on better ways to understand, detect and treat the disease. Dr. Shelton Earp, director of Lineberger, said his colleagues are energized by the prospect of the new hospital and the generous cancer-fighting Fund. "The faculty and physicians are very grateful to the state for this opportunity to help more cancer patients," he said.

Focusing on the overburdened and underserved

The Fund will enable researchers to help answer some of the most challenging questions about the health of our population. For example, the research will explore: Who in North Carolina gets cancer? Why are minorities and lower socio-economic status citizens more likely to get certain cancers?

Grants from the Fund may help researchers study why some forms of the disease, such as prostate cancer, are deadlier in African-Americans. Meanwhile, collaborations with partners like the School of Public Health can lead to more effective awareness and outreach campaigns to encourage more African-American men and women to know their risks and get cancer screenings.

UNC Health Care has already taken a leadership role in addressing cancer-incidence disparities between Caucasians and African-Americans. In 2006, following up on information collected during the UNC-sponsored Carolina Breast Cancer Study, researchers identified a very aggressive subtype of breast cancer that disproportionately affects premenopausal African-American women. The existence of this fast-growing subtype of breast

cancer, which is difficult to detect and treat, helps explain why the mortality rate for African-American women under age 50 is 77 percent higher than that of Caucasian women of the same age.

Lorie Williams is one such young African-American woman. The Holly Springs mother of two young sons was diagnosed in August 2005 with the “triple-A” subtype of breast cancer. She was only 29. Now in remission after an aggressive treatment program directed by Lineberger’s Dr. Jeffrey Peppercorn, Lorie is encouraged by the additional research that the new cancer funding will make possible.

“Nobody could tell me how I got it or where it came from,” she said of her cancer. “Unfortunately, cancer is on the rise, so researchers need to find out what’s causing it.”

Building on collaboration

While a hospital devoted to cancer patients and an endowment to fund cancer research are significant assets on their own – and unprecedented in North Carolina – UNC Health Care is investing in a third initiative that strengthens its role as a national leader in the fight against cancer.



The new Center for Integrative Chemical Biology and Drug Discovery, which will be located in the soon-to-open Genetic Medicine Building, will make it easier for researchers to create promising chemical compounds that are ready for testing in humans. Faculty and researchers from the School of Medicine, School of Pharmacy, Department of Chemistry and the Lineberger Comprehensive Cancer Center will work together to create therapies targeted to specific cancers and other diseases.

“The Center was created to bring a product focus to research,” said its director, Stephen Frye, Ph.D., who brings 20 years of experience with pharmaceutical industry leader GlaxoSmithKline to his new position. “The interface between chemistry and biology is where small-molecule drugs are discovered. Researchers want to make a difference in people’s lives, and the Center will help them do that.”



T E A C H I N G

School of Medicine looks for ways to advance its mission

When UNC alumnus Dr. Thomas Harris started teaching anatomy classes to a handful of would-be doctors in 1879, he could hardly have imagined that one day his cobbled-together program would become a highly regarded school, educating 640 future physicians a year. But as high as today's School of Medicine enrollment might have seemed to Dr. Harris, there aren't enough seats to offset the physician shortage North Carolina is expected to experience.

With the state's population growing and baby boomers aging, there just won't be enough doctors to go around. According to the North Carolina Institute of Medicine, there will be a 25 percent shortfall in the number of needed primary care

physicians over the next 20 years. The shortage will be especially serious in rural areas.

It is important for North Carolina's medical schools to address the looming shortage head-on, because doctors tend to begin their practices in states where they receive their degrees or complete their residencies.

UNC School of Medicine leaders studied ways to expand enrollment without taxing infrastructure or burdening the budget. Their plan involves teaming up with two health care systems in the western half of the state. The plan, which must meet approval by the UNC Board of Governors, calls for some third- and fourth-year students to complete their

studies at Mission Health and Hospitals (Mission) in Asheville or Carolinas Medical Center (CMC) in Charlotte.

By partnering with Mission and CMC, the School of Medicine could potentially add 70 students to each class. Both the Asheville and Charlotte hospitals would be responsible for hiring their own instructors and funding their own teaching facilities; the School of Medicine would also require some additional funding. However, the proposal still costs less than filling up the classrooms and labs in Chapel Hill or creating another medical school from scratch somewhere else.

“This proposal, which is part of the School of Medicine’s strategic plan, makes fiscal sense to me,” said Dr. Etta Pisano, vice dean for academic affairs at the School of Medicine. “It’s the right thing to do to support our mission of serving North Carolina.”

Recognizing teaching excellence

While planning for the future, UNC Health Care will remain focused on its teaching mission through the School of Medicine and the system’s 62 residency programs. To help ensure that teaching gets the respect it deserves, the School of Medicine



created an Academy of Educators program earlier this year. The program is a way to honor and recognize faculty whose primary focus is teaching undergraduate medical students, according to Dr. Alan Cross, Academy co-director. It also raises the visibility of teaching as a primary mission of the School of Medicine.

So far, 75 faculty have been named fellows of the Academy. Fellows mentor other teachers, help develop new curricula, serve on leadership committees and receive grants from the dean’s office to attend conferences and support their scholarship. Although Academy membership is currently limited to faculty who teach medical students, UNC Health Care may suggest expanding the Academy to include faculty who work with residents.

The Academy may be in its infancy, but Dr. Cross and others have high hopes for its future. “I think it will enhance the work and role of the teaching faculty,” he said, “and ultimately benefit our students.”



C A R I N G

Preparing today for the needs of tomorrow

For many patients who are wheeled into the fifth-floor orthopedic and trauma treatment areas of N.C. Memorial Hospital, nurse Sheila Roszell represents the face of caring. Whether she's treating a 16-year-old who broke his shoulder after skidding around a curve in his father's car or a victim of a gang-related gunshot wound, Sheila brings empathy, compassion and 32 years of nursing experience to their bedsides.

Sheila has treated thousands of patients, and some of their stories are burned into her memory. She recalls one woman who, shortly after losing her husband, lost both of her legs in a car accident. "She had a particular effect on me," Sheila said.

Yet, thanks in part to the support nurses give one another, Sheila's deep feelings for her patients

haven't led to burnout. In fact, she will complete her Ph.D. in three years, and she still plans to care for patients. "I love the interaction with people and the challenge of helping someone get better," she said.

Sheila is just one of the thousands of devoted and compassionate nurses, physicians and medical professionals throughout UNC Health Care who ensure more than 2,000 patients a day receive the best care possible.

Making room for more patients

To rise to the challenges UNC Health Care will soon face – including a population explosion, aging patients and higher rates of cancer – employees like Sheila will need more than dedication. They will also need adequate space and infrastructure to serve patients effectively.



“I love the interaction with people and the challenge of helping someone get better.”

UNC Health Care currently has 724 licensed beds on the Chapel Hill campus and has approved plans to increase that number to 799, including beds in the new N.C. Cancer Hospital and those made possible by converting existing space to patient care areas. To sufficiently serve the health care needs of North Carolinians in the future, capacity eventually should exceed 1,000 beds; expansion plans are under way to meet this need.

UNC Health Care also will apply for a Certificate of Need for more operating rooms to meet the needs of the soon-to-be seventh largest state in the nation, according to Dr. Brian Goldstein, chief of staff of UNC Hospitals and executive associate dean for clinical affairs at the School of Medicine.

Our commitment to those we serve

While optimal facilities are critical to care delivery, so is a formal system that embraces, supports and encourages staff to improve the UNC Health Care experience for patients, their families and each other. That's the rationale behind a new institutional initiative called Commitment to Caring.

“Commitment to Caring is intended to summarize our quest to simultaneously improve everything



that impacts clinical practice – that is, the quality and safety of care, our efficiency, how we support each other and how we deploy new knowledge to help patients,” said Dr. Goldstein. “These are not new goals, but our physicians and our hospitals have often not been in sync about how to achieve them. Commitment to Caring emphasizes a unified purpose for everyone involved in patient care.”

In action, Commitment to Caring might look like this: Employees, regardless of job titles, take the initiative to help a visitor who seems to be lost in a hallway or tell a patient where to learn more about financial assistance. Currently, 11 employee teams from across the UNC Health Care System have received training to work together to improve the practice environment and the patient experience.



Extending our mission beyond Chapel Hill

This Commitment to Caring extends beyond the hospital and clinic walls in Chapel Hill. An important part of UNC Health Care's mission involves treating everyone, regardless of economic and geographic barriers. Although patients from all 100 North Carolina counties come to Chapel Hill for care, often it makes the most sense for UNC Health Care to take care more directly to them. To serve more patients in the most remote corners of the state, UNC Health Care has established community-based clinics in seven counties and has created collaborative arrangements with health care facilities in several towns.

Most recently, it signed a management contract with Chatham Hospital, a 25-bed, critical-access facility in Chatham County, where UNC Health Care operates several community practices. Under

the contract, the hospital's top two executives are UNC Health Care employees, giving them broad access to the system's clinical and managerial resources, which in turn benefits Chatham Hospital's patients. In addition, several specialists on UNC Health Care's staff see patients monthly at Chatham Hospital, sparing patients – many of whom are elderly – the drive to Chapel Hill. And to serve its patients better, Chatham Hospital will soon move out of its 50-year-old building into a new, modern, more outpatient-focused facility, which was designed with valuable input from UNC Health Care experts, said Carol Straight, president of Chatham Hospital.

Relationships with small, rural hospitals such as Chatham Hospital will likely become more common as the system continues to look for ways to meet its mission outside of Chapel Hill. These arrangements ensure that UNC Health Care's services and physicians are available to those most likely to need them – but least likely to have access to them. As the state becomes more populous and the doctor shortage more acute, UNC Health Care will have an even greater role to play in the health and healing of hundreds of thousands of North Carolinians.



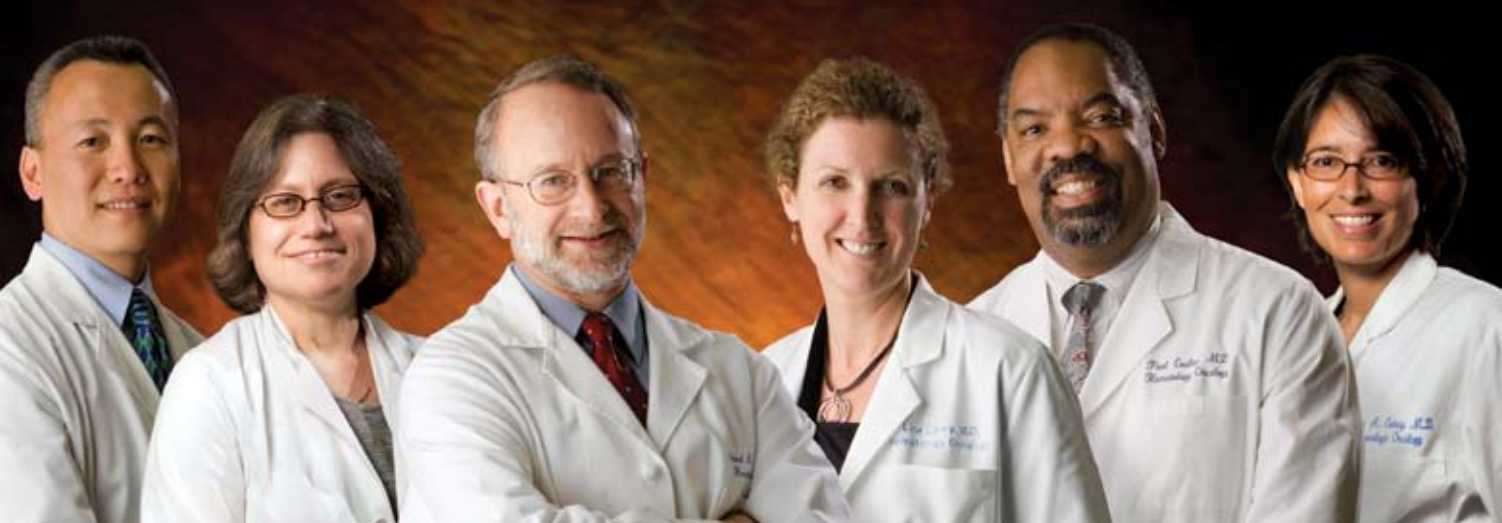
LETTER OF
TRANSMITTAL

November 30, 2007—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 William L. Roper, 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 HCS) as established by General Statute 116-37. The financial reports as presented represent a summary of data generated by the various entities under the control of the Board of Directors of the UNC HCS. The University of North Carolina Hospitals (UNCH) and Rex Healthcare, Inc. (REX) prepare and publish their own separate audit reports on an annual basis. The University of North Carolina Physicians & Associates (UNC P&A) is included in the audited 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 the annual report.

This 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 the management of the UNC HCS believes this information to be accurate, it should be noted that these documents are unaudited and not intended to be used for any financial decisions.

The Financial Section presents management's discussion and analysis and pro forma financial statements for UNC HCS and financial statements for UNC P&A. This section includes selected statistical and financial ratio information. Management's discussion and analysis provides a review of the financial operations, and the notes to the annual report provide additional explanations for the reader.

Financial Information

Internal Control Structure

The management of the UNC HCS establishes and maintains an internal control structure to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management applies the internal control standards to meet each of the internal control objectives and to assess internal control effectiveness. When evaluating the effectiveness of internal control over financial reporting and compliance with financial-related laws and regulations, management follows the assessment process to assure the State of North Carolina and the public that the UNC HCS is committed to safeguarding its assets and providing reliable financial information. One objective of an internal control structure is to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. Another objective is to ensure that transactions are executed in accordance with appropriate authorization and recorded properly in the financial records to permit the preparation of financial statements in accordance with generally accepted accounting principles. Annually, management provides assurances on internal control in its Performance and Accountability Report, including a separate assurance on internal control over financial reporting, along with a report on identified material weaknesses and corrective actions.

As a recipient of federal and State funds, the UNC HCS is responsible for ensuring compliance with all applicable laws and regulations. A combination of State and UNC HCS policies and procedures, integrated with a system of internal controls, provides for this compliance. The accounts and operations of UNC Hospitals and UNC P&A (as a part of UNC-CH) are subject to an annual examination by the Office of the State Auditor. REX has an annual audit performed by an outside independent

CPA firm. All three entities are an integral part of the State's reporting entity represented in the State's Comprehensive Annual Financial Report and the State's Single Audit Report. The audit procedures are conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States.

Budgetary Controls

On an annual basis, the Board of Directors of the UNC HCS reviews the budget for UNC P&A and approves a budget for UNCH and REX. Each member of the UNC HCS 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. In addition to the monthly reports, an encumbrance system is maintained by UNCH and UNC P&A to track open purchase orders and commitments made to vendors.

N. C. General Statute 116-37 granted to the UNC HCS flexibility for management of UNCH in regard to its policies for personnel and salary management, purchasing of goods, services and property, and property construction. On an annual basis, the UNC HCS submits a report on its activity under this flexibility. The report is sent to the Health Affairs Committee of the Board of Governors and the Joint Legislative Commission on Governmental Operations on or before September 30 each year.

The UNC HCS is subject to the provisions of the Executive Budget Act, except for trust funds identified in N. C. General Statutes 116-36.1 and 116-37.2. These two statutes primarily apply to the receipts generated by patient billings and

other revenues from the operations of UNCH and UNC P&A. UNCH submits monthly reports to the Office of State Budget and Management that reflect both the State appropriation received and their overall operations. Under the budgetary procedure followed by the State, all State revenues are appropriated by the General Assembly pursuant to appropriation acts adopted every two years, with modifications in the second year. The UNC HCS receives State appropriations of approximately \$45 million on an annual basis. The General Assembly appropriates these funds from the General Fund to cover a portion of operating expenses, including a portion of the expenses attributable to the cost of providing (i) care to indigent patients and (ii) graduate medical education.

Debt Administration

During the past year, UNCH and REX had no additional borrowings. The Board of the UNC HCS authorized UNCH to enter into a future swap agreement for a portion of the 1999 Revenue Bonds that are outstanding in February 2009. This arrangement is expected to result in an estimated savings of \$2.5 million. There were no instances of default or covenant noncompliance in regard to debt service payments. The UNC HCS's goal is to continue to maintain its bond ratings at the highest level possible in order to provide access to the tax-exempt bond market for future issues. In recognition of its strong performance for the past few years, UNCH received an upgrade on its bond rating from Moody's. UNCH's new ratings are Aa3 from Moody's and AA- from Standard and Poor's.

Cash and Investment Management

The UNC HCS continues to work with the Office of the State Treasurer to maximize the investment earnings for UNCH based on changes in the General Statutes that were made during the 2005 session of the General Assembly. In addition, UNC-

CH has allowed UNC P&A to invest a portion of their funds in an intermediate fund beginning in FY08. The additional investment earnings will subsidize operating income and enable the UNC HCS to make more services available to the citizens of the State of North Carolina. The cash management policy includes all areas of receipts and disbursements so that investment earnings are maximized and vendor relations are maintained.

Risk Management

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

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

Acknowledgements

Preparation for this Annual Report in a timely manner would not have been possible without the coordinated efforts of the various financial staffs within the UNC HCS, with special assistance from the CEO's office and Public Affairs Office.



W. Alan Stewart
Chief Financial Officer

The Board of Directors

November 2007 - October 2008

Dr. Charles Sanders (Chair)

Chapel Hill, NC

Erskine Bowles

President, University of North Carolina

Chapel Hill, NC

Don Curtis

Chair and CEO

Curtis Media Group

Raleigh, NC

Dennis Gillings, Ph.D.

Chairman of the Board

Quintiles Transnational Corp.

Durham, NC

Dr. M. Andrew Greganti

Vice Chair, Department of Medicine

UNC School of Medicine

Chapel Hill, NC

A. Dale Jenkins

Chief Executive Officer

Medical Mutual Insurance Company of North Carolina

Raleigh, NC

Richard M. Krasno, Ph.D.

Executive Director

William R. Kenan, Jr. Charitable Trust

Chapel Hill, NC

Lillian Lee

Chapel Hill, NC

Richard L. Mann, Ph.D.

Vice Chancellor for Finance and Administration

Chapel Hill, NC

William McCoy

Franklin Street Partners

Chapel Hill, NC

James Moeser

Chancellor, UNC-Chapel Hill

Chapel Hill, NC

Dr. Richard S. Myers

Chair, Rex Healthcare Board of Trustees

Raleigh, NC

Charles D. Owen, III

President, Owen Blankets

Swannanoa, NC

Gary Park

President, UNC Hospitals

Chapel Hill, NC

Dr. Etta Pisano

Vice Dean for Academic Affairs

Professor, UNC Department of Radiology

Chapel Hill, NC

Dr. William L. Roper

Dean, School of Medicine

Vice Chancellor for Medical Affairs

CEO, UNC Health Care System

Chapel Hill, NC

Dr. Marschall Runge

Vice Dean for Clinical Affairs

President, UNC Physicians

Chair, UNC Department of Medicine

Chapel Hill, NC

Rev. Robert Seymour

Retired Pastor

Chapel Hill, NC

James H. Speed, Jr.

President and CEO

North Carolina Mutual Life Insurance Company

Durham, NC

Robert S. Thomas

President and CEO, Charles & Colvard, Inc.

Morrisville, NC

D. Jordan Whichard

Publisher, The Daily Reflector

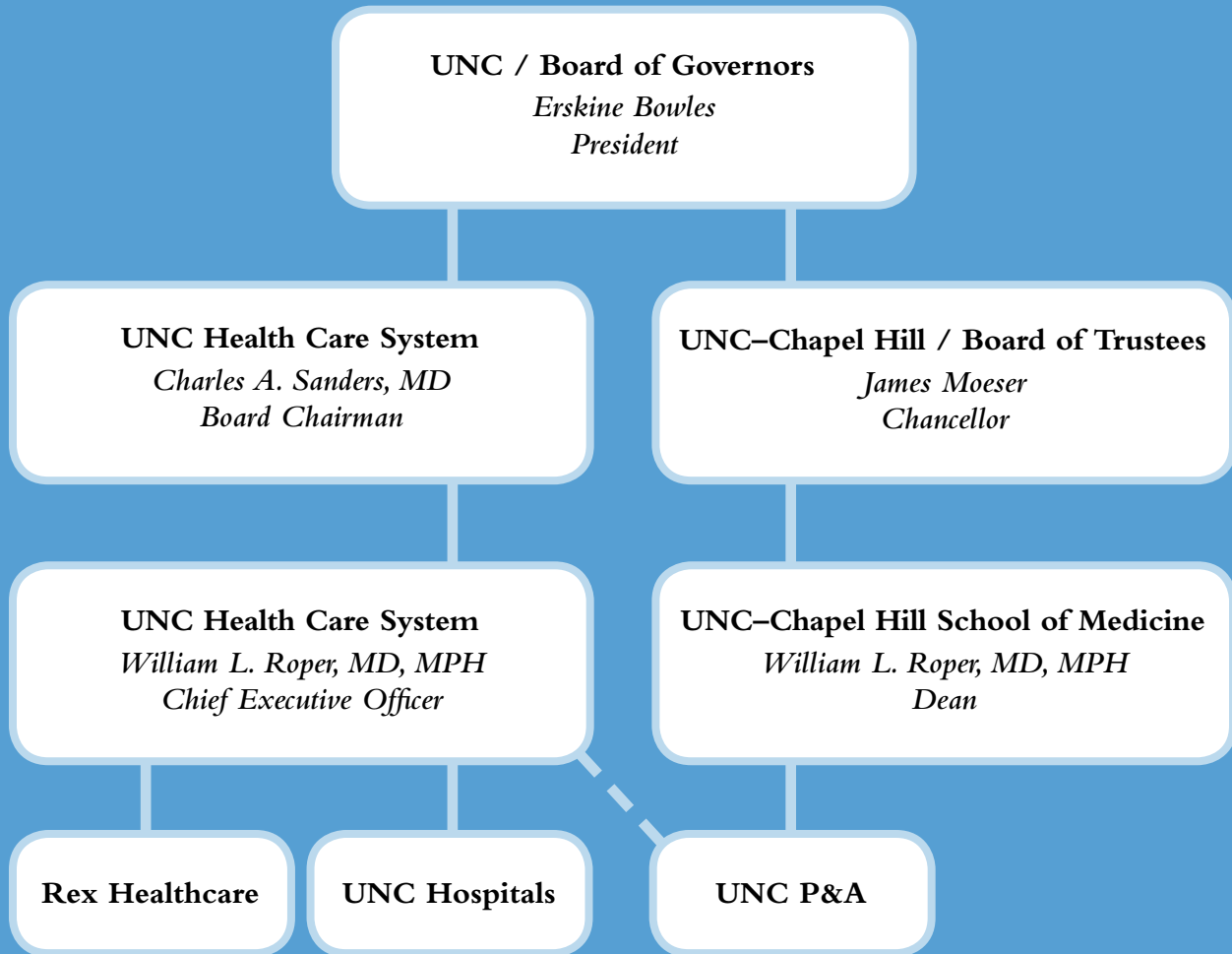
Greenville, NC

Richard T. Williams

Duke Energy

Charlotte, NC

UNC Health Care System Reporting Structure





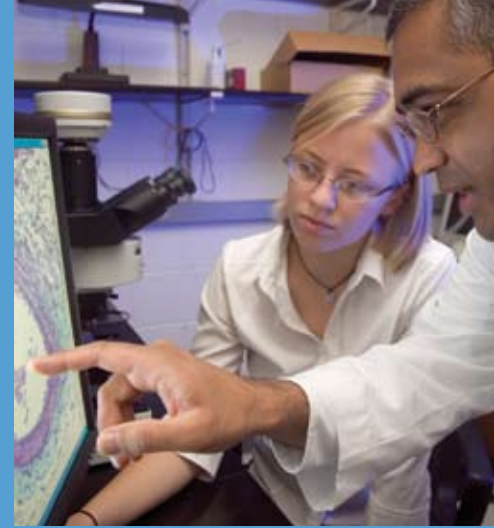
cy Vernon Platt, APRN
Cardiothoracic Surgeon

FINANCIALS AND
STATISTICS

Chapel Hill, North Carolina
For the Year Ending June 30, 2007



UNC
HEALTH CARE



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis provides an introduction and overview of the financial



position and activities of the University of North Carolina Health Care System (UNC HCS) for the fiscal years ending

June 30, 2007 and 2006.

Introduction

The financial statements included for the UNC HCS – Statement of Net Assets, and Statement of Revenues and Expenses – are labeled “pro forma” to demonstrate that they are an aggregation of assets and liabilities and results of financial activities that cannot easily be the subject of an unqualified opinion by an independent auditor. The reasons for the pro forma descriptive are as follows:

The UNC HCS was established on November 1, 1998, by North Carolina General Statute 116-37. The original legislation included only the University of North Carolina Hospitals (UNCH) and the clinical patient care programs of the University of North Carolina at Chapel Hill (UNC-CH). The UNC HCS is governed by a Board of Directors and as an affiliated enterprise of the University of North Carolina. The UNC HCS and UNC-CH are sister entities. Rex Healthcare, Inc. (REX) and various community-based clinics have been added to the organization since its inception.

As illustrated on the organization chart on page 21 in the introductory section, the UNC HCS owns and controls the net assets and financial operations of UNCH and REX. UNC-CH owns and controls the net assets and financial operations of UNC Physicians & Associates (UNC P&A). The UNC HCS Board of Directors governs and oversees physician credentialing, quality and patient safety, and resident training, and acts to advise and review the financial activities of UNC P&A. Final direct control of the monetary operations of UNC P&A remains within UNC-CH. The physicians who provide patient care at UNCH and in UNC-CH clinics are employees of UNC-CH. Non-physician employees who assist in providing patient care and the associated administrative, billing and collection services are employees of the UNC HCS.

For purposes of these financial statements, UNC P&A serves as a financial proxy for the “clinical patient care programs of the School of Medicine.” The financial statements for the two entities directly controlled by the UNC HCS (UNCH and REX) are separately audited on an annual basis and have received unqualified opinions for their prior year reports. The financial activities of UNC P&A are included in the financial report and audit report of UNC-CH. Since an unqualified audit opinion on the aggregation of financial information for these three entities cannot be obtained, we have used the term “pro forma” to describe fairly the full financial scope and worth of the UNC HCS.

In the interest of being concise, we have included pro forma consolidated financial statements for the UNC HCS, which include UNCH, REX and UNC P&A. Since UNC P&A’s financial activities are not separately disclosed elsewhere, we also are presenting UNC P&A’s Statement of Net Assets and Statement of Revenues and Expenses for the fiscal years ending June 30, 2007 and 2006.

Using the Financial Statements

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

The pro forma financial statements are presented and follow reporting concepts consistent with those required of a private business enterprise. The balances reported are presented in a classified format to aid the reader in understanding the nature of the operations. The accompanying notes are an integral part of this report and should be read in conjunction with the financial statements to enhance understanding.

The pro forma Statement of Net Assets provides information relative to the assets, liabilities and net assets as of the last day of the fiscal year. Assets and liabilities on this Statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year, and it is anticipated that they will be used to pay for current liabilities. Current liabilities are those payable in the next fiscal year. Under GASB, the net assets should be categorized as invested in capital assets (net of related debt), restricted or unrestricted; but, due to the complexities of the various entities, no such distinction has been made. Overall, the Statement of Net Assets provides information relative to the financial strength of the organization and its ability to meet current and long-term obligations.

The pro forma Statement of Revenues and Expenses provides information relative to the results of the enterprise's operations, nonoperating

activities and other activities affecting net assets that occurred during the fiscal year. Nonoperating activities include noncapital gifts and grants, investment income (net of investment expenses), and loss realized on the disposition of capital assets. Other activities include change in fair value of investments and gain or loss on affiliate activity. Under GASB, the subsidies from the State of North Carolina in the form of appropriations and bond interest expense are considered nonoperating activities; but for these pro forma statements, they are presented as operating. In general, the Statement of Revenues and Expenses provides information relative to the management of the organization's operations and its ability to maintain its financial strength.

The pro forma Statement of Cash Flows provides information relative to the Hospitals' sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the pro forma Statement of Revenues, Expenses and Changes in Net Assets as adjusted for changes in the beginning and ending balances of noncash accounts on the pro forma Statement of Net Assets.

The Notes provide information relative to the significant accounting principles applied in the financial statements and further details concerning the organization and its operations. In general, these disclosures provide information to better understand details, risk and uncertainty associated with the amounts reported and are considered an integral part of the financial statements.

Comparison of Two-Year Data

Comparative data for 2007 and 2006 is presented this year, and a discussion of the data is in the following sections.

Analysis of Overall Financial Position and Results of Operations

The UNC HCS Statement of Net Assets reflects a large, successful system, with almost two billion dollars in total assets. Total assets increased by 13.4% over the prior year, while net assets increased by 22.0% during the year ending June 30, 2007. For the year, the System generated an operating margin of 6.2%, or \$91.8 million on net operating revenue of \$1.5 billion. Net income was \$226.9 million, or 13.9% margin compared to 5.3% for the prior year. FY07 operations benefited from one-time cost report settlements in the amount of \$45.6 million. The operating margin is 3.1%, if one-time settlements are excluded, which compares with 3.2% for prior year. Net income was driven by investment income of \$98.3 million, which was triple the amount of prior years. This increase was the direct result of the investment flexibility received from the General Assembly, which allowed investment in stock market equities. In order to remain financially strong, to reinvest in new facilities, and to retain the most highly trained work force, the UNC HCS's goal is to average at least 3% for its annual operating margin.

UNC P&A also had a successful year financially. Its net income was \$3.2 million, or 1.3% on an operating revenue of \$222.5 million. This compares with the prior year's net income of \$14.7 million, or 6.6% on an operating revenue of \$206.6 million.

Discussion of Capital Asset and Long-Term Debt Activity

Capital Assets

The System continued to improve and modernize its facilities during the past year. Projects at UNCH included continued construction of the cancer hospital and physician office building, the acquisition of land for future wellness center and clinic ventures, renovation of patient space for bed expansion and relocation, and upgrades to infrastructure for the chiller plant.

Capital projects placed in service at REX in 2007 and 2006 included a state-of-the-art surgical center and an electronic medical record system. REX also purchased several acres of land for future development.

Long-Term Debt Activity

The UNC HCS has no borrowing authority. Both UNCH and REX have issued revenue bonds in the past and may issue additional debt in the future if the need arises to finance construction projects and the market rates are favorable. UNC P&A issues its bonds through UNC-CH. As such, its revenues and assets are a part of the bond covenants of UNC-CH.

During the past fiscal year, UNCH and REX entered into no additional debt-financing arrangements. UNCH did undertake a future swap agreement to occur in February 2009, which will allow for the refunding of the 1999 Revenue Bonds. Additional information about debt activity can be found in the notes to the pro forma statements.

Discussion of Conditions That May Have a Significant Effect on Net Assets or Revenues and Expenses

The major source of funding for the UNC HCS is the revenue it generates from patient care services. Despite adjustments to billing rates on an annual basis, overall reimbursement has continued to deteriorate in recent years due to pressure from third-party payors and changes in the mix of the patient population. Meanwhile salaries, supplies and other operating expenses have continued to increase.

The self-pay discount policy implemented by UNC Hospitals and UNC Physicians & Associates continues to expand in terms of total dollars and number of qualifying patients. This policy provides a 25% discount on medically necessary procedures to all patients who do not have insurance coverage. FY07 was the first full year of this program, and the total discount was \$23.4 million in charges. These discounts, along with adjustments for charity care, bad debt and governmental programs, resulted in costs for uncompensated care of \$196.4 million for FY07, compared to \$156.7 million for FY06. This trend reflects a 25.3% increase, while the overall costs represent 14.5% of the net patient revenue of the UNC HCS.

The System continues to pursue ways to increase patient access and revenue enhancement while reducing costs without any decrease to the level of patient care. This approach produced favorable results for the past year. However, the UNC HCS faces more challenges as the health care environment changes, along with the additional competition for governmental dollars that may be diverted away from the Medicare and Medicaid programs to fund other programs.

These environmental changes are a result of efforts by the federal and State governments, private insurance companies and business coalitions to reduce and contain health care costs, including, but

not limited to, the costs of inpatient and outpatient care, physician fees, capital expenditures and the costs of graduate medical education. Continuously under consideration are a wide variety of federal and State regulatory actions and legislative and policy changes by both governmental and private agencies that administer Medicare, Medicaid and other third-party payor programs that could impact our reimbursement. In addition, we are subject to actions by, among others, the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), the Centers for Medicare and Medicaid Services (CMS) of the U.S. Department of Health and Human Services (DHHS), and other federal, State and local government agencies. The biggest concern for the UNC HCS would be the elimination of cost-based reimbursement that is currently received by UNCH and UNC P&A from the Medicaid program and any changes to the appropriation support received from the State of North Carolina.

Medicaid Cost Report income represents an important source of funding for UNC P&A as represented by the \$6.9 million in net proceeds in FY07. Per the State Plan for Medical Assistance for North Carolina, the medical faculty practice plan of the UNC-CH is reimbursed at cost and is cost-settled at year-end for services provided to Medicaid patients. A change to terminate this North Carolina Medicaid reimbursement methodology would materially alter the financial outlook for UNC P&A.

The outlook for Medicare reimbursement rates for UNC P&A is uncertain. Currently, there is a 10.1% reduction in payments scheduled for the calendar year 2008. This reduction would impact Medicaid and Tricare rates as well, since each is indexed to Medicare rates. These three payors represent fifty-two percent (52%) of UNC P&A gross revenues, and thus the scheduled reduction would negatively impact net patient service revenue. However, there is hope that Congress will halt the scheduled reduction as they have in prior years.

University of North Carolina Health Care System
 Pro forma Statement of Net Assets
 For the Years Ended June 30, 2007 and June 30, 2006

	2007	2006
Current Assets		
Cash and Investments	\$332,351,929	\$229,365,221
Patient Accounts Receivable – Net	203,397,323	196,253,102
Inventories	21,805,414	21,208,965
Estimated Third-Party Settlements	15,452,171	3,323,957
Other Assets and Receivables	26,872,356	27,345,932
Assets Whose Use Is Limited or Restricted	38,169,162	27,823,372
Prepaid Expenses	9,733,750	8,903,402
Total Current Assets	647,782,105	514,223,951
Noncurrent Assets		
Property, Plant and Equipment – Net	657,849,291	598,041,172
Assets Whose Use Is Limited or Restricted	621,678,924	586,859,686
Other Assets	12,476,411	11,240,895
Total Noncurrent Assets	1,292,004,626	1,196,141,753
Total Assets	1,939,786,731	1,710,365,704
Current Liabilities		
Accounts and Other Payables	64,417,758	44,249,506
Accrued Salaries and Benefits	48,834,944	49,901,994
Estimated Third-Party Settlements	28,371,491	36,271,429
Notes and Bonds Payable	30,265,533	29,363,394
Interest Payable	2,452,923	2,557,071
Other	13,420,935	14,421,652
Total Current Liabilities	187,763,584	176,765,046
Noncurrent Liabilities		
Notes and Bonds Payable	386,201,100	414,552,478
Compensated Absences	45,982,761	37,356,037
Total Noncurrent Liabilities	432,183,861	451,908,515
Total Liabilities	619,947,445	628,673,561
NET ASSETS	1,319,839,286	1,081,692,142
TOTAL LIABILITIES AND NET ASSETS	1,939,786,731	1,710,365,704

University of North Carolina Health Care System
 Pro forma Statement of Revenues and Expenses
 For the Years Ended June 30, 2007 and June 30, 2006

	2007	2006
Operating Revenue		
Net Patient Service Revenue	\$1,342,707,893	\$1,210,941,912
Cost Report Settlements	45,634,816	41,670
State Appropriations	45,673,970	44,510,208
Other Operating Revenue	60,145,523	52,927,892
Net Operating Revenue	1,494,162,202	1,308,421,682
Operating Expenses		
Salaries and Fringe Benefits	790,577,350	728,522,432
Medical and Surgical Supplies	240,342,479	219,216,142
Contracted Services	139,233,611	104,628,039
Other Supplies and Services	96,956,360	83,191,215
Communications and Utilities	24,341,024	26,597,719
Medical Malpractice Costs	20,111,780	16,809,816
Depreciation	60,390,623	59,610,762
Bond and Other Interest Expense	21,126,655	19,700,823
Medical School Trust Fund (MSTF)	9,250,447	7,819,766
Total Operating Expenses	1,402,330,329	1,266,096,714
OPERATING INCOME (LOSS)	91,831,873	42,324,968
Nonoperating Gains (Losses)		
Interest and Investment Activity	98,268,267	32,132,980
Nonoperating Income (Expense)	(2,707,235)	(12,677,294)
Capital Grants	39,477,567	10,057,905
Total Nonoperating Gains (Losses)	135,038,599	29,513,591
NET INCOME (LOSS)	\$226,870,472	\$71,838,559

Note: Due to UNC-Chapel Hill transfers and other eliminations between UNC HCS entities, the Net Income shown above is not equal to the change in Net Assets reflected on the Statement of Net Assets.

University of North Carolina Health Care System
 Pro forma Statement of Cash Flows
 For the Year Ended June 30, 2007 and June 30, 2006

	2007	2006
Cash Flows From Operating Activities		
Received From Patients and Third Parties	\$1,361,170,336	\$1,230,905,577
Payments to Employees and Fringe Benefits	(783,017,677)	(696,127,284)
Payments to Vendors and Suppliers	(490,322,024)	(422,589,541)
Payments for Medical Malpractice	(21,127,824)	(26,540,518)
Other Receipts	60,549,264	51,976,567
Net Cash Provided (Used)	127,252,075	137,624,801
Cash Flows From Noncapital Financing Activities		
State Appropriations	45,673,970	44,510,208
Net Cash Provided (Used)	45,673,970	44,510,208
Cash Flows From Capital Financing and Related Financing Activities		
Principal and Arbitrage Paid on Outstanding Debt	(28,805,008)	(32,399,517)
Interest and Fees Paid on Debt	(19,435,924)	(17,640,821)
Capital Grants	39,477,567	10,057,905
Proceeds From Financing Agreements	—	80,000,000
Acquisition and Construction of Capital Assets	(111,431,803)	(83,199,022)
Net Cash Provided (Used)	(120,195,168)	(43,181,455)
Cash Flows From Investing Activities		
Investment Income and Other Activity	98,268,267	32,132,980
Purchase of Investments and Related Fees	(34,819,238)	(69,091,391)
Investments In and Loans To Affiliated Enterprises – Net	(13,193,198)	(21,053,012)
Net Cash Provided (Used)	50,255,831	(58,011,423)
NET INCREASE (DECREASE)	102,986,708	80,942,131
BEGINNING CASH AND CASH EQUIVALENTS	229,365,221	148,423,090
ENDING CASH AND CASH EQUIVALENTS	332,351,929	229,365,221

University of North Carolina Health Care System
 University of North Carolina Physicians & Associates
 Statement of Net Assets (Unaudited)
 For the Years Ended June 30, 2007 and June 30, 2006

	2007	2006
Current Assets		
Cash and Investments	\$94,922,261	\$90,393,445
Patient Accounts Receivable – Net	27,730,545	25,356,369
Inventories	–	–
Estimated Third-Party Settlements	1,700,000	3,300,000
Other Assets and Receivables	4,693,080	3,077,324
Assets Whose Use Is Limited or Restricted	12,124,267	13,491,405
Prepaid Expenses	–	–
Total Current Assets	141,170,153	135,618,543
Noncurrent Assets		
Property, Plant and Equipment – Net	8,398,700	9,548,400
Other Assets	–	–
Total Noncurrent Assets	8,398,700	9,548,400
Total Assets	149,568,853	145,166,943
Current Liabilities		
Accounts and Other Payables	2,500,872	2,359,866
Accrued Salaries and Benefits	5,906,918	5,230,917
Estimated Third-Party Settlements	2,500,000	–
Notes and Bonds Payable	1,149,700	1,149,700
Interest Payable	–	–
Other	–	1,771,198
Total Current Liabilities	12,057,490	10,511,680
Noncurrent Liabilities		
Notes and Bonds Payable	7,249,000	8,398,700
Compensated Absences	14,730,548	13,847,408
Estimated Third-Party Settlements	–	–
Total Noncurrent Liabilities	21,979,548	22,246,108
Total Liabilities	34,037,038	32,757,788
NET ASSETS	115,531,815	112,409,154
TOTAL LIABILITIES AND NET ASSETS	\$149,568,853	\$145,166,943

University of North Carolina Health Care System
 University of North Carolina Physicians & Associates
 Statement of Revenues and Expenses (Unaudited)
 For the Years Ended June 30, 2007 and June 30, 2006

	2007	2006
Operating Revenue		
Net Patient Service Revenue	\$184,199,976	\$170,080,764
Cost Report Settlements	12,050,082	16,280,133
State Appropriations	–	–
Other Operating Revenue	26,246,515	20,227,014
Net Operating Revenue	222,496,573	206,587,911
Operating Expenses		
Salaries and Fringe Benefits ¹	175,612,765	158,140,552
Medical and Surgical Supplies	664,104	473,655
Contracted Services	8,414,897	6,108,223
Other Supplies and Services	27,525,170	22,940,137
Communications and Utilities	2,751,474	4,304,189
Medical Malpractice Costs	10,411,069	2,995,157
Depreciation	200,734	217,781
Bond and Other Interest Expense	1,601,070	1,456,776
Medical School Trust Fund (MSTF)	9,250,447	7,819,766
Total Operating Expenses	236,431,730	204,456,236
OPERATING INCOME (LOSS)	(13,935,157)	2,131,675
Nonoperating Gains (Losses)		
Interest and Investment Income	6,592,539	4,361,866
Nonoperating Income (Expense)	(995,499)	(875,672)
Gain (Loss) on Investment in Affiliates	–	–
Realized and Unrealized Investment Activity	–	–
Transfers to HCS Enterprise Fund	(2,350,000)	(750,000)
Transfers From HCS Enterprise Fund	13,912,500	9,800,000
Total Nonoperating Gains (Losses)	17,159,540	12,536,194
NET INCOME (LOSS)	\$3,224,383	\$14,667,869

Notes: ¹ Included in the salaries and fringe benefits amount for FY07 is a one-time bonus of \$5,000 per clinician for a total of approximately \$5 million.

Due to UNC-Chapel Hill transfers and other eliminations between the UNC HCS entities, the Net Income shown above is not equal to the change in Net Assets reflected on the Statement of Net Assets.

University of North Carolina Health Care System
 University of North Carolina Physicians & Associates
 Statement of Cash Flows (Unaudited)
 For the Years Ended June 30, 2007 and June 30, 2006

	2007	2006
Cash Flows From Operating Activities		
Received From Patients and Third Parties	\$196,375,882	\$185,053,199
Payments to Employees and Fringe Benefits	(174,053,624)	(153,899,395)
Payments to Vendors and Suppliers	(43,596,334)	(38,003,708)
Payments for Medical Malpractice	(6,634,168)	(10,936,608)
Operating Capital Grants	13,912,500	9,800,000
Other Receipts	16,878,590	13,820,924
Net Cash Provided (Used)	2,882,846	5,834,412
Cash Flows From Noncapital Financing Activities		
State Appropriations	-	-
Net Cash Provided (Used)	-	-
Cash Flows From Capital Financing and Related Financing Activities		
Principal and Arbitrage Paid on Outstanding Debt	(1,149,700)	(1,049,700)
Interest and Fees Paid on Debt	(451,370)	(369,558)
Proceeds From Financing Agreements	-	-
Acquisition and Construction of Capital Assets	-	-
Net Cash Provided (Used)	(1,601,070)	(1,419,258)
Cash Flows From Investing Activities		
Investment Income and Other Activity	6,592,539	4,361,866
Purchase of Investments and Related Fees	-	-
Investments In and Loans To Affiliated Enterprises – Net	(3,345,499)	(1,625,672)
Net Cash Provided (Used)	3,247,040	2,736,194
NET INCREASE (DECREASE)	4,528,817	7,151,348
BEGINNING CASH AND CASH EQUIVALENTS	90,393,445	83,242,097
ENDING CASH AND CASH EQUIVALENTS	94,922,261	90,393,445

University of North Carolina Health Care System
 Pro forma Selected Statistics and Ratios
 For the Years Ended June 30, 2007 and June 30, 2006

	REX Sites	UNC Sites	UNC HCS 2007 Total	UNC HCS 2006 Total
Patient Service Statistics				
Patient Days	114,777	232,574	347,351	330,680
Inpatient Discharges	33,409	38,634	72,043	67,718
Average Length of Stay (days)	3.4	6.0	4.8	4.9
Inpatient Operating Room Cases	8,383	10,442	18,825	17,239
Outpatient Operating Room Cases	35,777	12,100	47,877	47,001
Emergency Department Visits	57,414	61,459	118,873	118,038
Clinic Visits	61,967	743,212	805,179	755,374
Births/Deliveries	6,085	3,646	9,731	9,244
Financial Ratios				
Operating Margin Percentage			6.15%	3.23%
Operating Margin Percentage (excluding cost report settlements)			3.19%	3.23%
Days in Net Accounts Receivable			55.29	59.15
Days of Cash on Hand			215.63	194.86
Average Payment Period (days)			46.94	37.25
Long-Term Debt-to-Equity Percentage			22.64%	27.71%
Current Debt Service Coverage			6.39	3.02
Maximum Future Debt Service Coverage			6.41	3.10



NOTES

University of North Carolina
Health Care System

Notes to the Annual Report
For the Year Ending June 30, 2007



Note 1 – Significant Accounting Policies:

Organization – The University of North Carolina Health Care System (UNC HCS) was established on November 1, 1998 by North Carolina General Statute 116-37. It is governed and administered as an affiliated enterprise of the University of North Carolina system, with its stated purpose to provide patient care, facilitate the education of physicians and other health care providers, conduct research collaboratively with the health sciences schools of the University of North Carolina at Chapel Hill (UNC-CH), and render other services designed to promote the health and well-being of the citizens of North Carolina.

The original legislation included the University of North Carolina Hospitals at Chapel Hill (UNCH) and the clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill. The UNC HCS is under the governance of the board of directors of the UNC HCS. Rex Healthcare, Inc. and various community-based clinics have been added to the organization since its inception. The University of North Carolina Hospitals is the only State-owned teaching hospital in North Carolina. With a licensed base of 724 beds, this facility serves as an acute care teaching hospital for the University of North Carolina at Chapel Hill. UNCH consists of North Carolina Memorial Hospital, North Carolina Children’s Hospital, North Carolina Neurosciences Hospital and

North Carolina Women’s Hospital. As a State agency, UNCH is required to conform to financial requirements established by various statutory and constitutional provisions. While UNCH is exempt from both federal and state income taxes, a small portion of its revenue is subject to the unrelated business income tax.

Other activities blended into the financial statements for UNCH include:

Health System Properties, LLC – Health System Properties (HSP) was established to purchase, develop and/or lease real property. HSP is reported as part of UNCH because the UNC HCS is the sole member manager and HSP is governed by the same Board that directs UNCH’s operations. To date, the only properties owned by HSP either have been or are being developed for the sole use and benefit of UNCH.

Carolina Dialysis, LLC – Carolina Dialysis, LLC (CDLLC) was formed for the purpose of owning and operating chronic dialysis programs, thus improving the quality of care to end-stage renal disease patients by providing dialysis services and conducting research in the field of nephrology in the State of North Carolina. UNCH has a two-third ownership interest in the CDLLC. Renal Research Institute owns the remaining one-third interest. A Board of Managers comprised of six members manages the CDLLC, with four appointed by UNCH through the Chief Executive Officer and two appointed by Renal Research Institute. The financial results for CDLLC are blended with those of UNCH.

The University of North Carolina Physicians & Associates (UNC P&A) is the clinical service component of the UNC School of Medicine. At the heart of UNC P&A are the approximately 1,000 physicians who provide a full range of specialty and primary care services for patients of UNC Health Care. While the great majority of services are rendered on the UNC campus at UNC Hospitals and the outpatient clinics, there is a growing range of services provided at clinics in the community. There are 17 clinical departments, two affiliated departments and two administrative units that collectively form UNC P&A:

Clinical Departments:

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

Affiliated Departments:

- Allied Health Sciences
- Center for Development and Learning

Administrative Units:

- Administrative Office
(Billing & Collections, Managed Care)
- Ambulatory Administration

While UNC P&A is affiliated with the UNC HCS, the net assets of UNC P&A are held in a UNC-CH trust fund. The operating income and expenses for UNC P&A are managed via UNC-CH's accounting infrastructure; as such, its operational results are included in the annual audit for UNC-CH.

Rex Healthcare, Inc. (REX) is a North Carolina not-for-profit corporation organized to provide a broad range of health care services to residents of

the Triangle area of North Carolina. Acting through its network of operating affiliates, REX provides health care to patients from several locations through the continued development of acute care and non-hospital programs.

REX's sole member is the UNC HCS, and the UNC HCS appoints eight of the 13 seats on REX's Board of Trustees. Additionally, the UNC HCS reviews and approves REX's annual operating and capital budgets.

The activities of the principal corporate entities under the common control of REX are summarized as follows:

Rex Healthcare, Inc. – Rex Healthcare, Inc. (the "Hospital") located in Raleigh, North Carolina, is a 394-bed hospital. The Hospital provides inpatient, outpatient and emergency services primarily to the residents of Wake County, North Carolina. On its main campus, the Hospital operates Rex Cancer Center, Rex Family Birth Center and Rex Rehab and Nursing Care Center of Raleigh, a 120-bed nursing facility. Other service locations for the Hospital are its Cary, North Carolina campus, where it provides outpatient surgery, urgent care and diagnostic service; its Wakefield campus in Raleigh, North Carolina, where it provides urgent care, family medicine and diagnostic service; and Rex Nursing Care Center of Apex, a 107-bed nursing facility located in Apex, North Carolina. The Hospital also owns Rex Home Services, Inc., a North Carolina not-for-profit corporation organized to provide home care services primarily to the residents of the Wake County, North Carolina.

Rex Enterprises, Inc. – Rex Enterprises, Inc. is a North Carolina for-profit corporation organized to promote the health and welfare of the residents of Wake County.

Rex Healthcare Foundation, Inc. – Rex Healthcare Foundation, Inc. is a North Carolina not-for-profit corporation organized to promote the health and welfare of the people of the Triangle area by promoting philanthropic contributions and public support of REX.

Community-Based Practices (CBP) – The network of CBP is an outreach activity of the UNC HCS, which brings quality primary and specialty outpatient care to communities in the Triangle region, including several rural communities. This network has 13 outreach clinics providing nearly 156,000 visits a year. Ten of the 13 practices are UNC HCS-sponsored. The physicians practicing in the network clinics spend all or almost all of their time providing ambulatory patient care. The other practices are sponsored by, and are the financial responsibility of, either UNC School of Medicine departments or UNC Hospitals, with consultative support provided by CBP Administration as needed. These CBP are the source of a significant amount of ancillary testing, inpatient care and specialty care referred to the main Chapel Hill campus.

Basis of Presentation – The accompanying financial statements present all activities under the direction of the UNC HCS Board of Directors. The financial statements for the UNC HCS are presented as a compilation of the various statements generated by its separate entities. UNCH and REX issue their own audited financial statements, while UNC P&A is included as a part of the audited statements for UNC-CH.

In compiling the financial statements for the UNC HCS, significant intercompany transactions and balances between the related parties have been eliminated. In addition, while the general statutes refer to only the clinical operations of the School of Medicine, which are reported through UNC P&A,

this annual report includes the assets, liabilities and net assets of UNC P&A, which are included in the audited financial statements for UNC-CH.

Basis of Accounting – The statements of the various entities have been prepared using the accrual basis of accounting for UNCH and REX and the modified basis of accounting for UNC P&A. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. When preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates. For UNC P&A, their monthly financials are maintained on a cash basis; and then at year-end, adjustments are made to accrue all known material amounts for revenues and expenses.

Financial Statement Classifications and Categories

Current and Noncurrent Designation – Assets are classified as current when they are expected to be collected within the next twelve 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 twelve months.

Revenue and Expense Recognition – Revenues and expenses are classified as operating or nonoperating in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. 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 external customers who purchase medical services or supplies. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities.

Cash and Cash Equivalents – This classification includes petty cash, security deposits, cash on deposit in private bank accounts and deposits held by the State Treasurer in its 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. All highly liquid investments with an original maturity of three months or less, and which are not designated as investments, are considered to be cash equivalents and are recorded at cost, which approximates market value.

UNC-CH manages the funds of UNC P&A as authorized by the University of North Carolina Board of Governors pursuant to General Statute 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 General Statute 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.

Investments – This classification includes marketable debt and equity securities with readily determinable fair values, including assets whose use is limited, and are 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.

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

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

Estimated Third-Party Settlements – Estimated third-party amounts represent settlements with Medicare, Tricare and Medicaid programs that may result in a receivable or a payable. Reimbursement for cost-based items are paid at a tentative interim rate with the final settlement determined after the 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.

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

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 affiliates and other State agencies, and billings to outside companies for ancillary testing.

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 will be used to pay bond interest and principal as it becomes due.

Noncurrent assets whose use is limited or restricted include the bond proceeds for construction projects, the funds required by the bond indenture agreements, funds in the maintenance reserve fund that will be used to acquire or construct future property, plant or equipment, and the money on deposit with the Liability Insurance Trust Fund.

Prepaid Expenses – Prepaid expenses represent current year expenditures for services that extend

beyond the current reporting cycle. Payments include insurance premiums, maintenance contracts and lease arrangements.

Property, Plant and Equipment – Property, plant and equipment are stated at cost at the date of acquisition or at fair value at the date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred during the period of construction are capitalized. Only assets having a cost or fair value of at least \$5,000 and an estimated useful life of three years or more are capitalized. Assets under capital lease are stated at the present value of the minimum lease payments at the inception of the lease.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to 20 years for equipment, 10 to 50 years for buildings and fixed equipment, and five to 25 years for general infrastructure and building improvements. Assets under capital leases and leasehold improvements are depreciated over the related lease term, generally periods ranging from five to seven years.

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.

Accounts and Other Payables – Accounts and other payables represent the accrual of expenses for goods and services that have been received as of the end of the year but have not been paid.

Accrued Salaries and Benefits – Accrued salaries and benefits represent the accrual of salaries and associated benefits earned as of the end of the year but have not been paid.

Notes and Bonds Payable – Notes and bonds payable represent debt issued for the construction of buildings and the acquisition of equipment. The current amount is the portion of bonds due within one year, and the balance is reflected as noncurrent. The bonds carry interest rates ranging from 3.00% to 5.25%. The various bond series have fixed, variable or synthetic rates with final maturity in February 2031.

Bonds payable are the reported net of unamortized discount, premium and deferred loss on refundings. Amortization of these amounts is done using either the effective interest method or the straight-line method.

The notes payable carry various interest rates ranging from 2.48% to 5.88% with a final maturity in September 2010.

Interest Payable – Interest payable represents accrued interest at the end of the year that has not yet been paid.

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

Compensated Absences – Compensated absences represent the current liability for employees with accumulated leave balances earned through the 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.

Net Assets – Net assets represent the difference between assets and liabilities. Due to the complexities of consolidating these entities, only a combined number is shown for net assets. Normally, under

generally accepted accounting principles, the net asset category would be further categorized as the amounts (1) Invested in Capital Assets, Net of Related Debt, (2) Restricted Net Assets – Expendable and (3) Unrestricted Net Assets.

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 collectable is recognized as revenue deductions on an accrual basis.

Charity care provided represents health care services that were provided free of charge or at rates that are less than the established rates to individuals who meet the criteria of the UNC HCS's charity care and uninsured policy. For UNCH and UNC P&A, uninsured patients receive a 25% 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 on August 1, 2000 and is based on ambulatory payment classifications. It applies to most hospital outpatient services other than ambulance, rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Medicaid reimburses inpatient services on an interim basis under a prospective payment system. Medicaid uses the Medicare DRG system with some modifications.

Medicaid reimburses outpatient services on an interim basis at an agreed-upon percent of charges, but settles based on documented costs for all services except hearing aids, durable medical equipment (DME), outpatient pharmacy and home health.

Hospital payments for Medicare and Medicaid services are made based on a tentative reimbursement rate with final settlement determined after submission of the appropriate cost reports by the entities within the UNC HCS. Medicaid reimburses physician services at a rate of ninety-five percent (95%) of Medicare rates. UNC P&A is also reimbursed on a cost-basis, receiving the federally reimbursed portion of costs of providing care to Medicaid patients not covered by fee-for-service reimbursement.

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

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 have not yet been reported.

Medical School Trust Fund – Medical school trust fund (MSTF) expenses represent an assessment of 4.6% 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.

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 the UNC HCS.

Concentrations of Credit Risk – The UNC HCS provides services to a relatively compact area surrounding the Research Triangle Park without collateral or other proof of ability to pay. Concentration of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and formalized agreements with third-party payors. Significant accounts receivable are dependent upon the performance of certain governmental programs—primarily Medicare and North Carolina Medicaid—for their collectibility. Management does not believe there are significant credit risks associated with these governmental programs.

The aggregate mix of gross receivables from patients and third-party payors on June 30 was Medicare – 21%, Managed Care – 25%, Commercial – 15%, Medicaid – 19%, Self Pay – 15% and Other – 5%.

Note 2 – Estimated Third-Party Settlements:

The amount shown as current assets represents estimated receivables due to UNCH from Tri-care/Champus in the amount of \$13,752,171 and amounts due to UNC P&A for Medicaid in the amount of \$1,700,000.

The amount shown as current liabilities represents estimated payables due to Medicaid in the amounts of \$3,520,000 from Rex, \$2,500,000 from UNC P&A and \$17,189,486 from UNCH. In addition, estimated payables to Medicare are \$200,000 from Rex and \$4,962,005 from UNCH.

For Medicare and Medicaid, reported amounts reflect the net difference between the filed cost report settlements and amounts reserved for possible future audit findings. Tricare/Champus is a federal insurance program for eligible active duty and retired military personnel and their dependents. Tricare/Champus makes payments on an interim basis. Upon completion of the Medicare Cost Report, Tricare will reimburse certain portions of direct medical and paramedical education and capital costs from the Medicare Cost Report.

Note 3 – Capital Assets:

A summary of capital assets as of June 30 was:

Land and Improvements	60,338,912
Buildings and Improvements	543,696,525
Equipment	538,632,027
Construction in Progress	76,509,845
Gross PP&E	1,219,177,308
Accumulated Depreciation	(561,328,017)
Net PP&E	657,849,291

Note 4 – Long-Term Debt:

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

Rex Series 1998 Bonds	92,210,000
UNC P&A Series Bonds	8,398,700
UNCH Series 1999 Bonds	47,255,000
UNCH Series 2001 Bonds	103,600,000
UNCH Series 2003 Bonds	96,120,000
UNCH Series 2005 Bonds	27,670,000
Face Value Outstanding	375,253,700
Deferred Costs - Discount on Issuance	(1,190,032)
Deferred Costs - Loss on Refunding	(15,763,176)
Deferred Costs - Premium on Issuance	1,411,780
Arbitrage Rebate Payable	268,892
Net Value Outstanding	359,981,163
Current Portion of Bonds	13,619,700
Current Portion of Notes	16,645,833
Total Current Bonds and Notes	30,265,533
Noncurrent Portion of Bonds	346,361,463
Noncurrent Portion of Notes	39,839,637
Total Noncurrent Bonds and Notes	386,201,100

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

The annual requirements to pay principal and interest on the bonds outstanding at June 30 are:

Fiscal Year	Principal	Interest	Total
2008	13,619,700	16,826,377	30,446,077
2009	13,849,800	15,919,001	29,768,801
2010	14,489,800	15,065,013	29,554,813
2011	15,164,800	14,158,447	29,323,247
2012	15,844,800	13,410,478	29,255,278
2013-2017	84,994,800	55,290,576	140,285,376
2018-2022	75,370,000	36,896,664	112,266,664
2023-2027	74,150,000	20,468,292	94,618,292
2028-2031	67,770,000	5,748,954	73,518,954
Total	375,253,700	193,783,802	569,037,502

Note 5 – Pension Plans:

The UNC HCS has a variety of retirement plans available to its permanent full-time employees. The majority of employees of UNCH and UNC P&A are members of the Teachers’ and State Employees’ Retirement System (the System) as a condition of employment. The System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer. Graduate medical residents, temporary employees and permanent part-time employees with appointments of less than 30 hours per week are not covered by the plan.

The Optional Retirement Program (the Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant’s death. Administrators and eligible faculty of the University may join the Program instead of the Teachers’ and State Employees’ Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program. Participants in the Program are immediately vested

in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

REX sponsors a single-employer defined benefit retirement plan available to eligible employees. The benefit formula is based on the highest five consecutive years of an employee’s compensation during the ten plan years preceding retirement. There are no employee contributions to the plan. Funding amounts for all of the plans are based upon actuarial calculations.

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

Note 6 – Other Employment Benefits:

UNCH and UNC P&A 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. UNCH and UNC P&A assume no liability for retiree health care benefits provided by the programs other than their required contributions.

UNCH and UNC P&A 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. UNCH and UNC P&A assume no liability for long-term disability benefits under the Plan other than their contribution.

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

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

Note 7 – Risk Management:

The UNC HCS 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 – UNCH and UNC P&A participate in the Liability Insurance Trust Fund (the Fund), a claims-servicing public entity risk pool for professional liability protection. The Fund acts as a servicer of professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid. Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Fund. On June 30, UNCH and UNC P&A had advance deposits with the Fund totaling \$17,261,727.

Additional disclosures relative to the funding status and obligations of the Fund are set forth in the audited financial statements of the Liability Insurance Trust Fund for the years ended June 30, 2007 and 2006. Copies of this report may be obtained from the University of North Carolina Liability Insurance Trust Fund, Room 6001 East Wing, University of North Carolina Hospitals, 101 Manning Drive, Chapel Hill, North Carolina 27514, or by calling (919) 966-3041.

Note 8 – Related Party Transactions:

The Medical Foundation of North Carolina, Inc. – UNCH and UNC P&A are participants in The Medical Foundation of North Carolina, Inc., a nonprofit foundation for the University of North Carolina at Chapel Hill and UNCH, 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 the Hospitals, then the amount would be recorded at the time of receipt on UNCH's financial statements.

UNC Health Care System Enterprise

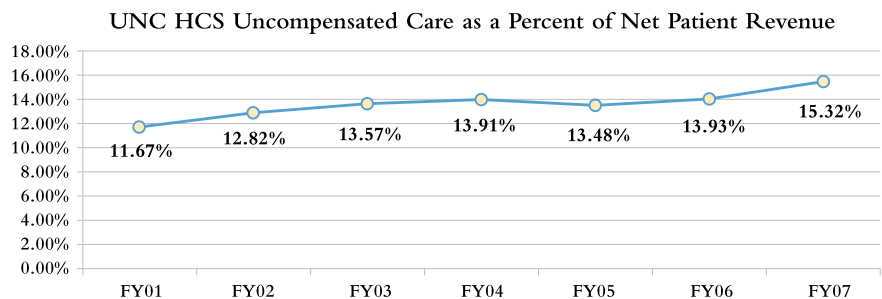
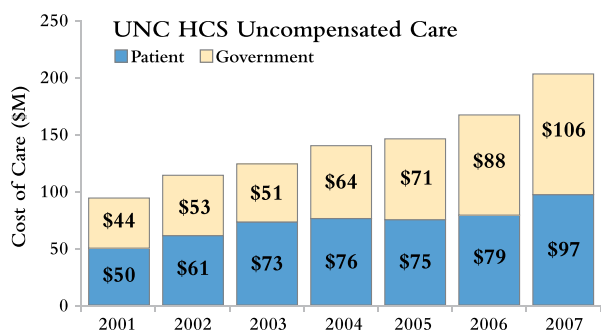
Fund – The Board of Directors of the UNC HCS authorized and approved the creation of an Enterprise Fund to support the UNC HCS’s mission and vision to be the nation’s leading public academic health care system. Pursuant to a memorandum of understanding effective July 1, 2005, UNCH, UNC P&A, REX and UNC-CH School of Medicine agreed to finance the Enterprise Fund. For the year ending on June 30, 2007, total assessments of \$14,950,000 were made, of which \$14,250,000 was allocated to various departments within UNC P&A in support of the three areas of clinical care, research and teaching within the academic medical center.

John Rex Endowment – The John Rex Endowment (the Endowment) operates as a 501(c)(3) corporation and is independent of the Board of Directors of the UNC HCS. 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, the UNC HCS and their affiliates. The funding source for the Endowment is the \$100 million transfer that came from the UNC HCS in April 2000. The Endowment has committed \$25 million for capital projects at REX.

Note 9 – 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, the UNC HCS also recognizes its responsibility to provide health care services and programs for the benefit of the community, at no cost or at reduced rates. The UNC HCS sponsors many community health initiatives, including breast and prostate cancer screenings, cardiovascular and pulmonary awareness, and diabetes education programs that ultimately result in the overall improved health of our community. The UNC HCS also provides contributions, cash and in-kind, to various charitable and community organizations. The costs of these programs are included in operating expenses in the accompanying pro forma statements of revenues and expenses.

The following charts show the cost of uncompensated care provided by the UNC HCS and the relative percentage of net patient service revenue. As shown, the amount of uncompensated care is increasing for both the government payors (Medicaid, Medicare and Tricare), as well as the patients with little or no health insurance coverage.





UNC
HEALTH CARE

Public Affairs & Marketing Office
101 Manning Drive
Chapel Hill, NC 27514

500 copies of this document were produced at a cost of \$9,245 or \$18.49 per copy.