2011-2012

STATE-OWNED ASSETS HOUSE SELECT COMMITTEE

MINUTES

HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS

2011-2012 Session

CHAIR

Representative Harold J. Brubaker, Chairman

STAFF

Kory Goldsmith
Greg Roney
Ben Stanley
Mark Bondo

COMMITTEE ASSISTANT

Cindy Coley

(Book 1 of 4 Books)

Office of Speaker Thom Tillis
North Carolina House of Representatives
Raleigh, North Carolina 27601-1096

HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS.

TO THE HONORABLE MEMBERS OF THE NORTH CAROLINA HOUSE OF REPRESENTATIVES

Section 1. The House Select Committee on State-Owned Assets (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26 of the Rules of the House of Representatives of the 2011 General Assembly.

Section 2. The Committee consists of the 18 members listed below, appointed by the Speaker of the House of Representatives. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time.

Representative Harold J. Brubaker, Chair
Representative Marilyn Avila
Representative Marcus Brandon
Representative William Brawley
Representative William D. Brisson
Representative Becky Carney
Representative James W. Crawford, Jr.
Representative Dale R. Folwell
Representative Mike Hager
Representative Julia C. Howard
Representative David R. Lewis
Representative Tim D. Moffitt
Representative Bill Owens
Representative Mitchell S. Setzer
Representative Timothy L. Spear
Representative Edgar V. Starnes
Representative Roger West
Representative Michael H. Wray

Section 3. The Committee may study the assets that are owned or controlled by the State of North Carolina that are unused, underused or do not involve a core function of State government. Additionally the Committee may study whether the sale of such assets could provide the State with a better return on its investment. "Assets" include, but are not limited to, land, buildings, hospitals, railroads, aircraft, and vehicles.

Section 4. The Committee shall meet upon the call of its Chair. A quorum of the Committee shall be a majority of its members. The Committee is authorized to meet in the interim period between sessions.

Section 5. The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes.

Section 6. Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1.

Section 7. The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations.

Section 8. The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

Section 9. The Committee may submit an interim report on the results of the study, including any proposed legislation, on or before May 1, 2012, by filing a copy of the report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee shall submit a final report on the results of its study, including any proposed legislation, to the members of the House of Representatives by December 31, 2012 by filing the final report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee terminates upon the convening of the 2013 General Assembly or upon the filing of its final report, whichever occurs first.

Effective this the 7th day of June, 2011.

Thom Tillis

Thom Tillis, Speaker of the House of Representatives

Cindy Coley (Rep. Brubaker)

From: Charles Duckett (Speaker Tillis' Office)
Sent: Tuesday, September 13, 2011 11:43 AM
To: Cindy Coley (Rep. Brubaker)
Subject: State-Owned Assests Committee

State Owned Assests.pdf

Cindy, attached is the documents on the State-Owned Assets Committee.

Charles K. Duckett
Director of Boards and Commissions
Office of the Speaker
Room 2306, Legislative Bldg.
Raleigh, NC 27601
919-715-2686

EMPLOYMENT SECURITY COMMISSION, BUT DOES NOT RECEIVE THOSE BENEFITS AS THE RESULT OF AN ACT OR OMISSION OF THE COMMISSION, IS DEEMED AN AGGRIEVED PARTY FOR THE PURPOSES OF JUDICIAL REVIEW WITHOUT THE REQUIREMENT TO EXHAUST ADMINISTRATIVE REMEDIES, passes its second reading, by electronic vote (115-1), and there being no objection is read a third time.

The bill passes its third reading and is ordered sent to the Senate by Special Message.

Pursuant to Rule 36(b), the following bill appears on today's Calendar.

H.B. 650 (Committee Substitute), A BILL TO BE ENTITLED AN ACT TO PROVIDE WHEN A PERSON MAY USE DEFENSIVE FORCE AND TO AMEND VARIOUS LAWS REGARDING THE RIGHT TO OWN, POSSESS, OR CARRY A FIREARM IN NORTH CAROLINA.

Representative Hilton offers Amendment No. 1 which is adopted by electronic vote (116-0).

Representative Hilton offers Amendment No. 2 which is adopted by electronic vote (112-3).

Representative McGrady offers Amendment No. 3 which is adopted by electronic vote (59-57).

The bill, as amended, passes its second reading by electronic vote (77-38).

Representative Hall requests and is granted leave of the House to change his vote from "aye" to "no". The adjusted vote total is (76-39).

Representative Hackney objects to the third reading. The bill remains on the Calendar.

APPOINTMENTS BY THE SPEAKER

Pursuant to Rule 26, the Speaker makes the following appointments to the Select Committee on State-Owned Assets: Representative Brubaker, Chair; Representatives Barnhart, Brandon, Brawley, Brisson, Carney, Crawford, Folwell, Hager, Howard, Lewis, Moffitt, Owens, Setzer, Spear, Starnes, West, and Wray.

House Select Committee on State-Owned Assets

WHEREAS, the State of North Carolina owns or controls assets that are unused, underused, or do not involve a core function of government;

WHERAS, such State-owned disposable assets may include, but are not limited to, land, buildings, hospitals, railroads, aircraft, and vehicles;

WHERAS, it is in the best interests of the citizens of North Carolina for the General Assembly to determine whether continued State ownership of certain assets is necessary to fulfill a core function of government or whether the sale of such assets provides the State with a better return on its investment;

WHEREAS, there is a need to determine the fair market value for such State-owned disposable assets; and

WHEREAS, it is necessary to establish a transparent and equitable process by which the State may divest itself of such assets in a manner that maximizes taxpayers' return on investment.

NOW THEREFORE, there is established the House Select Committee on State-Owned Assets. Its membership shall include the following members of the North Carolina House of Representatives:

Brubaker - Chair
Barnhart
Brandon
Brisson
Brawley — CRAWFORD
Carney
Hager — FOLWELL
Lewis — HOWARD
Moffitt
Setzer — OWENS
Spear
Starnes
Wray
WEST
FORRESTER

THOM TILLIS

JUN 07 2011

Read
Denise Walker

HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS

MEMBER	ASSISTANT	PHONE	OFFICE	SEAT
Rep. Harold Brubaker	Cindy Coley	715-4946	302	1
Rep. Marilyn Avila	Susan Lewis	73305530	2217	37
Rep. Marcus Brandon, Jr.	Cecil Brockman	733-5825	1209	116
Rep. Bill Brawley	Brian Lehrschall	733-5800	1313	78
Rep. William Brisson	Caroline Stirling	733-5772	1325	23
Rep. Becky Carney		733-5827	1221	91
Rep. James Crawford, Jr	Linda Winstead	733-5809	418B	24
Rep. Dale Folwell	Reston Jones	733-5787	301F	99
Rep. Mike Hager	Christine Brenco	733-5749	306C	66
Rep. Julia Howard		733-5904	1106	2
Rep. David Lewis	Grace Rogers	715-3015	534	20
Rep. Timothy D. Moffitt	Melissa Carter	715-3012	1025	85
Rep. Bill Owens	Linda A. Johnson	733-0010	611	21
Rep. Mitchell Setzer	Margaret Herring	733-4948	1206	13
Rep. Timothy Spear	Lona Hallissy	715-3029	402	36
Rep. Edgar Starnes	Pattie Fleming	733-5931	419A	5
Rep. Roger West	Linda C. Johnson	733-5859	1229	14
Rep. Michael Wray	Lisa Brown	7335662	502	94

REP. LARRY PITTMAN

NORTH CAROLINA GENERAL ASSEMBLY
Legislative Services Office

George R. Hall, Legislative Services Officer

Research Division
300 N. Salisbury Street, Suite 545
Raleigh, NC 27603-5925
Tel. 919-733-2578 Fax 919-715-5460

O. Walker Reagan
Director

October 18, 2011

The Honorable Harold Brubaker, Chair
House Select Committee on State Owned Property
North Carolina House of Representatives
300 North Salisbury Street, Room 302
Raleigh, NC 27603-5925

Dear Representative Brubaker,

Congratulations on your designation as Chair of the House Select Committee on State Owned Property.

I have asked Ms. Kory Goldsmith, and Mr. Greg Roney, with the Research Division; Mr. Ben Stanley, with the Bill Drafting Division; and Mr. Mark Bondo, with the Fiscal Research Division, to serve as staff to this Committee. In accordance with the Committee's directions as expressed by you, they will aid in all aspects of the Committee's work, and will attend the meetings of the Committee when it convenes upon your call. Please note that all these individuals also will be responsible for staffing other study committees and commissions during the Interim.

Should you wish to contact Ms. Goldsmith, and Mr. Roney, they may be reached by telephone at (919) 733-2578. Mr. Stanley may be reached at (919) 733-6660. Mr. Bondo may be reached at (919) 733-4910.

My best wishes to you and the Committee in its work. If I may be of any service to you or the Committee, please contact me.

Yours truly,

O. Walker Reagan

O. Walker Reagan
Director of Research

OWR/tmp

cc: Hon. Thom Tillis, Speaker
Mr. George Hall
Mr. Gerry Cohen
Mr. Mark Trogdon
Ms. Nicole McGuiness
Ms. Sarah Wolfe
Ms. Kory Goldsmith
Mr. Greg Roney
Mr. Ben Stanley
Mr. Mark Bondo
Ms. Becky Cook
Mr. Brian Peck

MINUTES
SELECT COMMITTEE ON STATE-OWNED ASSETS
Thursday, September 22, 2011

The Select Committee on State-Owned Assets met on Thursday, September 22, 2011 at 10:00 a.m., in Room 544 Legislative Office Building, Raleigh, North Carolina. In attendance were Representative Brubaker (Chairman); and Representatives Brawley, Brisson, Hager, Lewis, Moffitt, Owens, Starnes, and West. Mark Bondo (Fiscal Staff), Kory Goldsmith (Research Staff), Greg Roney (Research Staff), and Committee Assistant Cindy Coley were present.

Chairman Brubaker recognized House Sergeant-At-Arms Staff Fred Hines, Young Bae and R. L. Carter.

Chairman Brubaker recognized Tim Walton, Manager, General Real Estate Section, Department of Administration. His Report is attached to these Minutes as "Exhibit 1". He stated that currently the state owns approximately 840,000 acres of land, 11,815 buildings, and holds conservation easements on approximately 710,000 acres. They are now reviewing the asset reports of 961 of these complexes. Three universities have not yet submitted their reports. The following are inquiries from Committee Members:

1. Rep. Lewis confirmed the above figures.

2. Rep. Owens confirmed that the Polk Building in Charlotte was sold about 10 years ago when there was a legislative committee on state-owned assets.

3. Rep. Starnes asked historically how many properties the State will sell in one year? Mr. Walton responded that in the last three years there have been only two properties up for sale and they are still for sale.

Chairman Brubaker recognized Kory Goldsmith, Research Staff and Legislative Attorney, gave an Overview Report on the UNC Health Care System. Her Report is attached to these Minutes as "Exhibit 2". The following are inquiries from Committee Members:

1. After reviewing the Organizational Charts on the UNC Health Care System, Rep. Brawley asked what the rationale was for exempting the UNC Health Care System from state regulation and oversight?

2. Rep. Starnes asked if the number of UNC Board At-Large members was flexible and what is the current number?

3. Regarding the Wake-Med Offer to Purchase Rex Hospital, Rep. Hager asked if it was intended to be a clinical, research or a teaching hospital?

Chairman Brubaker recognized Dr. Dick Krasnow, Chairman of the UNC Health Care System's Board of Directors. He stated that The Board of Directors voted unanimously to decline Wake Meds proposal to purchase Rex. He then introduced Dr. Bill Roper, CEO of the UNC Health Care System.

Chairman Brubaker recognized Dr. Bill Roper, Dean of the Medical School at UNC and CEO of the Health Care System who provided the committee with an Overview of UNC Health Care and Rex Health Care (See Exhibit #3).
Dr. Roper reported the following.

1. He emphasized that "no state funds have been used to partner with or subsidize those doctor's practices who have chosen to be affiliated with UNC Health Care System".

2. He stated that the Health Care System will receive an $18,000,000 appropriation from the General Assembly this year. This will subsidize patient care services to people who can't afford to go anywhere else and is less than 1% of UNC Health Care System's total operating expenses.

3. The Health Care System will give more than $300,000,000 worth of care to patients who can't afford to pay.

4. Rex Health Care is a private not-for- profit entity (hospital) controlled by UNC Health Care. As a private entity Rex Health Care receives no state funds.

The following are inquiries from Committee Members:

1. Rep. Starnes asked if Rex Hospital makes a profit, and what that profit is? Dr. Roper said he didn't know but they had filed the appropriate forms and he will be happy to convey that information to the committee.

2. Rep. Starnes asked if UNC Health Care System uses profits from Rex to subsidize other areas of UNC? Dr. Roper stated they did use profits to subsidize other areas, as well as the medical school.

3. Rep. Starnes asked: If the Auditor ever looked at the books of the UNC Hospital System? Dr. Roper stated "every year" and that the Audit Reports were available.

4. Rep. Brawley asked if UNC Health Care System operated four hospitals? Dr. Roper acknowledged that they did. The hospitals are under the UNC Health Care System created by the legislature in 1998. Rep. Brawley has concerns if it is necessary for UNC to own a hospital to train a physician?

5. Rep. Brisson asked "If UNC is state-owned , Rex is privately-owned in a 50/50 partnership, and Rex controls all of the assets, how do we maintain our non-profit

status? Dr. Roper stated that "almost all hospitals in NC are non-profit with the exception of maybe two which are owned by investors and stockholders". Dr. Roper stated that" UNC, Wake-Med, Duke, Rex and so on are non-profit". Dr. Roper stated : "I can promise you that if, God forbid, you were to compel us to sell Rex, we would definitely be back here next year asking for a whole lot more money from the State."

6. Rep. Starnes inquired about transfers of funds between UNC Health Care System and Rex. Dr. Roper stated that "that over the past 10 years that we controlled Rex, the transfer of funds has been a net transfer of funds in the approximate amount of $20 million dollars to Chapel Hill."

7. Rep. Brawley asked "Why UNC bought Rex to begin with?"

8. Rep. Moffitt asked "when were the corporate entities that Rex controls created ? Dr. Roper stated that he would be happy to supply that information. He thought that most of them were created after 2000.

Rep. Brubaker instructed Staff to get a copy of Dr. Roper's Audits of the UNC Health Care System.

The following are inquiries from Committee Members regarding the Enterprise Fund:

1. Rep. Brubaker inquired: "Could you explain the Enterprise Fund to the committee and is the UNC Health Care System Enterprise Fund audited?"

   Dr. Roper stated that The Enterprise Fund is an account we use to subsidize the various parts of our organization. We created it in 2005 and we take funds from UNC hospitals, Rex and our physician group and invest them through the UNC Health Care System Enterprise Fund. He will be happy to supply you with the the audits and further information if it is needed.

2. Rep. Starnes asked "How much money is in the Reserves Fund of UNC Hospitals? "

   Dr. Roper stated that $750 Million Dollars in the hospitals in Chapel Hill. The UNC Health Care Board of Directors controls this and we provide an annual report to the BOG. There 19 members on the UNC Health Care Board now, 11 of whom are at-large members .

3. Rep. Hager asked "What kind of hospital is Rex? Teaching, health care, or research?

   Dr. Roper says Rex is dominantly a patient care (clinical) facility. And he will be happy to provide a more specific report on the types of care and/or teaching.

Chairman Brubaker recognized John Nance, Chief Engineer, Department of Transportation. Mr. Nance did a review of their right-of-way process for real property, both Surplus and Residue, which is attached to these Minutes as Exhibit #4.
Rep. Brawley and Rep. Starnes inquired about DOT's Land Conservancy Program (both federal and state) and any endangered species (both federal and state) impacted. Mr. Nance will provide these reports and the endangered species affected to the Committee for their review.

Chairman Brubaker recognized Anthony Roper, Deputy Secretary, Department of Transportation. Mr. Roper did a review of the Facilities Management Program which is attached to these Minutes as Exhibit #4. He advised that DOT manages or owns about 8800 acres of land at a purchase price value of about 14.5 Million Dollars. There about 2000 buildings on the 8800 acres of land with an estimated value of about of 140 Million Dollars on the structures and contents. Chairman Brubaker noted that the properties owned by DOT are not on the local tax rolls and do not pay any property taxes. Staff will provide to the committee a list of the properties and the date purchased.

Mr. Nance also reported that the value of the equipment fleet is valued at over $615 Million Dollars.

Chairman Brubaker announced the next meeting is scheduled for October 25, 2011, 10:00 a.m., 544 Legislative Office Building, Raleigh, North Carolina. There being no further business, the meeting adjourned at 12:10 p. m.

Rep. Harold J. Brubaker, Chairman

ATTEST:

Cindy Coley, Committee Assistant

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

September

MEMORANDUM

TO: Members, SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM: Representative Harold J. Brubaker, Chairman
SUBJECT: Meeting Notice

DAY	**DATE**	**TIME**	**ROOM**
Thursday	September 22nd	10:00 a.m.	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at 919-715-4946.

cc: Committee Record _X_
Interested Parties _X_

REPRESENTATIVE
HAROLD BRUBAKER
CHAIR
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

Cindy Coley
Committee Clerk
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

General Assembly of North Carolina

House Select Committee on State Owned Assets

State Legislative Building
Raleigh, North Carolina

AGENDA

September 22, 2011 10:00am
Room 544 Legislative Office Building

1. Call to order and introductory remarks
   Representative Harold Brubaker, Chair

2. Status of Implementation of Sec. 6.15 of S.L. 2011-145 (State-Owned Disposable Assets) by the Department of Administration
   Tim Walton, Manager, General Real Estate Section, Department of Administration

3. Background of the University of North Carolina Healthcare System
   Kory Goldsmith, Staff Attorney, Research Division

4. Overview of the University of North Carolina Healthcare System and Assets
   Dr. Richard M. Krasno, Ph.D
   Chair of the UNC Health Care System and Executive Director of the William R. Kenan Jr. Charitable Trust.
   William L. Roper, MD, MPH
   Dean, UNC School of Medicine and CEO UNC Health Care System

5. Overview of NC Department of Transportation Real Property & Equipment
   Jon Nance, Chief Engineer, Operations, Department of Transportation
   Anthony Roper, Deputy Secretary, Administration and Business Development, Department of Transportation

6. Committee discussion and announcements

7. Adjourn

ADDITIONAL INFORMATION:

Persons having questions about the Commission meeting or other matters related to the Committee may contact the Committee Clerk or Committee Staff at 919-733-4910 (Fiscal Research) or 919-733-2578 (Research).

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	9/22/2011						
Brubaker, Harold, Senior Chair	✓						
Avila, Marilyn	N						
Brandon, Marcus	N						
Brawley, Bill	✓						
Brisson, William	✓						
Carney, Becky	N						
Crawford, James	N						
Folwell, Dale	N						
Hager, Mike	✓						
Howard, Julia	N						
Lewis, David	✓						
Moffitt, Timothy	✓						
Owens, Bill	✓						
Setzer, Mitchell	N						
Spear, Timothy	N						
Starnes, Edgar	✓						
West, Roger	✓						
Wray, Michael	N						

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	9/22/2011						
Brubaker, Harold, Senior Chair							
Avila, Marilyn	N						
Brandon, Marcus	N						
Brawley, Bill	Yes						
Brisson, William	Yes						
Carney, Becky	N						
Crawford, James	N						
Folwell, Dale	N						
Hager, Mike	Yes						
Howard, Julia	N						
Lewis, David	Yes						
Moffitt, Timothy	Yes						
Owens, Bill	Yes						
Setzer, Mitchell	N						
Spear, Timothy	N						
Starnes, Edgar	Yes						
West, Roger	Yes						
Wray, Michael	N						

House Committee Pages / Sergeants at Arms

NAME OF COMMITTEE HOUSE SELECT COMMITTEE ON STATE OWNED ASSETS

DATE: SEPT. 22, 2011 Room: 544

*Name: _____

County: _____

Sponsor: _____

*Name: _____

County: _____

Sponsor: _____

*Name: _____

County: _____

Sponsor: _____

*Name: _____

County: _____

Sponsor: _____

*Name: _____

County: _____

Sponsor: _____

House Sgt-At Arms:

1. Name: FRED HINES
2. Name: YOUNG BAE
3. Name: R. L. CARTER
4. Name: _____
5. Name: _____
6. Name: _____

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS — 9/22/11

Name of Committee — **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Josh Davis	Cultural Resources
Anita Watkins	UNC GA
Kevin Fitzgerald	UNC
Ewn Schwably	UNC
Paul Meyer	NCLM
Donald Duch	Disney.
DAVID RICE	MANNING FULTON
	B
Bill Roper	UNC
Dale Jenkins	Medical Board
Bernadette Spong	Rex

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS — 9/22/11

Name of Committee — **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Cecilia Edgar	NCWRC
Lesley Cole	UNC
Richard Krasno	UNC
ERICK HAWKINS	UNC
Laura Brewer	Capstrat
Karen McCall	UNC
Alan Wolf	Rex
Lisa Schille	Rex
John Lewis	UNC
David Story	Rex
MICHAEL ZELLINGER	WHVHEART

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS 9/22/11

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Bill Newman	WHV Heart
Margaret Dardess	UWC
Angel Sams	NSS
Theresa Kostrzewa	NSS
Reggie Holley	The Longmire Group
Kristen Crosson	OSBM
John Merritt	MWC LLC
Keri Burke	MWC
Thomas C. Caves, Jr.	Dept of Crime Control & Public Safety
Kari Barsness	DENR
Dana Simpson	Smith Anderson

VISITOR REGISTRATION SHEET

Select Comm State-Owned Assets — 9/22/11

Name of Committee — **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Christine Cruz	WakeMed
Kent Yelverton	NCDA+CS
Spiro Diggon	DOA
Anne Bender	DOA
Tina Shanahan	Compass NC
John Peterson	CAPSTRAT
Mary Ode Allen	CAPSTRAT
Michelle Frazier	MF+S
Paul Meyer	NC League
Jim Harrell	WakeMed
Beau Memory	NCDOT

VISITOR REGISTRATION SHEET

Select Comm. State-Owned Assets — 9/22/11

Name of Committee — Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Mary Matthews	Duke Univ. Health System
Donald Bryson	PEFNC
Kristen Laster	FSP
Tim Fetzer	Fetzer Strategic Partners
Lisa Martin	NC HBA
Anthony Roper	NCDOT
Jon Nance	NCDOT

S.L. 2011-145 (CURRENT OPERATIONS AND CAPITAL IMPROVEMENTS APPROPRIATIONS ACT OF 2011)

STATE-OWNED DISPOSABLE ASSETS

SECTION 6.15.(a) Definition. – For purposes of this section, the term "State-owned disposable assets" or "assets" means State-owned land, buildings, and other assets that are unused, underused, or do not involve a core function of government.

SECTION 6.15.(b) By September 1, 2011, the Department of Administration, in consultation with all other affected State departments, agencies, and institutions, shall do all of the following:

(1) Implement a system for the sale of State-owned disposable assets, considering the following:
   a. The condition of the asset.
   b. The extent to which the asset meets the purpose for which it was intended.
   c. The future needs of the State to perform the service intended at the location.
   d. The best and most cost-effective manner in which these future needs can be serviced.
   e. The practicability of moving the function of the services performed at a location to another area that might reduce acquisition, construction, and labor costs without diminishing the quality of service.
   f. The manner in which an asset should be (i) sold or retained, (ii) renovated, (iii) expanded for future use, or (iv) sold with a leaseback.
   g. Other factors regarding use of the asset.

(2) Examine current State law to determine amendments to allow for the most efficient and effective disposition of assets.

SECTION 6.15.(c) The Department of Administration shall take the action necessary to effectuate the sale of State-owned disposable assets in accordance with Section 2.2(a) of this act.

SECTION 6.15.(d) By March 31, 2012, the Department of Administration shall report to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division on all asset sales made pursuant to this section.

#1 EXHIBIT

Department of Administration
State Property Office

House Select Committee on
State Owned Assets

September 22, 2011

Handout Index

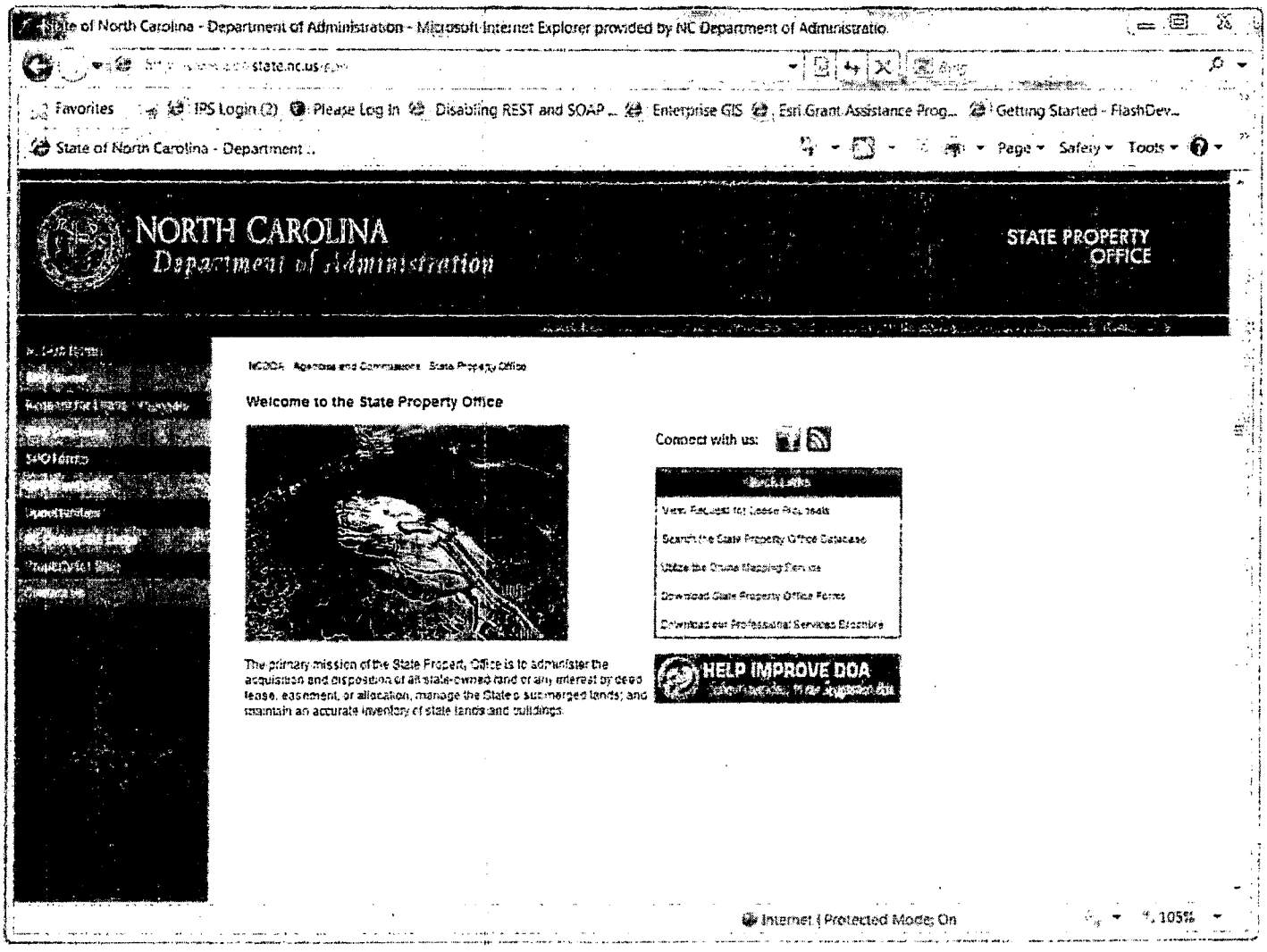
Page 1 - State Property Office website

Page 2 - Online State Property Database

Page 3 - Sample: Letter to State Agency and Institutions Asset Disposal System package

Page 7 - Sample: Individual Complex Map

Page 8 - Sample: Complex Building Asset List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NORTH CAROLINA
Department of Administration
STATE PROPERTY OFFICE
Welcome to the State Property Office
Connect with us:
HELP IMPROVE DOA
Internet | Protected Mode: On
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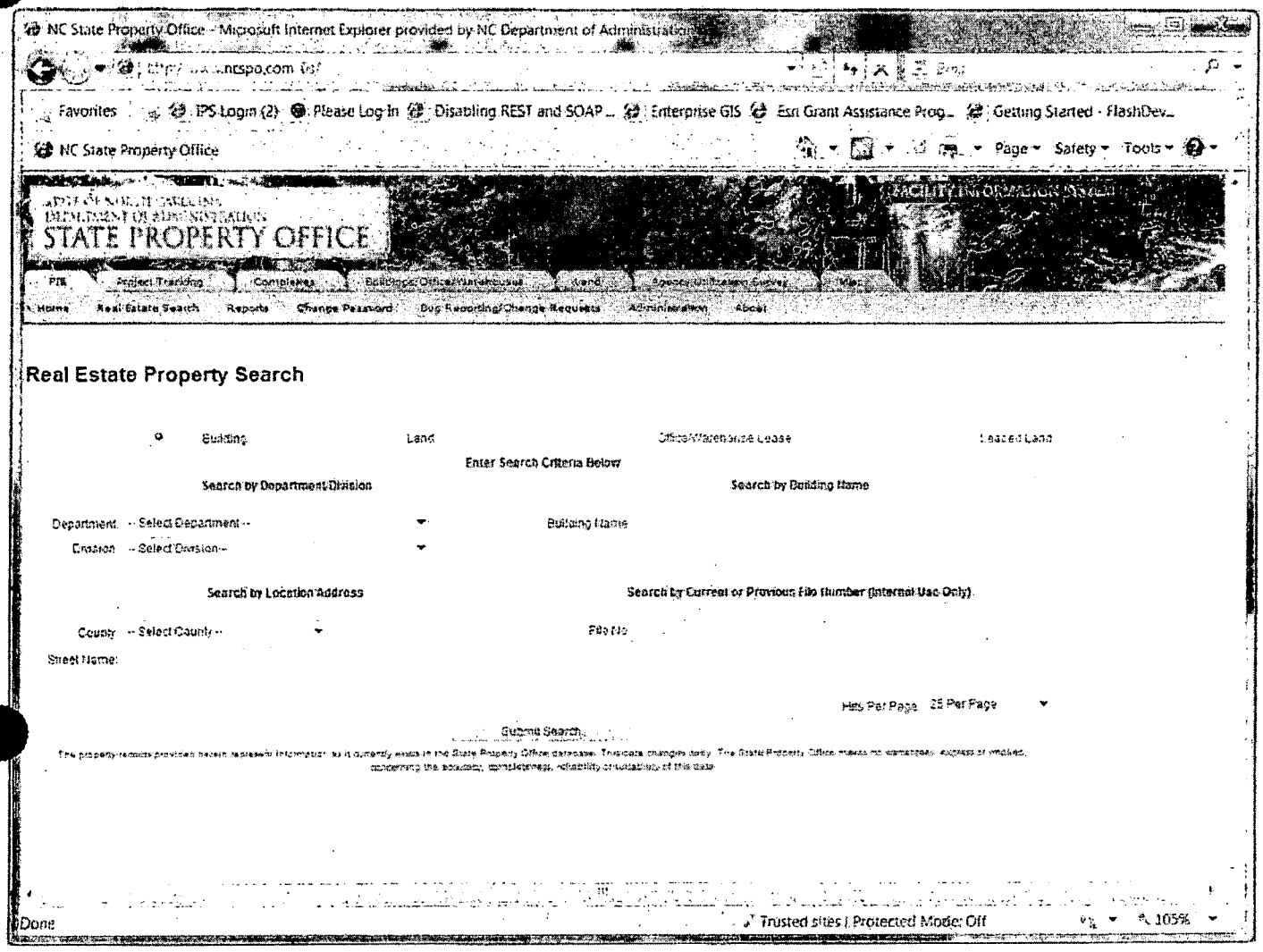
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Administration
About
Real Estate Property Search
Building
Land
Leased Land
Enter Search Criteria Below
Search by Department/Division
Department -- Select Department --
Division -- Select Division --
Search by Building Name
Building Name
Search by Location Address
County -- Select County --
Street Name:
Search by Current or Previous File Number (Internal Use Only)
File No
Hits Per Page 25 Per Page
Submit Search
Done
Trusted sites | Protected Mode: Off
105%

Pursuant to SL 2011-145 (HB 200) and SL 2011-373 (HB 596), the State Property Office is requesting your assistance to update the records of property allocated to your agency and also to identify land and building assets considered as unused, underused or do not involve a core function of your agency.

Specifically, Session Law 2011-145 (the Appropriations Bill) directs State Property to implement a system for identifying land that can be sold based on the above criteria. Session Law 2011-373 creates an alternate allocation formula related to how the proceeds from a sale of state property can be handled.

In order to meet the immediate requirements of the provision in the Appropriations Bill, the State Property Office is requesting your assistance in updating our records related to the property allocated to your agency. To assist in the process, the State Property Office has provided the following:

- Maps of all the State-owned property allocated to your agency: this can be found by clicking on the link below where you will find a listing and maps of all the State-owned property allocated to your agency. http://www.ncspo.com/ftp/property/1%2092%2024%20DOA.pdf

- Detailed instructions on providing required information is attached to this email.

- Form 1, which provides you an opportunity to inform State Property of any errors in the above hyperlinked listing.

- Form 2, which is for the agency to identify any buildings that are considered **unused**, **underused** or **not involving a core function of your agency** (see instructions at the end of this letter for definitions).

Please read the instructions carefully, and review the attached forms. In order to meet the legislative mandate, your information needs to be returned to the State Property Office **no later than September 15, 2011**.

After receipt of the requested information, as a next step in the process, the State Property Office will contact you for the purpose of conducting an evaluation of your responses following the criteria stated in the Appropriations Bill. This will assist the State Property Office in determining surplus property.

Thank you in advance for your time and attention to this urgent matter. If you have questions regarding the forms or process to be followed please call _____

INSTRUCTIONS:

Review each item of land or buildings in the linked listing of your agency's properties contained in this cover letter.

STEP 1—Complete Form 1 Error Correction Sheet, if necessary:

If there is an error related to any property listed on the hyperlinked documents, please complete as follows:

In Row 1, please enter information in each cell that identifies your agency and who State Property may contact with questions or for follow up information.

Row 2 shows an example of what an included item might look like.

In Rows 3 and continuing, and using the listing from hyperlinked listing of your agency's properties, in Columns A, B, and C, please enter the Complex Name, Complex Number, and Asset Number. Then enter the correction needed in Column D.

STEP 2—Complete Form 2 Building Update Sheet:

Review each building in the hyperlinked listing of your agency's properties contained in this cover letter. If any of these properties meet the definitions below, please complete Form 2 template as follows:

In Row 1, please enter information in each cell that identifies your agency and who State Property may contact with questions or for follow up information.

Row 2 shows an example of what an included item might look like.

In Rows 3 and continuing, and using the listing from your agency's properties, if any of the buildings meet the following definitions, in Columns A, B, and C, please enter the Complex Name, Complex Number, and Asset Number. Then enter Yes in the appropriate column (either col. D, E or F) in the table, based on which of the following definition applies:

1. **UNUSED** – indicates property (or a portion of the property) is currently not being used for agency functions and no future use is anticipated by the agency.

2. **UNDERUSED** – Property that is not used on a fulltime basis throughout the year or only used through a peak season of agency activities. Occasional use that challenges the justification for extraordinary carrying costs or agency usage that could be transferred to other locations or satisfied by a portion of the property.

3. **DOES NOT INVOLVE A CORE FUNCTION OF YOUR AGENCY** – refers to a specific location that is not required for an agency's program needs. It does not refer to the operations being critical but to the specific property not being critical to the fulfillment of the agency's operations.

In Column G, insert your comments to explain.

STEP 3 – Highlight and Label Property Maps

Review each map in the hyperlinked listing of your agency's properties contained in the cover letter, highlight and label any land, or portions of land, considered **unused, underused** or **not involving a core function of your agency.**

Return the maps and all forms no later than September 15, 2011, to:

State Property Office
1321 Mail Service Center
Raleigh, NC 27699-1321
Attn: Property Survey

FORM 1 - ERROR CORRECTION SHEET

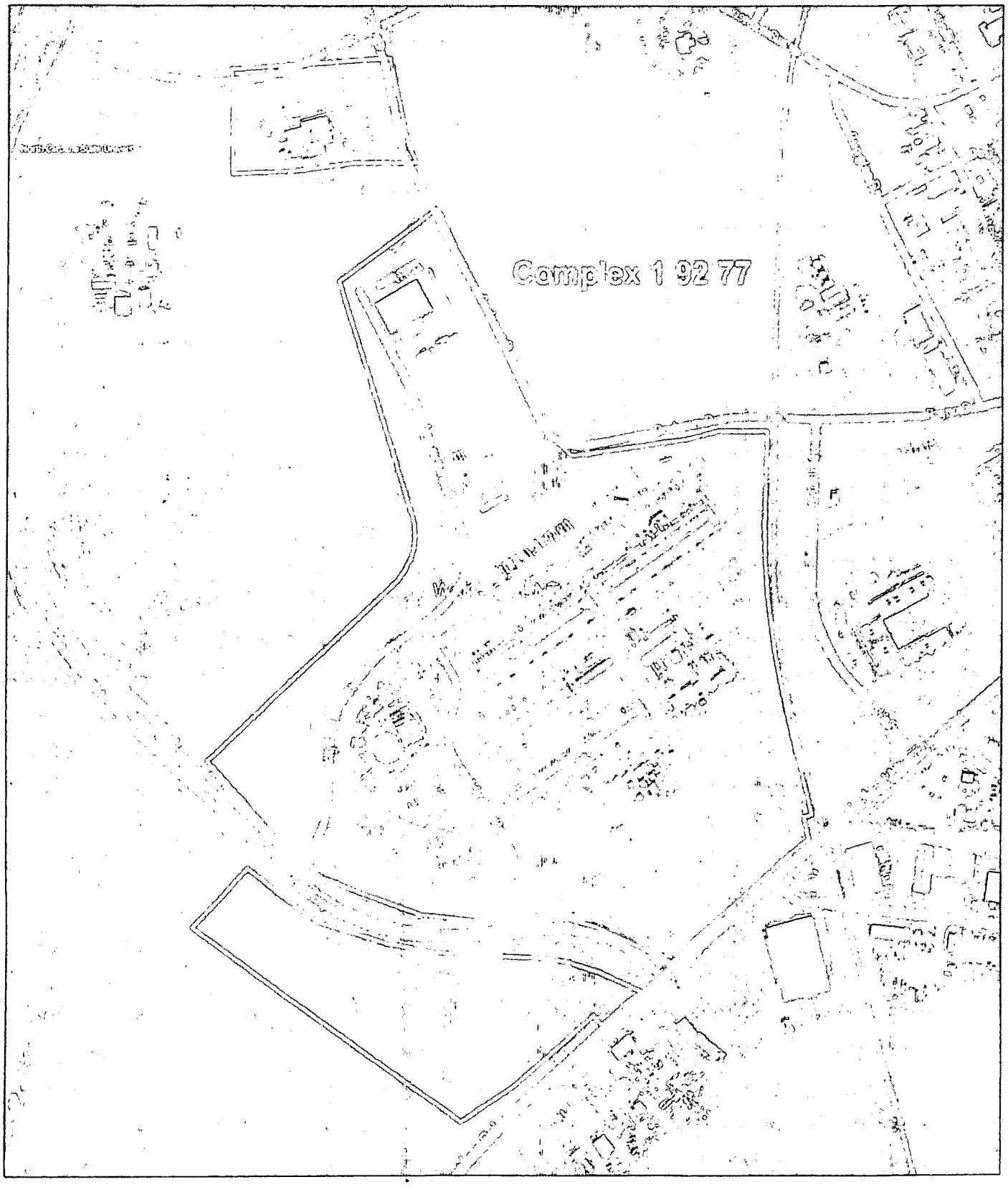
AGENCY NAME:	DIV/SECTION NAME:	NAME OF PERSON COMPLETING FORM:	TEL:	E-MAIL ADDRESS:

A. Complex Name	B. Complex Number	C. Asset Number	D. CORRECTION NEEDED FOR FILE:
ADM STATE GOVERNMENT CENTER	***1 92 24***	***18***	Asset 18 was demolished in December of 2010.

FORM 2 – BUILDING UPDATE SHEET

Row	AGENCY NAME:	DIV/SECTION NAME:	NAME OF PERSON COMPLETING FORM:		TEL:		E-MAIL ADDRESS:
1							
2	**A. Complex Name**	**B. Complex Number**	**C. Asset Number**	**D. Unused?**	**E. Underused?**	**F. Does Not Involve Core Function?**	**G. Comments**
3	ADM STATE GOVERNMENT CENTER	*1 92 24*	*1*		*Yes*		*Due to staff reductions, 10% of occupied space will be available Jan. 1, 2012*
4							
5							
6							
7							
8							
9							
10							

Example



0 0.05 0.1 0.2 0.3 0.4 Miles

N
W E
S

Complex 1 92 77 AGRIC RALEIGH FARMERS MARKET — Wake

Asset#	Name	Address1	City	Net SqFt	Gross SqFt
9	SUPPORT OPERATIONS STORAGE BLDG	SUPPORT OPERATIONS CENTER	RALEIGH	375	384
10	GATE HOUSE	LAKE WHEELER ROAD	RALEIGH	236	306
11	TRUCKERS BUILDING	LAKE WHEELER RD	RALEIGH	14,680	15,453
12	FARMERS BLDG'S #1 & #2 & CONNECTOR BLDG	1201 AGRICULTURE ST	RALEIGH	34,592	42,400
13	GARDEN CENTER BLDG	LAKE WHEELER RD	RALEIGH	5,304	6,203
14	WHOLESALE BLDG #4	LAKE WHEELER RD	RALEIGH	24,114	26,076
15	ADMINSTRATION BLDG	LAKE WHEELER RD	RALEIGH	2,339	3,332
16	RESTAURANT BLDG	LAKE WHEELER RD	RALEIGH	5,670	6,364
17	RETAIL BLDG	LAKE WHEELER RD	RALEIGH	14,900	15,800
18	WHOLESALE BLDG # 1	LAKE WHEELER RD	RALEIGH	39,748	43,504
19	WHOLESALE BLDG #2	LAKE WHEELER RD	RALEIGH	40,758	44,730
22	SEAFOOD BUILDING	LAKE WHEELER ROAD	RALEIGH	3,519	3,740
23	MAINTENANCE BUILDING	1105 AGRICULTURE ST	RALEIGH	0	3,454
24	SUPPORT OPERATIONS TRAINING TRAILER	103 BLAIR DR	RALEIGH	880	924

Report Summary:	Buildings	Net SqFt	Gross SqFt
	14	187,115.00	212,670.00

#2 EXHIBIT

09/22/2011

UNC Health Care System

House Select Committee
On State-Owned Assets
September, 22, 2011

Kory Goldsmith, Committee Counsel
Research Division

Overview

- UNC Hospitals at Chapel Hill
  - Structure
- UNC Health Care System
  - Structure
- Attorney General's Opinions
  - Authority to acquire Rex Healthcare
  - Status of Rex Hospital Employees
  - Creation of Jointly Held LLC

University of North Carolina Hospitals at Chapel Hill

- 1971 – General Assembly directs UNC BOG to create a board of directors for the UNC Hospitals at Chapel Hill (G.S. 116-37)

- 12 member board
  - 9 appointed by the BOG
  - 3 ex officio
    - UNC-CH Vice Chancellor for Health Affairs
    - UNC-CH Vice Chancellor for Business and Finance
    - Dean of the UNC-CH School of Medicine

University of North Carolina Hospitals at Chapel Hill

- Board to make rules and regulations consistent with State law "to meet the goals of education, research, patient care, and community service."

- Given authority to adopt competitive position classification and compensation plans for registered and licensed practical nurse position

- Subject to State Purchase and Contract laws

UNC Health Care System

- 1998 Budget provision
  - Did away with the UNC Hospitals at Chapel Hill
  - Created the UNC Health Care System (UNCHCS)
- UNCHCS is an "affiliated enterprise" of The University of North Carolina
- Purpose is to "provide patient care, facilitate the education of physicians and other health care providers, conduct research . . . and render other services designed to promote the health and well-being of the citizens of North Carolina."

UNC Health Care System

- Board of Directors
  - 6 Ex Officio members
    - President of the UNC System
    - Executive Director of UNCHCS
    - 2 administrative officers of UNC-CH
    - 2 members of the School of Medicine faculty
  - 9 to 21 at-large members
    - Nominated by UNCHCS board
    - Selected by President of the UNC System and ratified by the BOG

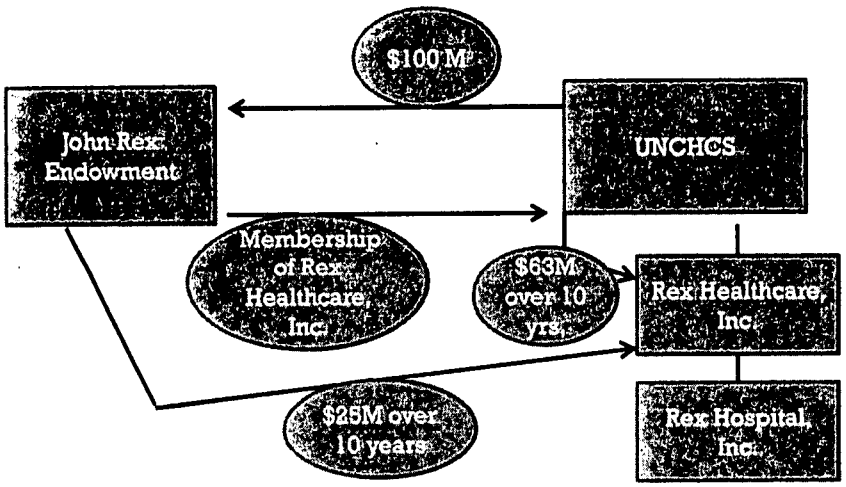
UNC Health Care System

- Board may authorize any "component" of the UNCHCS to contract in its individual capacity
- Employees of UNCHCS are State employees, but exempt from much of Chapter 126. UNCHCS able to adopt policies regarding terms and condition of employment, fix pay schedules, adopt policies regarding annual and sick leave.

UNC Health Care System

- Exempt from State purchase and contract law
- Exempt from State procedures for acquisition of property, but may not encumber real property
- Exempt from State procedures for design, construction and renovation of buildings

Acquisition of Rex Healthcare, Inc.



1st Attorney General Opinion

- February 17, 2000 – requested by UNC System
- Does UNCHCS have legal authority to acquire sole corporate control over Rex Healthcare, Inc? Yes.
- Statutory purpose of UNCHCS is "to provide patient care, facilitate the education of physicians, . . . conduct research, . . . and render other services" to promote the health and well-being of the citizens of NC.

1st Attorney General Opinion

- "The legislation creating the System reflects a clear legislative intent to authorize the System to act with such degree of autonomy and flexibility as may be necessary to achieve these goals within the increasingly competitive health care industry."

1st Attorney General Opinion

- G.S. 116-37(b)(4) authorizes the board of directors "to exercise such authority and responsibility and adopt such policies, rules and regulations as it deems necessary and appropriate" to achieve these goals.

1st Attorney General Opinion

- After UNCHCS acquires sole corporate control of Rex Healthcare, Inc., will the employees of Rex Healthcare Inc. becomes employees of the State? No.
- Rex is a tax-exempt, charitable corporation originally established in 1838. Rex has no corporate members, is the sole member of Rex Hospital, Inc., has its own board of directors. Employees are private employees.

2nd Attorney General Opinion

- March 8, 2000 – Rep. Dan Blue
- May UNCHCS lawfully expend public funds to acquire corporate control over Rex Healthcare, Inc. without specific authorization of the General Assembly?
- Yes. See G.S. 116-37(b)(4)

2nd Attorney General Opinion

- "The legislation ...reflects a legislative intent to authorize [UNCHCS] to manage its operations, including decisions capital investments, with such degree of autonomy as it deems necessary to carry out its statutory responsibilities, without further as it deems necessary to carry out its statutory responsibilities, without further authorization by the General Assembly."

2nd Attorney General Opinion

- Does the structure of the transaction circumvent the public accountability required of state agencies and institutions? No.
- Although Rex Healthcare, Inc. and affiliates will not be directly subject to the same requirements as State agencies, UNCHCS is and must report annually to Gov. Ops.

2nd Attorney General Opinion

- Does transfer of public funds to the John Rex Endowment mean the General Assembly retains ongoing administrative control and oversight responsibility for the Endowment? No.
- Endowment is a private, nonprofit entity. Receipt of public funds through valid contractual transaction does not create ongoing oversight and control.

3rd Attorney General Opinion

- October 3, 2005 – UNCHCS
- Creation of a nonprofit LLC, 50% owned by UNCHCS and 50% owned by Rex Hospital, Inc.
- Purpose is to operate as an employment agency or contract staffing firm providing services to both UNCHCS and Rex Hospital, Inc.

3rd Attorney General Opinion

- Will employees of LLC be treated as employees of the State for purposes of the State Retirement System? No.
- LLC will hire both new employees (some currently employed by UNCHCS and Rex Hospital, Inc.) and employees who have retired from UNCHCS. LLC will have complete right to hire, fire, and evaluate its employees.

3rd Attorney General Opinion

- Can current State retirees be employed by the LLC and continue to receive full retirement benefits from Retirement System? Yes.
- Using same analysis as in Opinions 1 and 2, LLC will not be a State entity.
- Although IRS had ruled that Rex Hospital, Inc.'s employee benefits plan is a governmental plan b/c of UNCHCS's control over Rex Health Care, Inc.

#3 EXHIBIT

House Select Committee on State-Owned Assets
Requested Presentation Details – UNC Health Care
September 22, 2011
Legislative Office Building – Room 544

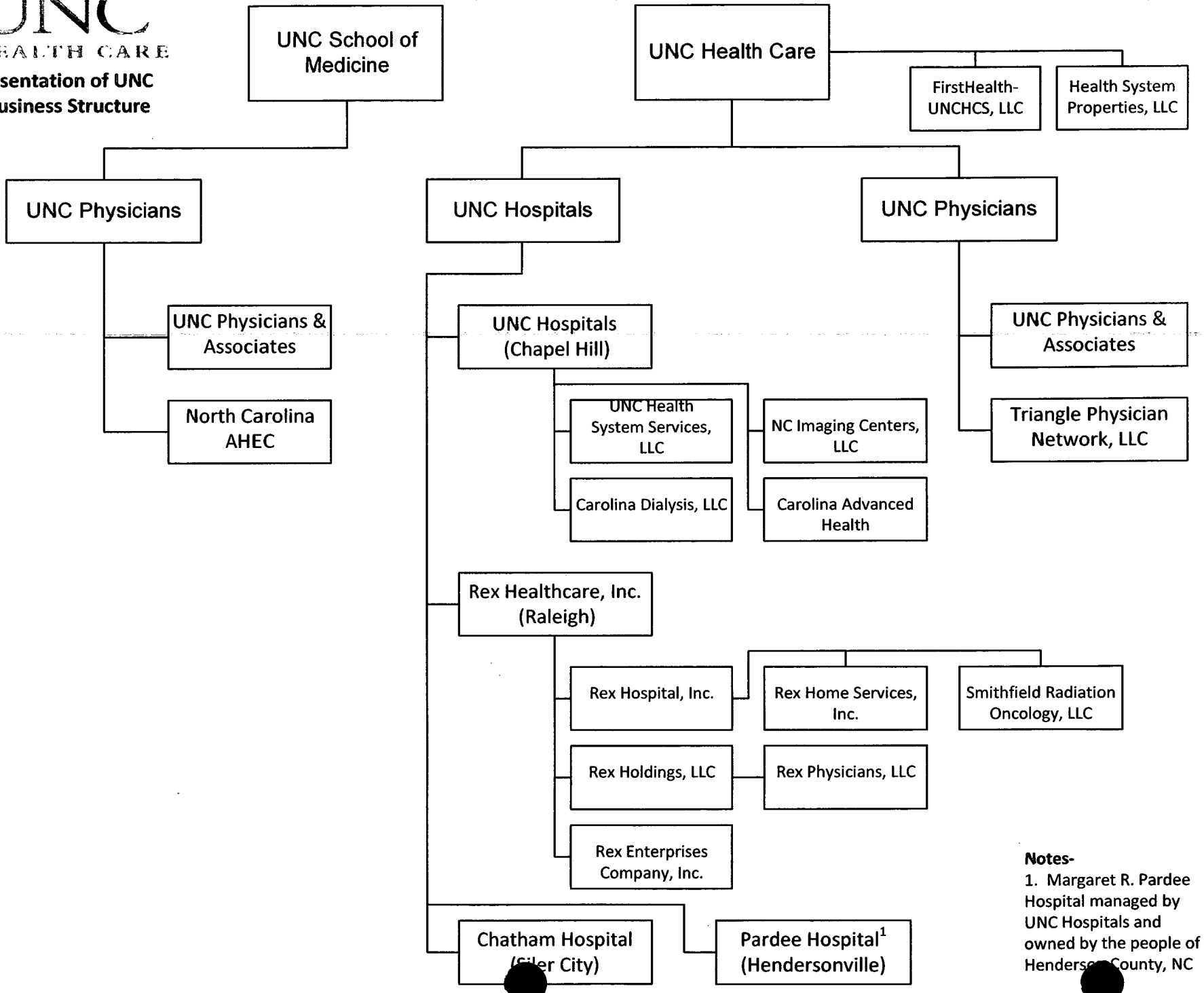
- A graphical representation of the business structure of both UNC Health Care and Rex Healthcare, including the relationship between UNC Health Care and Rex Healthcare. Also to be included in this representation are all entities owned, controlled, or managed by UNC Health Care and Rex Healthcare (for example Rex, Chatham, Triangle Physicians Network, and all joint ventures within these).

- Overview of assets owned by both Rex Healthcare and UNC Health Care.

- How UNC Health Care and Rex Healthcare involve a core function of State government.

UNC HEALTH CARE

Graphical representation of UNC Health Care's Business Structure



Notes-

1. Margaret R. Pardee Hospital managed by UNC Hospitals and owned by the people of Henderson County, NC

UNC
HEALTH CARE

August 26, 2011

Mr. Thomas B. Oxholm
Chair, Board of Directors
WakeMed Health & Hospitals
3000 New Bern Avenue
Raleigh, NC 27610

Dear Tom:

The UNC Health Care Board undertook a careful and thorough process to assess WakeMed's May 12 proposal to acquire Rex Healthcare. Our strongly held view is that divesting assets of UNC Health Care, particularly Rex Healthcare, will not serve the interests of the people of Wake County, the people of the State of North Carolina, or UNC Health Care. We therefore respectfully decline WakeMed's proposal. Earlier today, the full Board of UNC Health Care met to hear the Special Committee's recommendation and voted unanimously for its approval.

Beyond delineating compelling reasons to keep UNC Health Care intact, the Special Committee stressed the importance and value of our enduring partnership with WakeMed. Individually and together, our organizations deliver important benefits to the communities we serve. Thus the Health Care Board made the correct and obvious decision to also endorse the Special Committee's recommendation to seek potential avenues for expanding our existing partnership.

My earnest hope is that you share my desire to renew our longstanding ties and calm the tensions of the recent past. Many of our faculty, medical residents and co-workers believe the foundation of our relationship is mutually beneficial, but has unfortunately been eroded. You and I can lead an effort to stabilize and strengthen our work together. My purpose in writing, then, is to convey our decision and to express our interest in partnering, to seek confirmation that you share this ambition, and to describe a path that can lead us toward constructive next steps.

We have a broad and important partnership

Clinical and educational collaboration between our two organizations can be traced back many years, decades in fact. Until recent history, our collaborative efforts coexisted with our competitive ones. Our partnership has sustained and deepened, even as we both responded to growth in Wake County.

Our current partnership spans a broad range of clinical services. Thirty-one UNC faculty members practice medicine full-time at WakeMed. Fifty-seven resident physicians fill the vast majority of WakeMed's residency slots. Much of the administration for these residents, including their match, program development, and training, takes place within UNC Health Care. Given the Medicare, Medicaid, and managed care funding for these physicians that is retained within WakeMed, the arrangement has important financial benefits to WakeMed. We believe the UNC partnership yields direct economic benefit of roughly $20 million per year to WakeMed.

The UNC Health Care System, 4030 Bondurant Hall, Campus Box 7000, Chapel Hill, NC 27599-7000
Phone: (919) 966-4161 • Fax: (919) 966-8623

Much more importantly, the UNC partnership enables WakeMed to broaden the specialized care it can provide. For example, WakeMed's status as a level 1 trauma center is secured as a result of our partnership.

Our residents and faculty support WakeMed's emergency medicine, pediatrics, OB/GYN, neonatology, otolaryngology, internal medicine, surgery, orthopaedics, and psychiatry services. These resources benefit the community by our working together. In services such as obstetrics, pediatrics and otolaryngology, UNC faculty and residents provide the majority of WakeMed's professional clinical care to the uninsured and Medicaid populations. We are proud that our partnership helps to improve the health of so many deserving citizens.

The existing partnership is similarly valuable to UNC Health Care. As a large hospital in an urban setting, WakeMed offers a rich educational experience for our students, residents, and faculty. The residents' experience in WakeMed's community-based teaching hospital strongly complements the training the students receive at our academic medical center in Chapel Hill. Our residents consistently rank WakeMed rotations very highly. WakeMed also serves as a teaching site for UNC's undergraduate medical students. In this instance, again, WakeMed offers a strong complement to the Chapel Hill experience.

Beyond enhancing the education experience, the clinical collaboration with WakeMed fosters better patient care, transitions, and deeper inter-personal ties among physicians. Second opinions and informal consultation between WakeMed's medical staff and UNC's faculty physicians in Chapel Hill are, consequently, more clinically effective. And our patients are often able to receive more of their care closer to home while appropriately accessing UNC Health Care's academic facilities.

The partnership has halo effects beyond the impact of the care and education we together provide. Our symbiotic relationship makes WakeMed's and UNC's residency programs more attractive, thereby improving the quality of our trainees. The residents' positive experience and familiarity with WakeMed also enables more successful recruiting of highly trained, highly qualified physicians to Wake County.

We want to build a strong and mutually beneficial partnership for the future

WakeMed and UNC Health Care share history, public roots, a mission of service to the community, and ethos that are common across teaching institutions. I believe we can build on what we already share to move to a more stable and mutually respectful partnership. Collaboration in the future requires mutual understanding of our expectations going forward. Our interest in continuing and expanding upon our partnership is, therefore, predicated upon your affirmed interest in the same.

In stabilizing and expanding upon our partnership, I need to be assured and believe that WakeMed will abandon its antagonistic posture toward UNC Health Care. I assure you that UNC Health Care and its members pledge to abide by the same standards of cordiality and business manners.

Basis for Ongoing Partnership

In the interest of providing service and cost-effective care to our community, and subject to any overriding legal constraints, our two organizations should agree not to utilize procedural interventions to slow health care service development. WakeMed and UNC Health Care should agree not to contest the award of non-competitive CONs for a minimum of three years.

While we will continue to compete for patients and physician referrals, we should mutually agree not to approach or seek to employ key physicians, other professional providers, or physician groups employed by

one or the other of our organizations. If approached independently by these professionals in an unsolicited manner, we do not expect such overtures need be rebuffed.

We should hold each other to more than intentions. An effective partnership necessitates the following from you:

- respect our declination of your offer to acquire Rex and stop efforts to acquire assets from UNC Health Care or advocate for the sale of UNC assets by the legislature;
- cease public relations efforts that disparage UNC Health Care's service to the community, including our provision of services to indigent populations;
- respect our need to protect confidential business information, as is stipulated in pertinent statutes;
- end legislative lobbying efforts attempting to alter the structure of UNC Health Care or reduce funding to UNC Health Care;
- respect the mechanisms under which UNC Health Care is paid for its services;
- refrain from implying that UNC Health Care has inappropriately used public funding. Specifically, WakeMed should not imply that State appropriated funds have been diverted for the acquisition of physician practices.

Planning for future collaboration

In closing, I reiterate that the UNC Health Care Board must decline WakeMed's proposal. At the same time, I extend this offer to advance our relationship by expanding our existing partnerships. I specifically propose that we convene a group of several members of our Boards and management to explore such opportunities. This group could choose among the Special Committee's suggestions or others that you feel have the potential to succeed and positively impact the community. We might consider asking a community leader to facilitate our discussion to create an environment that moves us quickly to a constructive dialogue.

We have built a partnership that significantly benefits North Carolinians. If you share my belief that we can accomplish more for the community by maintaining our competitive endeavors while building collaborative new ones, I respectfully seek your reply by September 10, 2011, which I understand to be after your next scheduled Board meeting. I believe it is essential that we begin this process as soon as possible in order to build shared confidence in one another. My hope is that we will hold an initial meeting by September 30.

Please join me in taking a constructive step toward partnership. I look forward to your response.

Sincerely,

Dick Krasno/by WDR

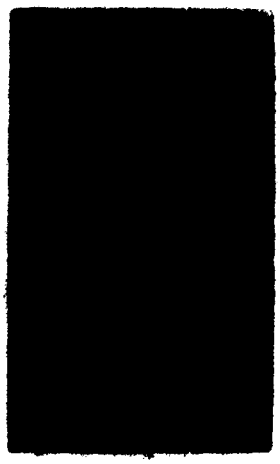
Dr. Richard Krasno
Chair, UNC Health Care Board of Directors
4030 Bondurant Hall
The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina 27599-7005

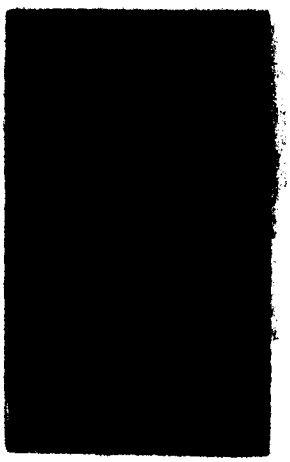
Select Committee on State-Owned Assets

UNC HEALTH CARE

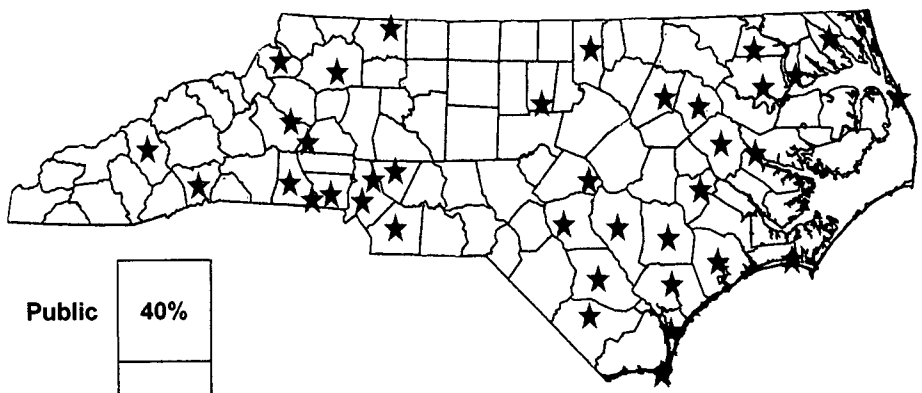
September 22, 2011

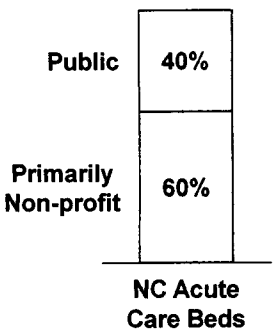
Operated for and by the People of North Carolina
September 2, 1952





Public hospitals in North Carolina account for 40% of acute care beds





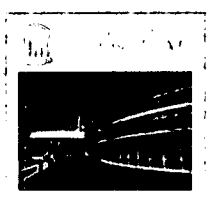
North Carolina Public Hospitals

Albemarle Hospital	Carolinas Medical Center-Union	Granville Medical Center	Onslow Memorial Hospital
Anson County Hospital	Carolinas Medical Center-University	Haywood Regional Medical Center	Pender Memorial Hospital
Beaufort County Medical Center	Carteret General Hospital	Heritage Hospital	Pitt County Memorial Hospital
Bertie Memorial Hospital	Catawba Valley Medical Center	Johnston Medical Center	Roanoke-Chowan Hospital
Betsy Johnson Regional Hospital	Chowan Hospital	Kings Mountain Hospital	Sampson Regional Medical Center
Bladen County Hospital	Cleveland Regional Medical Center	Lenoir Memorial Hospital	The Outer Banks Hospital
Cape Fear Valley Medical Center	Columbus Regional Healthcare System	Margaret R. Pardee Memorial Hospital	UNC Hospitals
Carolina Medical Center-Northeast	Dosher Memorial Hospital	Nash General Hospital	Valdese General Hospital
Carolinas Medical Center	Duplin General Hospital	New Hanover Regional Medical Center	Watauga Medical Center
Carolinas Medical Center-Mercy	Gaston Memorial Hospital	Northern Hospital of Surry County	Wilkes Regional Medical Center

2

We are Leading, Teaching and Caring

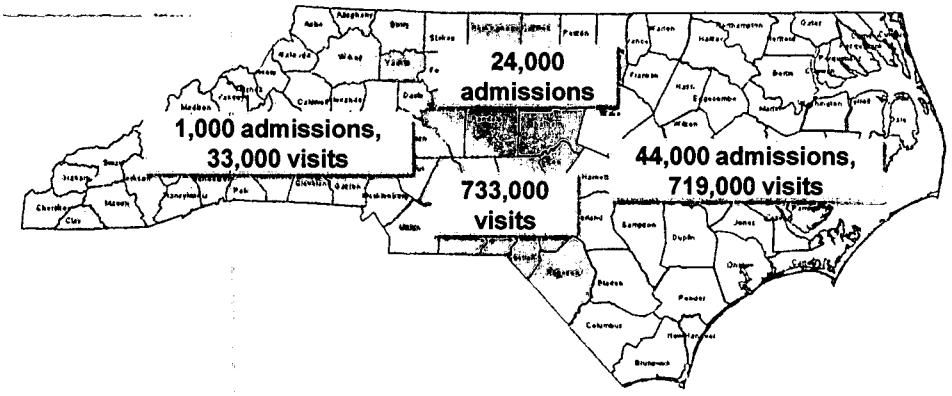
UNC HEALTH CARE



3

Each year, we care for patients from all 100 North Carolina counties

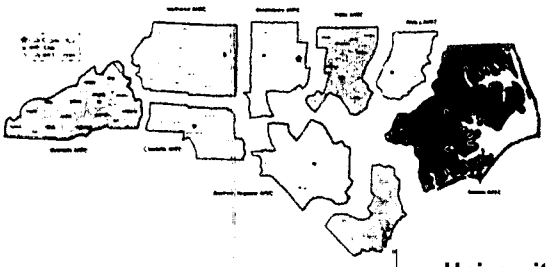
In fiscal year 2010 we saw...



4

We also extend our services into our patients' communities

Area Health Education Centers (AHEC)



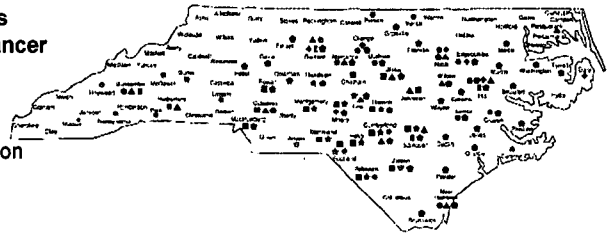
Provides health services to underserved areas across NC

- 9 AHECs statewide
- 100K physicians receive continuing education
- Recruitment of new doctors to rural communities

University Cancer Research Fund (UCRF)

Helps UNC improve the lives of North Carolinians with cancer

- Statewide outreach
- Treatment advice via telemedicine
- Early detection and prevention
- Research advances



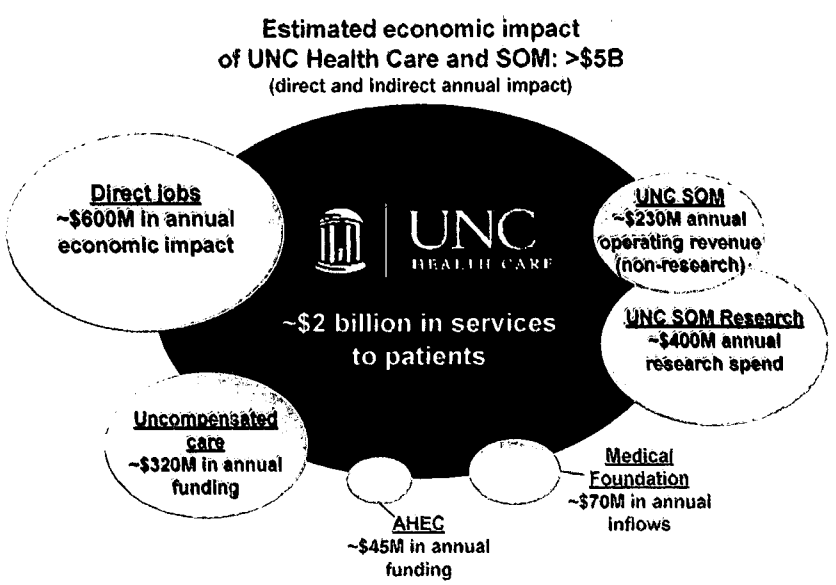
5

Statute creates missions of the UNC Health Care System (NC General Statutes § 116-37)

- 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
- Render other services designed to promote the health and well-being of the citizens of North Carolina

6

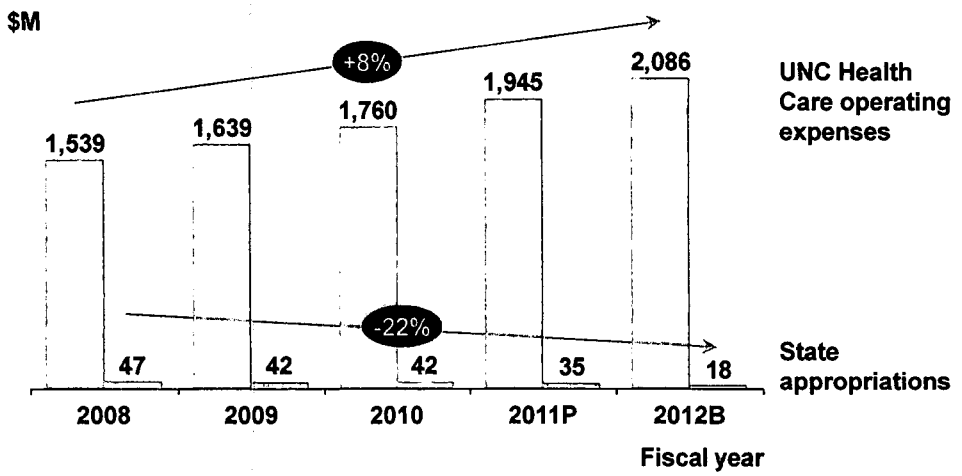
UNC Health Care has a substantial annual economic impact on North Carolina



7

UNC Health Care provides tremendous value to the people of North Carolina

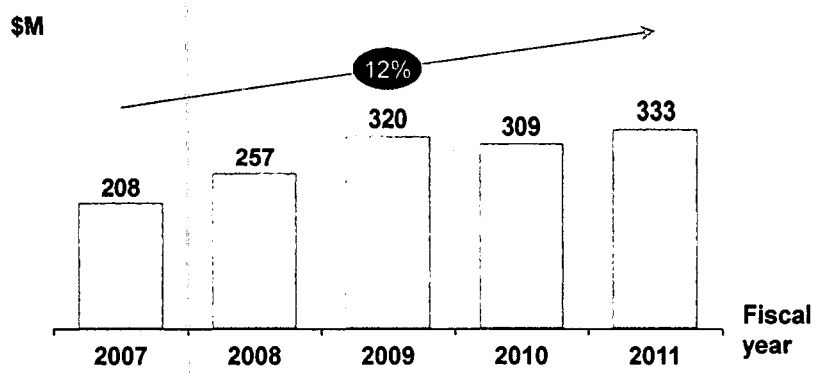
UNC Health Care is increasing the care it provides while state funding has decreased



8

Uncompensated care at UNC Health Care is rising

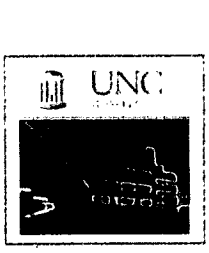
Uncompensated Care at UNC Health Care (including Rex)

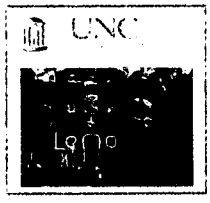


UNC Health Care is less able to sustain uncompensated care if Rex is removed from the health care system

9

We are an integrated health care system



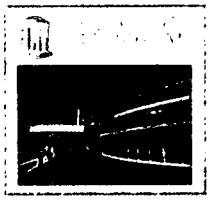


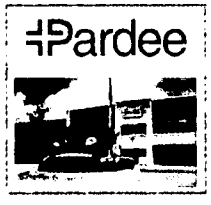
Shared culture

Shared quality goals

Shared data

Shared patient care





10

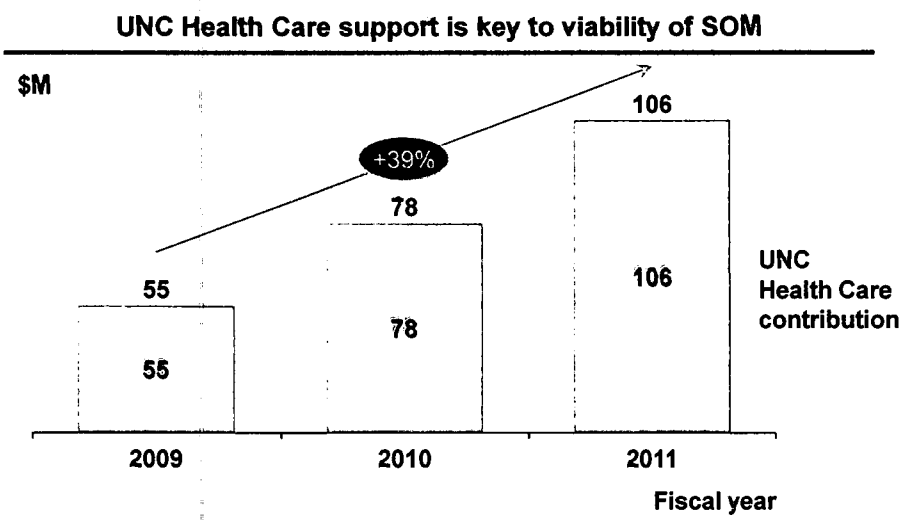
UNC School of Medicine is a valuable asset for the state of North Carolina and its residents

UNC
SCHOOL OF MEDICINE

Top ranked medical school	Retaining medical talent in NC	Performing cutting edge research	Serving the community
• # 2 in primary care and #20 research medical school nationally, top 10 public school • Specialty rankings: – #2 in family medicine – #10 in AIDS	• Total enrollment of 734 including residents • 86% of students are NC residents • 3,252 graduates are currently practicing in North Carolina	• >$420M in public and private research grants in 2010 • Consistently among top 15 recipients of NIH funding nationally	• Top percentile nationally for graduates serving in underserved areas • #6 ranked medical school for rural medicine • Many spinoff companies from UNC SOM research

11

UNC Health Care key to financial viability of UNC SOM



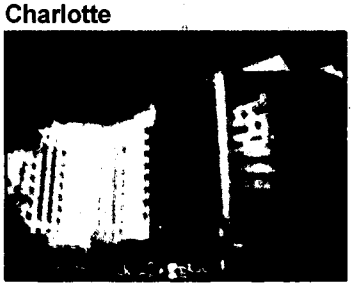
12

UNC School of Medicine is training more doctors

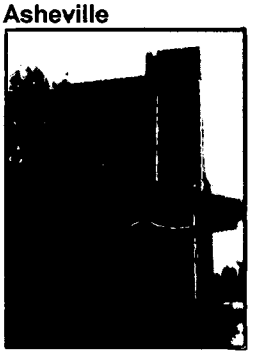
Third- and fourth-year students can study at Carolinas Medical Center or Mission Hospital

Foster interest in primary care in rural and underserved areas

Charlotte



Asheville



13

We concluded that selling integral parts of UNC Health Care is not in the best interest of North Carolina

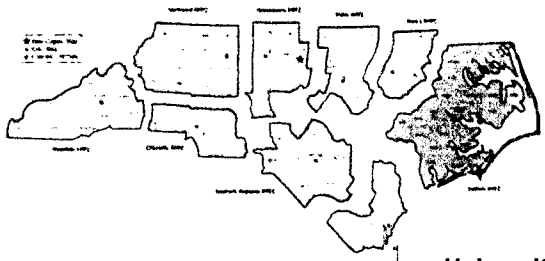
Selling assets of UNC Health Care would

- Harm patient experience and quality of care
- Decrease access to care
- Decrease efficiency and increase cost
- Jeopardize the academic mission of the School of Medicine
- Harm the financial strength of UNC Health Care and School of Medicine
- Negatively impact North Carolina

14

We have many partnerships throughout the state

Area Health Education Centers (AHEC)



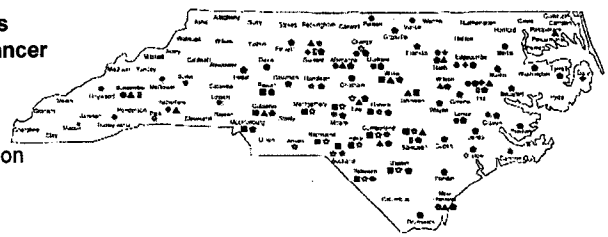
Provides health services to underserved areas across NC

- 9 AHECs statewide
- 100K physicians receive continuing education
- Recruitment of new doctors to rural communities

University Cancer Research Fund (UCRF)

Helps UNC improve the lives of North Carolinians with cancer

- Statewide outreach
- Treatment advice via telemedicine
- Early detection and prevention
- Research advances



15

UNC Health Care partnership enables WakeMed through residents and faculty

WakeMed Specialty	Resident FTEs	Faculty FTEs
Emergency Medicine	16	-
Internal Medicine	10	1
Family Medicine	8	-
Pediatrics	8	10
ObGyn	6	12
ENT	4	4
Surgery	3	3
Orthopaedics	2	-
Psychiatry	-	1
Total	57	31

16

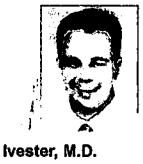
Integrated UNC Health Care has human consequences for the people of North Carolina

June 2010
Jo Letterman came to UNC Health Care after receiving the devastating news from another institution that her unborn baby had several birth defects: "We were told a match for a kidney transplant was nonexistent and our son would have to go on dialysis the day he was born, if he lived, which would be very painful."

Tannisha Barlow, M.D.
Centre OBGYN
Rex Healthcare
October 28, 2010
Levi James Letterman was born 3 weeks early weighing 8 lbs. 11 oz. in Women's Center at Rex Hospital perfectly healthy, needing no special medical assistance.

REX

Four days later, UNC Women's Specialty Center at Rex provided a second opinion in Raleigh.

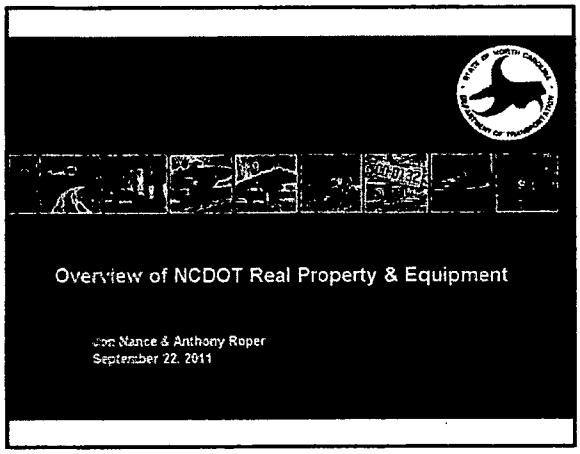


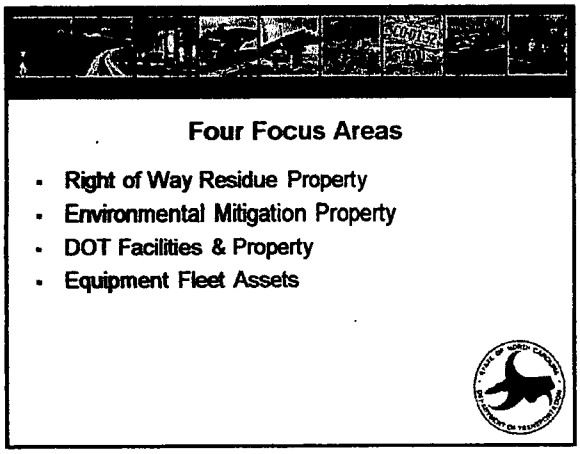
Thomas Ivester, M.D.
UNC Health Care
Dr. Ivester did not agree with what the Lettermans were previously told. He determined that although the baby's kidneys were enlarged, they were working properly.

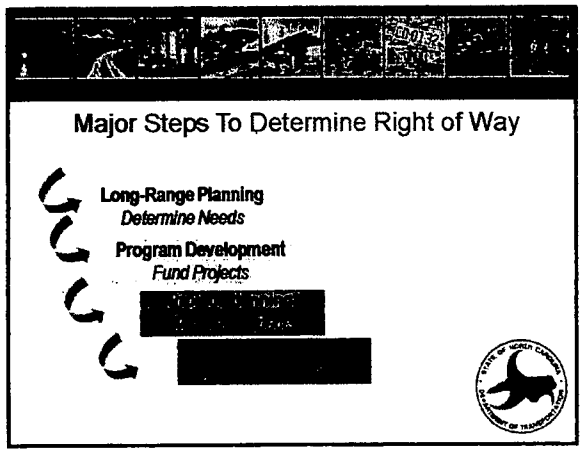
Results from the amniocentesis showed there were no birth defects present.

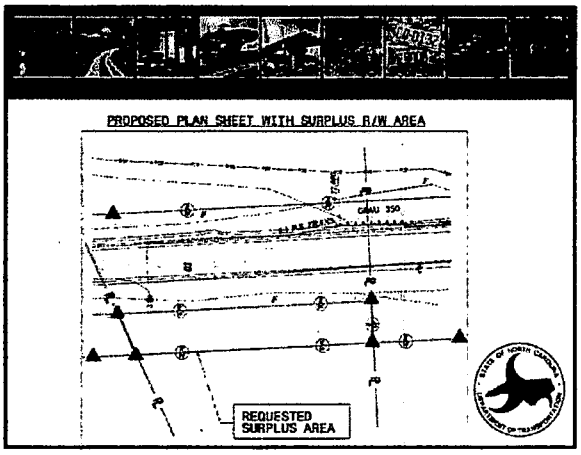
17

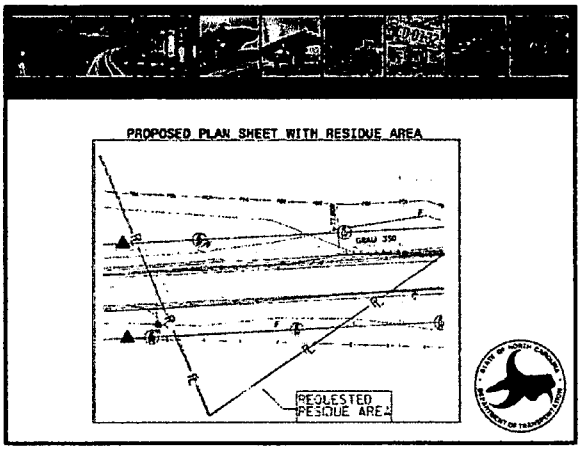
#4 EXHIBIT

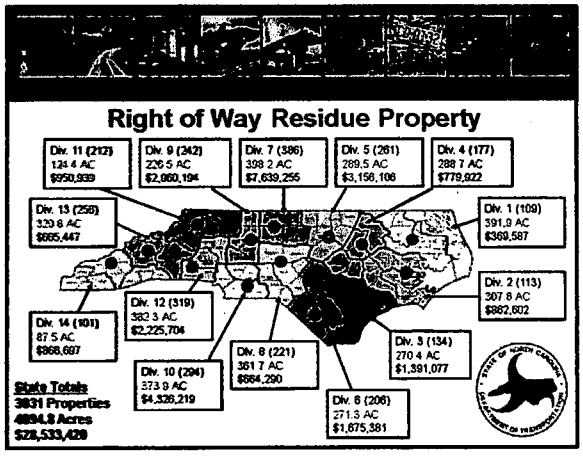

Overview of NCDOT Real Property & Equipment
Jon Nance & Anthony Roper
September 22, 2011

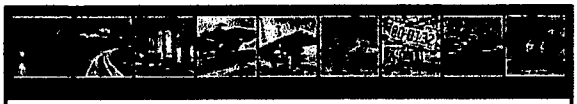

Four Focus Areas
Right of Way Residue Property
Environmental Mitigation Property
DOT Facilities & Property
Equipment Fleet Assets


Major Steps To Determine Right of Way
Long-Range Planning
Determine Needs
Program Development
Fund Projects


PROPOSED PLAN SHEET WITH SURPLUS R/W AREA
REQUESTED SURPLUS AREA


PROPOSED PLAN SHEET WITH RESIDUE AREA
REQUESTED RESIDUE AREA


Right of Way Residue Property
Div. 11 (212)
124.4 AC
$950,939
Div. 9 (242)
226.5 AC
$2,960,194
Div. 7 (386)
398.2 AC
$7,639,255
Div. 5 (261)
289.5 AC
$3,156,106
Div. 4 (177)
288.7 AC
$779,922
Div. 10 (256)
320.8 AC
$665,447
Div. 1 (109)
391.9 AC
$369,587
Div. 12 (319)
382.3 AC
$2,225,704
Div. 2 (113)
307.8 AC
$862,602
Div. 14 (101)
87.5 AC
$868,697
Div. 3 (134)
270.4 AC
$1,391,077
Div. 8 (221)
361.7 AC
$884,290
Div. 10 (294)
373.9 AC
$4,326,219
Div. 6 (206)
271.3 AC
$1,675,381
State Totals
3831 Properties
4894.8 Acres
$28,533,428



2010 Surplus Right of Way & Residue Property Management Info

Income	
Rent of Homes, Apts., Businesses, and Land	$3.9 million
Sale of Land	$1.3 million
Sale of Dwellings	$60 k
Expenses	
Maintenance, Repair, Mowing	($2.2 million)

Notes: 1) Over 3000 residue properties, value $28.5 million.
2) Sale of 42 homes in Division 13 to movers saved asbestos abatement/demolition cost of approx. $550k.

Right of Way Property Management

- Buildings and other improvements acquired in connection with the Right of Way can be disposed of as follows:
- Resold to the property owner
- Sold by public or negotiated sale if no bids received after public advertisement
- Demolished by roadway contractor or demo contract
- Retained by DOT for public use
- Sold to a displacee for replacement housing

Right of Way Property Management (cont.)

Residue properties resulting from Right of Way acquisition shall be disposed of as follows:

- Sale of residues by public sale unless noted otherwise.
- Sold by either sealed bid, or auction and can be rejected if bids are not in accord with DOT appraised value.
- Landlocked residues on controlled access projects can be sold to adjacent landowner through negotiation (not public sale) for at least the appraised value.
- Residues can be sold to state agencies, and other govt. units for at least the appraised value.

Right of Way Property Management (cont.)

- Surplus property acquired in connection with highway purposes may be exchanged with a public utility owner or another property owner for land they own which is needed for right of way.
- Residues ≤ ½ acre and ≤ $1000 value may be sold to an adjoining property owner through negotiation.
- Manager of Right of Way can dispose of residues < $100 by a quit claim deed to the buyers.
- Residues may be sold to displacees by negotiation.
- BOT, Council of State, & Governor approvals.

Environmental Mitigation Sites

NCDOT-Owned Environmental Mitigation Property

Eastern (Divisions 1,2,3,4, 6) - 101,430 acres

Central (Divisions 5,7,6,9) - 4,914 acres

Western (Divisions 10,11,12,13,14) - 2,519 acres

- Of the land purchased for mitigation, a portion if not all of each site has been applied as mitigation credits; therefore, there is no opportunity to sell the entire site.
- Note: There are surplus mitigation credits (not land) available at some of the sites. The NCDOT continues to work to effectively have these credits applied to future projects.

DOT Facilities & Property

- NCDOT Land Assets
- ~8800 acres
- ~$14.5 million value

- Asset Uses:

Division Offices, Road/Bridge Maintenance yards, District/Resident Engineer Offices, Truck Sheds, Stockpiles/Material Storage, Ferry Sites, Weigh Stations, Rest Areas/Welcome Centers, DMV Offices & CDL Test Sites, Park & Ride Lots, Communication Towers, Central Unit Offices, Land

DOT Facilities & Property

- Asset Acquisition & Disposition handled through Department of Administration (SPO)

- Acquisition and dispositions of real property can be in the form of deed, easement, gift, allocation, severance or exchange.

DOT Facilities & Property

Acquisition Process:

- Secretary approves property acquisition request & forwards to SPO
- Appraisal & offer developed
- Acquisition Offer & negotiation(if necessary)
- Upon receipt of executed option, presented to Governmental Operations for review & consultation
- Presented to Governor & Council of State for approval
- Subsequent to necessary approvals, proceed with final acquisition of property (title opinion, closing, etc.)

DOT Facilities & Property

Disposition Process:

- Secretary approves property disposition request & forwards to SPO
- SPO determines if disposition is in best interest of state
- SPO notifies all state agencies of surplus property and reallocate if deemed in the best interest of the state.
- If deemed surplus, market value of property is determined via appraisal.
- Property is disposed of through bid or negotiation. Properties can be sold without advertisement & bidding if negotiation with an adjacent property owner is in the best interest of the State.

DOT Facilities & Property

Disposition Process (cont.):

- After successful negotiation, a contract is executed and earnest money collected.
- The proposed transaction is presented to Governmental Operations for review & consultation if value exceeds $25,000
- Presented to Governor & Council of State for approval
- Subsequent to necessary approvals, proceed with final disposition of property

NCDOT Equipment Fleet Assets

- Fleet currently has 23,040 on and off road, light and heavy duty **active** pieces of equipment.
- Fleet currently has an acquisition value of $615,840,134.
- In 2006, fleet consisted of 22,485 on and off road, light and heavy duty active pieces of equipment at an acquisition value of $557,511,434.
- Since 2006, the fleet has added 485 pieces of salt brine equipment at a cost of $2,879,782 to improve snow and ice removal.

Equipment Fleet Assets (cont)

- Held 32 public auctions disposing of 6,703 pieces of equipment recouping $28,935,320 over the last 10 years.
- Implemented a "right sizing" of the fleet as a result of research conducted by East Carolina University. As a result, in 2010 reviewed every piece of equipment with less than 15% utilization. Have distributed the 2011 list of equipment with less than 20% utilization for review and right sizing.

Questions

MINUTES
SELECT COMMITTEE ON STATE-OWNED ASSETS
Tuesday, October 25, 2011

The Select Committee on State-Owned Assets met on Tuesday, October 25, 2011 at 10:05 a.m., in Room 544 Legislative Office Building, Raleigh, North Carolina. In attendance were Representative Brubaker (Chairman); and Representatives Avila, Brandon, Brawley, Carney, Crawford, Folwell, Howard, Lewis, Moffitt, Spear, Starnes, and Wray. Mark Bondo (Fiscal Staff), Kory Goldsmith (Research Staff), Greg Roney (Research Staff), Ben Stanley (Bill Drafting) and Committee Assistant Cindy Coley were present.

Chairman Brubaker called the meeting to order and recognized House Sergeant-At-Arms Staff Fred Hines, Jesse Hayes and Reggie Sills.

Upon a motion by Rep. Moffitt and seconded by Rep. Howard, the Minutes of the September 22, 2011 meeting were unanimously approved.

Chairman Brubaker recognized Kory Goldsmith who handed out the following information:

1. Dr. Roper's Letter of Correction dated September 27, 2011 on his remarks made on September 22, 2011 regarding audits of the UNC Health Care Enterprise Fund (Exhibit #1).

2. Follow-up questions to Mr. Kevin Fitzgerald regarding Dr. Roper's September 22, 2011 remarks (Exhibit #2).

3. Follow-up questions and answers by Mr. Kevin Fitzgerald regarding Dr. Roper's September 22, 2011 remarks (Exhibit #3).

Note: The 2010 Annual Operating Margin for Rex, which is a non-profit, was $34.6 Million Dollars.

Over the past ten years Rex has transferred a total of $20 Million Dollars back to UNC Health Care.

Dr. Roper has requested the State Auditor to audit the Enterprise Fund.

Currently there is $750 Million Dollars in the UNC Hospital's Reserves and the UNC Health Care Board of Directors controls those reserves.

The following were inquiries from Committee Members:

1. What is the balance in the UNC Health Care Enterprise Fund?

2. Has the Committee asked the State Auditor to audit the UNC Health Care Enterprise Fund?

   Staff confirmed that the State Auditor has been asked to audit the UNC Health Care Enterprise Fund.

Chairman Brubaker recognized Scott Saylor, President, North Carolina Railroad, who gave an Overview of the North Carolina Railroad (Exhibit #4)

Under the terms of NCRR's lease with Norfolk Southern, NCRR retains the right-of-way for separate use and management, for expanded freight and passenger rail, and expanded industrial access for new companies coming on the line.

The new long-term renewable lease with Norfolk Southern (which expires in 2044) is a trackage rights agreement. Norfolk Southern owns the line and the freight franchise is leased to them.

The following were inquiries from Committee Members:

1. What benefits would NCRR lose if it was no longer a state-owned entity?

   Answer: You would lose the income stream and economic development opportunity. The income or capital stream has the ability to drive the economic development along the line and the branch lines.

2. It was confirmed that NCRR owns the right-of-way, NCRR owns the tracks, NCRR does not own the trains, and Norfolk Southern maintains the line under our agreement as a net-lease.

3. It was confirmed that NCRR has a triple-net lease. .

4. Is it true that the cost is 20 times more to use the rail spur than trucking the same parts to the ports or to fly them out?

5. What is the per mile rail cost to the shipper?

6. Would there tend to be underserved populations in rural areas if it was privatized or privately owned?

7. What percentage at Morehead City ships by rail vs. by truck?

Rep. Brubaker recognized Rep. Daniel McComas of Wilmington, NC to discuss rail and transportation in North Carolina. Rep. McComas said it would be a big mistake and short-sighted to sell the Railroad. It is an asset which promotes economic development in those surrounding areas in North Carolina.

Rep. McComas recommended that the committee study this issue more thoroughly and consider the possibility of maybe relaying the tracks from Wallace to Goldsboro since the State already owns the right-of-way.

A member of the audience confirmed to the committee that CSX had taken up the tracks from up from Wallace to Goldsboro approximately four years ago.

There is an active CSX line from Goldsboro to Wallace. It is abandoned from Wallace to Castle Hayne/Wilmington. The NCRR does still have the right-of-way from Wallace to Wilmington.

Rep. Brubaker then opened the discussion on DOT vacant properties. The Committee is now looking into 6,000 available DOT parcels averaging about 1 acre each being put up for public auction if they have been offered for sale for fair market value for the past two years.

The Committee is looking into what buildings are vacant and could be offered for sale for fair market value.

Rep. Folwell suggested that the same upset bid process that the State makes the cities and counties use be used by the Committee.

Chairman Brubaker announced that members of the committee would receive notification of the next meeting. There being no further business, the meeting adjourned at 12:00 p. m.

Rep. Harold J. Brubaker, Chairman

ATTEST:

Cindy Coley, Committee Assistant

REPRESENTATIVE
HAROLD BRUBAKER
CHAIR
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

Cindy Coley
Committee Clerk
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

General Assembly of North Carolina

House Select Committee on State Owned Assets

State Legislative Building
Raleigh, North Carolina

AGENDA

October 25, 2011 10:00am
Room 544 Legislative Office Building

1. Call to order and introductory remarks
   Representative Harold Brubaker, Chair

2. Follow-Up From September 22, 2011 Meeting
   Kory Goldsmith, Staff Attorney, Research Division

3. Overview of the North Carolina Railroad
   Scott Saylor, President, North Carolina Railroad

4. Remarks Regarding Rail and Transportation in North Carolina
   Representative Daniel F. McComas

5. Other Committee Business

6. Adjourn

ADDITIONAL INFORMATION:

Persons having questions about the Committee meeting or other matters related to the Committee may contact the Committee Clerk or Committee Staff at 919-733-4910 (Fiscal Research) 919-733-6660 (Legislative Drafting Division), or 919-733-2578 (Research).

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	9/22/2011	10/25/2011					
Brubaker, Harold, Senior Chair	YES	YES					
Avila, Marilyn	N	Y					
Brandon, Marcus	N	Y					
Brawley, Bill	Yes	Y					
Brisson, William	Yes	Y					
Carney, Becky	N	Y					
Crawford, James	N	Y					
Folwell, Dale	N	Y					
Hager, Mike	Yes	Y					
Howard, Julia	N	Y					
Lewis, David	Yes	Y					
Moffitt, Timothy	Yes	Y					
Owens, Bill	Yes	Y					
Setzer, Mitchell	N	Y					
Spear, Timothy	N	Y					
Starnes, Edgar	Yes	Y					
West, Roger	Yes	Y					
Wray, Michael	N	Y					
1							

Committee Sergeants at Arms

NAME OF COMMITTEE _____

DATE: _____ Room: _____

House Sgt-At Arms:

1. Name: _____
2. Name: _____
3. Name: _____
4. Name: _____
5. Name: _____

Senate Sgt-At Arms:

1. Name: FRED HINES
2. Name: Reggie Sills
3. Name: JESSE HAYES
4. Name: _____
5. Name: _____

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS 10/26/2011

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Tony Tyler	MWC
Tim Peterson	CARSRAT
David Rice	Manning Fulton
Anita Watkins	UNC GA
A. Solari	DST
Kari Barsness	DENR
Bhw Merritt	MWC
Angie Haws	Williams Mullen
Mary Dillon	Ellis & Winters
George Rountree, III	NC Railroad Company
David I. Woodard	NCRR

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS — 10/25/2011

Name of Committee — **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
David Baum	Troutman Sanders
Bo Heath	McGuireWoods
Karen McCall	UNC HealthCare
Margaret Dardess	UNC
Kevin Fitzgerald	UNC
[illegible]	Rex
[illegible]	[illegible]
[illegible]	NSS
Jake Cashion	NCCC
Damien Graham	Triangle Transit
Kent Yelverton	NCOA & CS

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS — 10/25/2011

Name of Committee — **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
John McMillan	MF+S
BRUCE THOMPSON	PARKER POE
Mary Cole Allen	CAPSTRAT
Christie Cameron Poeder	NCCP
Jennifer Wimmer	OSBM
Kristen Crosson	OSBM
Brendan Cooley	Daily Tar Heel
Madeline Will	Daily Tar Heel
Brian Balfour	Civitas
Christine Craig	WakeMed

Ex#1

Cindy Coley (Rep. Brubaker)

From: McCall, Karen <KMcCall@unch.unc.edu>
Sent: Tuesday, September 27, 2011 3:50 PM
To: Rep. Harold "Bru" Brubaker; Rep. Marilyn Avila; Rep. Marcus Brandon; Rep. Bill Brawley; Rep. William Brisson; Rep. Becky Carney; Rep. Jim Crawford; Rep. Dale Folwell (Speaker Pro Tempore); Rep. Mike Hager; Rep. Julia Howard; Rep. David Lewis; Rep. Tim Moffitt; Rep. Bill Owens; Rep. Mitchell Setzer; Rep. Tim Spear; Rep. Edgar Starnes; Rep. Roger West; Rep. Michael Wray; Sen. Ellie Kinnaird; Rep. Joe Hackney; Rep. Verla Insko; Rep. Deborah K. Ross
Subject: UNC Health Care's Enterprise Fund
Attachments: Enterprise Fund, 9-27-11.docx

Dr. Roper asked me to send you a clarification of his remarks to the Select Committee last Thursday, September 22, 2011.

September 27, 2011

The Honorable Harold J. Brubaker, Chairman
House Select Committee on State-Owned Assets
NC House of Representatives
300 N. Salisbury Street, Room 302
Raleigh, North Carolina 27603-5925

Dear Chairman Brubaker:

I am contacting you to share more details surrounding the UNC Health Care Enterprise Fund about which I was questioned at the Select Committee hearing on Thursday, September 22. The UNC Health Care Enterprise Fund is made up of contributions from each of the System's affiliated entities and is used to help pay for academic and clinical programs.

To clarify my remarks last week, funding supplied by the System's affiliated entities are audited each year, as are the receiving departments of the School of Medicine. The Fund itself, however, is not audited.

To give you an idea of how the fund works, in academic medical settings anesthesia is financed poorly. However, it is vital to our ability to perform surgery and provide patients with necessary care. Therefore, the Enterprise Funds are contributed to anesthesia so that we can better fulfill our mission to provide excellent medical care to the people of North Carolina. An overview of the programs funded by the Enterprise Fund in FY09 and FY10 is enclosed in this letter.

If you have further questions about this or any other topics related to the UNC Health Care System, I welcome the opportunity to meet with you again.

Sincerely,

Bill Roper

William L. Roper

Enclosure

Executive Fund Disbursements

Department/Division	FY09	FY10
UNC School of Medicine – Dept. of Anesthesiology	$10,030,000	$10,648,860
UNC School of Medicine – Dept. of Dermatology	$600,000	$510,000
UNC School of Medicine – Dept. of Emergency Medicine	$1,000,000	$850,000
UNC School of Medicine – Dept. of Family Medicine	$200,000	$340,000
AHEC Flights	-	$492,720
Center for Heart and Vascular Care[i]	-	$1,275,000
UNC School of Medicine – Dept. of Medicine	$3,250,000	$4,243,750
UNC School of Medicine – Dept. of Neurology	$400,000	$990,000
UNC School of Medicine – Dept. of OB/GYN	-	$265,714
UNC School of Medicine – Dept. of Ophthalmology	$200,000	$445,000
UNC School of Medicine – Dept. of Orthopedics	$1,000,000	$1,700,000
UNC School of Medicine – Dept. of Otolaryngology	$150,000	$233,750
UNC School of Medicine – Dept. of Psychiatry	-	$65,000
UNC School of Medicine – Dept. of Pediatrics	$1,313,000	$1,022,550
UNC School of Medicine – Dept. of Radiation Oncology	$1,282,114	$1,195,000
UNC School of Medicine – Dept. of Radiation	$$2,000,000	$1,700,000
UNC School of Medicine – Dept. of Surgery	$1,955,000	$2,330,000
Total committed allocations	**$23,380,114**	**$28,307,344**

[i] Heart & Vascular was a line item within the Dept. of Medicine in FY09 and earlier. UNC Center for Heart & Vascular care was created in FY09 as a partnership between the Departments of Medicine, Radiology and Surgery.

Ex #2

Kory Goldsmith (Research)

From: Kory Goldsmith (Research)
Sent: Monday, October 17, 2011 2:53 PM
To: 'FitzGerald, Kevin'
Cc: Mark Bondo (Fiscal Research); Greg Roney (Research); Ben Stanley (Bill Drafting)
Subject: RE: Following up on UNC Healthcare/Rex thing
Attachments: Info Request to UNCHCS 10-17-11.pdf

Kevin – just left you a voice message. Attached are the follow-up questions based on Dr. Roper's presentation and the committee's conversation last month.

Please give me a call so we can discuss.

Thanks, Kory

- UNC Physicians & Associates

1. Provide a list of all entities affiliated with UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, Pardee, and any subsidiary affiliates of these entities. Identify which entities participate in the Enterprise Fund (including subsidiary affiliates). Identify which entities were created before/after the entity became affiliated with UNCHCS (including subsidiary affiliates). Identify if each entity is audited and list the audit containing the entity (including subsidiary affiliates). Provide a statement explaining the purpose of each affiliated entity.

2. Provide complete copies of two most recent outside audit reports for UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, and Pardee. Provide complete copies of two most recent annual financial statements (not the annual reports posted on your web site) for UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, and Pardee showing the balance sheets, cash flows, income statements, and any other data appearing on the financial statement.

3. Provide a statement of the profit (or other measure of annual performance) for Rex. The statement should explain cash (or cash equivalents) earned during the fiscal year and other additional assets held. The statement should also explain where the data can be found on the audit report (provided under a prior question).

4. Provide the organizational documents such as articles of incorporation, bylaws, and other agreements creating the Enterprise Fund. Provide a listing of all transfers of cash or property into and from the Enterprise Fund for the most recent two years. Provide complete copies of two most recent annual financial statements for the Enterprise Fund. Provide a listing of the assets of the Enterprise Fund. Provide a statement explaining the governance of the Enterprise Fund including who makes decisions to distribute its assets. Identify the location of the Enterprise Fund including who has authority over its accounts.

5. Identify the resources devoted to teaching, research, patient care and other activities of each of the affiliated entities engaged in teaching, research, and patient care.

6. Identify all transfers between and among Rex and UNCHCS.

EXHIBIT #3

UNC HEALTH CARE

October 20, 2011

To: Kory Goldsmith, North Carolina General Assembly

From: Kevin M. FitzGerald, Chief of Staff,
UNC School of Medicine and UNC Health Care System

Re: Questions from House Select Committee on State-Owned Assets

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Attached please find answers to the questions posed to Dr. William Roper by the members of the House Select Committee on State-Owned Assets during Dr. Roper's presentation on September 22, 2011.

If you have any questions or need additional information, please contact me at (919) 966-9282 or kfitz@med.unc.edu.

Thank you.

Select Committee Q&A

October 20, 2011

What is Rex Hospital's annual profit? Where do those profits go?

Rex's FY2010 annual operating margin is $34.6 million. Most of that margin is reinvested back into Wake County through equipment and services at Rex Healthcare. Another portion of the margin, $20 million over the last 10 years, comes to UNC Health Care to help the System provide more uncompensated care and to provide better services to the patients we serve.

Do you have a program for prison care? Uncompensated care?

Both UNC Health Care and Rex Healthcare currently provide hospital services for state prisoners as requested by the North Carolina Department of Corrections (DOC). Through a partnership with UNCHCS that affords DOC more sophisticated purchasing power, UNCHCS recently helped the DOC save more than $1.6 million on capital purchases for its two new hospitals through UNC Health Care's Group Purchasing Organization, MedAssets.

As the DOC makes future purchases, it will continue to save millions of dollars for the state. Additionally, UNC Health Care sees many of North Carolina's prison patients, and with the financial stability Rex provides for the System, will continue to be in a position to do so at the reimbursement rates DOC is able to pay.

The UNC Health Care System, inclusive of Rex Hospital and Chatham Hospital provided more than $300 million in uncompensated care t in fiscal year 2010.

Are the funds for UNC Health Care audited? Are those reports available?

The entities of the UNC Health Care System are audited annually. UNC Hospitals is audited by the NC Office of the State Auditor. Rex Healthcare and Chatham Hospital are audited by a qualified independent auditor, Larson Allen. Triangle Physician Network recently completed its first fiscal year, and is currently undergoing a review of its financial statements and policies by a qualified independent auditor. UNC Physicians & Associates is the financial proxy for the clinical patient care programs of the UNC School of Medicine, and is therefore part of the University of North Carolina at Chapel Hill. UNC Physicians & Associates is included in the NC State Auditor's audit of the University. Each entity has received unqualified opinions for their prior year reports.

The UNC Health Care System Enterprise Fund's inflows and outflows are reviewed as a part of the audits of each entity. Dr. Roper has requested that the State Auditor conduct an audit of the Enterprise Fund. The planning for this audit is now underway with the State Auditor.

Fiscal Year 2010 audits of UNC Hospitals and UNC Chapel Hill are available from the NC Auditor. Fiscal Year 2010 audits of Rex Healthcare and Chatham Hospital are confidential, but were released to the Fiscal Research Division as part of a legislative request in March 2011. The review of Triangle Physician Network's financial statements and policies and the UNC Health Care System Enterprise Fund audit are currently underway.

So Rex had a positive profit margin of $20 million?

Select Committee Q&A

October 20, 2011

Since 2000, the transfer of funds between UNC Health Care and Rex has been a net transfer of $20 million to UNC Health Care. Rex is a non-profit, so any other margin goes back into providing care or improving services at Rex.

So if you had to sell Rex, you would only have to ask us for $20 million over 10 years?
The value of Rex Healthcare to UNC Health Care far exceeds the $20 million transfer. Because of Rex, UNC Health Care is able to operate on a larger scale and saves money by purchasing in bulk and negotiating payment rates with private patient health insurance plans. Without Rex, UNC Health Care would not have the same purchasing and negotiating power as other large systems, which would put us in a vulnerable situation with increased reliance on appropriated funds.

How much money is in the reserves? And who controls that money?
There is currently about $750 million in UNC Hospital's reserves, which is required to support our bonded indebtedness and our infrastructure. These reserves have been accumulated over a number of years and are being put to good use. The UNC Health Care Board of Directors controls the reserves, and we have used portions to fund the School of Medicine, to update our equipment and information systems, and more recently, to start building a new facility to better serve the Hillsborough community.

If UNC Health Care is public and Rex is private, how is it that the $20 million was given to UNC Health Care over 10 years?
Rex, as an integrated component of the HCS, has been required by the UNC Health Care System Board to contribute financially to the support and growth of the entire health care system.HCS.

Can you explain your Board structure?
The UNC Health Care Board structure was established in 1998 when UNC Hospitals at Chapel Hill was dissolved and the UNC Health Care System was created as an affiliated enterprise of The University of North Carolina. The Board consists of at least six ex-officio members, including the President of the UNC System, the Executive Director of the UNC Health Care System, two administrative officers of UNC Chapel Hill and two members of the School of Medicine faculty.

The Board membership includes between nine and 21 at-large members from the community. These members are nominated by the Board, selected by the President of the UNC System and ratified by the Board of Governors.

Ultimately, the Board can be as large as 27 or as small as 15 members. There are currently 19 members, including 11 at-large members.

Select Committee Q&A

October 20, 2011

What if the Rex Board decides to do something that does not align with UNC Health Care's mission/goals?

In 2000, when UNC Health Care acquired control of Rex, UNC Health Care gained the responsibility of appointing the members of the Rex Board. If Rex Healthcare was moving in a direction outside of UNC Health Care's mission and goals, we would appoint a new board to realign Rex's mission and goals with the greater System.

Can you tell us more about corporate entities that Rex controls? Were these entities acquired before or after 2000?

Rex Holdings, LLC was created to hold Rex Healthcare's interests in various limited liability companies, including joint ventures with third parties. Rex Physicians, LLC was created to operate specialty physician practices under the relevant federal and state health care laws. This group currently includes physician practices in the areas of general surgery, heart and vascular services, and thoracic surgery. These entities were created after 2000,

Do you operate four hospitals?

UNC Health Care owns and operates UNC Hospitals, Rex Healthcare and Chatham Hospital. UNC Health Care also has a management agreement with Pardee Hospital.

How many of those hospitals are teaching hospitals?

The principal teaching of the UNC School of Medicine takes place at UNC Hospitals in Chapel Hill and at our other partner hospitals across the state. We have students at places like New Hanover, WakeMed, Moses Cone, Carolinas and Mission Hospital. We do some teaching at Rex and we look forward to instituting teaching programs at Pardee Hospital.

Partnering with other hospitals to educate our next generation of physicians is essential and common for medical schools. UNC Hospitals in Chapel Hill simply does not have enough hospital beds and patients to train the very large class of medical students and residents. By placing students in rural and underserved areas of our state, we are better able to expand access to high quality care to more North Carolinians.

How do the hospitals and the School of Medicine relate? Are they separate entities or is the hospital an adjunct to the medical school?

The two entities are an integrated organization with an integrated set of missions. The nature of what the School of Medicine faculty do is both classroom lecture teaching of medical students and the practical, clinical work that is done on our hospital floor. By having an integrated system, UNC Health Care is able to deliver care, to train the next generation of North Carolina's physicians and to conduct cutting edge research – all of which are part of our State-mandated mission.

The hospitals are under the control of the UNC Health Care System, created by the legislature in 1998. Dr. Roper is CEO of UNC Health Care. In addition, the University campus in Chapel Hill has 13 schools, one of which is a School of Medicine. Dr. Roper also is the Dean of that School of Medicine. While the two entities have a different reporting

structure, both ultimately report to Tom Ross, President of the University System, and the Board of Governors, which oversees the entire University System.

Are the two entities complementary in operations but with a separate mission?
The UNC School of Medicine and the UNC Health Care System are integrated organizations with an integrated set of missions, activities and leadership.

Do you have to own a hospital to operate the medical school?
There are some medical schools that do not own hospitals, but those medical schools are in a difficult position to find funding and to adequately train physicians. By fully integrating the School of Medicine and UNC Health Care, the two entities can provide a platform for practical learning and exceptional care and financially leverage their relationship. That is why the NC Memorial Hospital was created in 1952.

Without this integration, the School of Medicine would have to rely on substantially more state funding and the year-to-year goodwill of a large corporate entity for financial and educational support. A large part of UNC Health Care's success is due to our close relationship with the School of Medicine and vice versa..

Why did we buy Rex in the first place?
The Triangle is one of the most rapidly growing areas in our state. Thousands of people are moving into the area and UNC Health Care, absent Rex, is a large hospital in a small town. UNC Health Care needs to be able to serve a broader population base to accomplish its research and teaching missions. Without Rex, UNC Health Care lacks the scale needed to achieve its missions.

Moreover, UNC Health Care delivers more than $2 billion of clinical care each year, leading to a combined direct and indirect economic value of more than $5 billion annually. The aggregate benefits to North Carolina include employment of more than 12,000 people, positive impact on University research and philanthropy, and other activities as a safety net provider. None of this would be possible to this degree without the stability and scale Rex provides to our health care system.

Can you provide more clarity about the $63 million that was referenced in the first presentation?
When UNC Health Care acquired control of Rex Healthcare in 2000, it pledged to invest up to $63 million in capital to Rex Healthcare over 10 years if Rex was unable to generate the capital itself. In part because of its relationship with UNC Health Care, Rex was able to self-generate this capital and re-invest in Wake County. Consequently, the only funds transferred between UNC Health Care and Rex equate to $20 million from Rex to UNC over the past 10 years.

What are the benefits outside of the $20 million you have received from Rex?

Rex is worth far more than $20 million to our health care system. Rex has helped make it possible for UNC Health Care to be a stable organization and to fulfill its missions well. The funding to the UNC School of Medicine in FY2011 was only possible because of the scale and stability of the health system. Without Rex, UNC Health Care's abilities would be greatly hindered.

Rex also allows UNC Health Care to purchase and operate on a larger, more sophisticated scale. Without Rex, UNC Health Care would incur greater costs and fewer benefits in a competitive health care market.

What is the relationship between Rex and UNC Health Care in terms of teaching, research and clinical activities?

Rex is dominantly a patient care facility, but in recent years, the clinical capabilities at Rex Healthcare and its contributions to UNC Health Care have grown. For example, the number of Rex patients who enroll in UNC's oncology clinical trials has grown annually since 2008. Wake County patients benefit from access to cutting-edge research in action through Rex's relationship with UNC, just as UNC's research is furthered by its access to Rex's patients.

The partnership allows UNC faculty to conduct clinical research in oncology at Rex, to work at the UNC Specialty Women's Center at Rex, to hold pediatric cardiology consultations 24-hours a day on-site at Rex, to be a primary member of the Trauma RAC, to provide medical direction for Rex Rehabilitation Nursing Care Centers of Raleigh and Apex, to staff 13 lab outreach services sites and work at Rex as UNC mental health specialists, among other programs.

Teaching programs are similarly taking root at Rex. Rotations for UNC residents in radiation, oncology, general surgery, pediatrics, cardiology and cardiac surgery, for example, are being developed at Rex. As the demand for community-based teaching sites increases, Rex will play a crucial role in educating North Carolina's physicians.

As far as patient care goes, does that put them in competition with other facilities in Wake County?

Wake County is one of the most rapidly growing parts of the state. In this county, just like in others, UNC Health Care is in competition. However, UNC Health Care's state-appropriated funds are used to provide for our uncompensated care and education missions and to support the School of Medicine. State funds are not being funneled to Rex, nor are they being used to compete with other health systems in Wake County.

Can you tell us about the enterprise fund? Is it audited?

The UNC Health Care System Enterprise Fund is the name of an account that contains several different restricted trust funds. As defined by North Carolina General Statutes, these restricted trust funds may "consist of moneys received from or for the operation by an institution of any of its self-supporting auxiliary enterprises, including institutional student auxiliary enterprise funds for the operation of housing, food, health, and laundry services; or

moneys received by an institution in respect to fees and other payments for services rendered by medical, dental or other health care professionals under an organized practice plan approved by the institution or under a contractual agreement between the institution and a hospital or other health care provider."

Affiliated entities of UNC Health Care contribute money into the UNC Health Care System, which goes into the Enterprise Fund to help pay for academic and clinical programs. For example, in academic medical settings, anesthesia often needs additional financial support. However, it is vital to our ability to perform surgery and provide patients with care. So, we use our Enterprise Fund to finance anesthesia, among other academic and clinical programs. While the Enterprise Fund itself has not been audited, the entities that pay into the Fund are audited. Dr. Roper recently requested that the State Auditor audit the Enterprise Fund.

EXHIBIT #4
10/25/2011

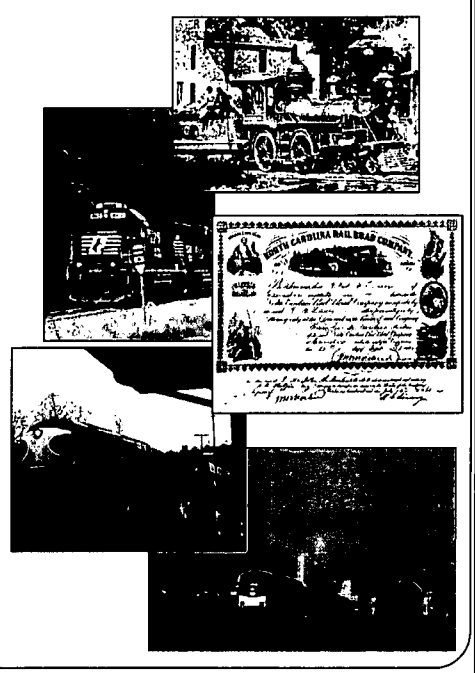
NORTH CAROLINA
RAILROAD
COMPANY

House Select Committee on State-Owned Assets

October 25, 2011

Company History

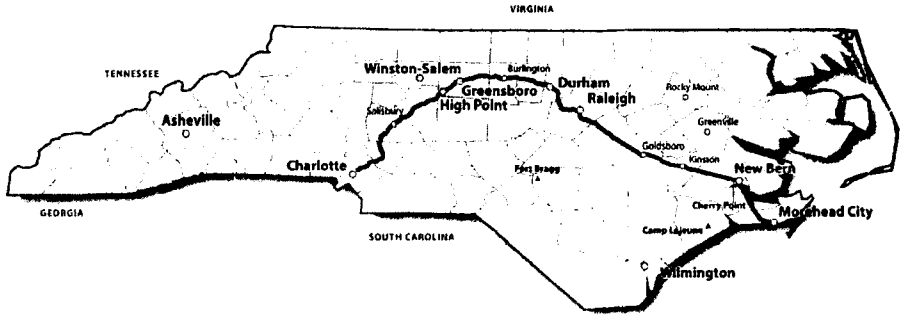
- Chartered in 1849
- Chartered with both private and state stock owners
- Operated by Southern Railway under a 99-year agreement, which expired in 1995
- Remaining private shares acquired in 1998
- New lease negotiated with Norfolk Southern in 1999



Our Mission

To maximize the value of the North Carolina Railroad Company's properties for the people of North Carolina through partnerships that drive economic growth, enhance freight and passenger service, improve safety and respect the natural environment.

NCRR Corridor

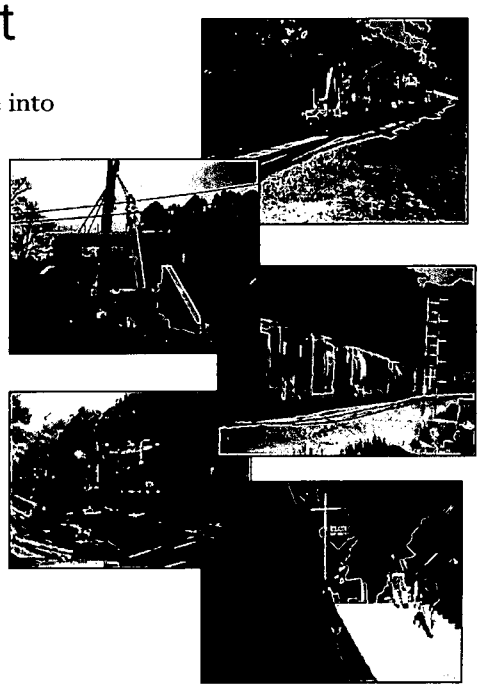


Organization

- Neither seek nor receive any state appropriations
- Long-term, renewable lease with Norfolk Southern, that runs through 2044.
  - Lease generates approximately $14 million each year in capital
  - Income funds NCRR's expenses, including its 12 full-time employees.
- 13 member Board of Directors
  - 7 appointed by Governor; 6 by Legislature
  - 4 year terms

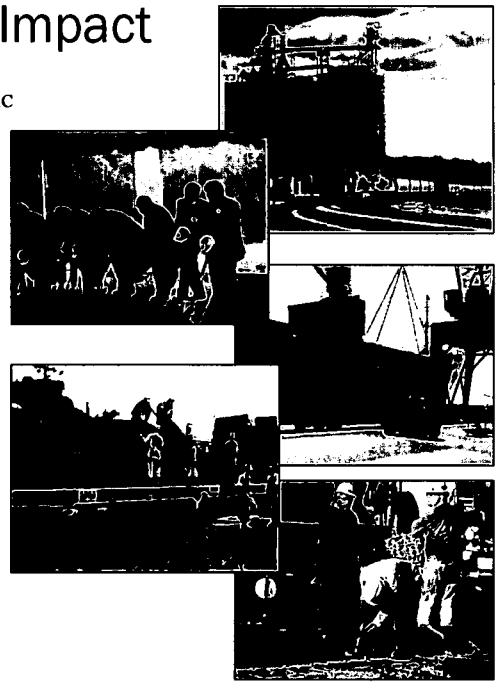
Capital Investment

- NCRR invests 80% of its revenue into capital improvements
- About $12 million per year of its own revenue (no tax-payer money)
- Work includes:
  - Bridges
  - Underpasses
  - New/additional tracks
  - Passing sidings
  - Signals
  - Crossing improvements



NCRR Economic Impact

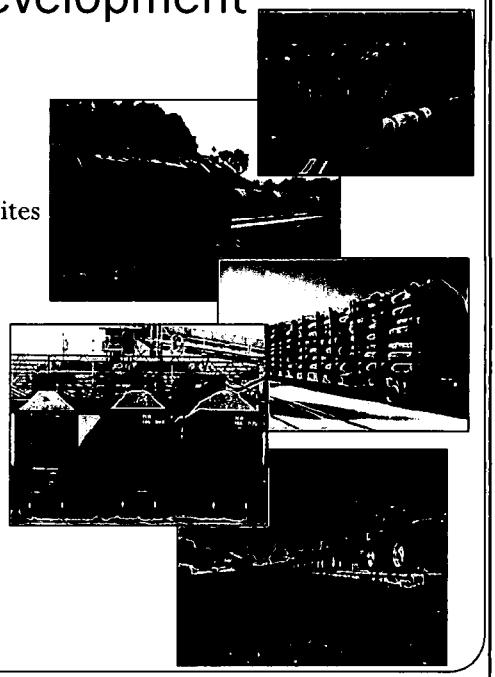
- 24% of N.C. industrial economic output relies on the NCRR line for freight service
- Rail saves customers $198 million annually
- The 254,000 freight cars on the NCRR replace 762,000 trucks on N.C.'s highways
- NS/NCRR customers spend $74.7 million on freight in NC
- Total N.C. economic impact: $143 million annually



Source: 2007 study by Research Triangle Institute

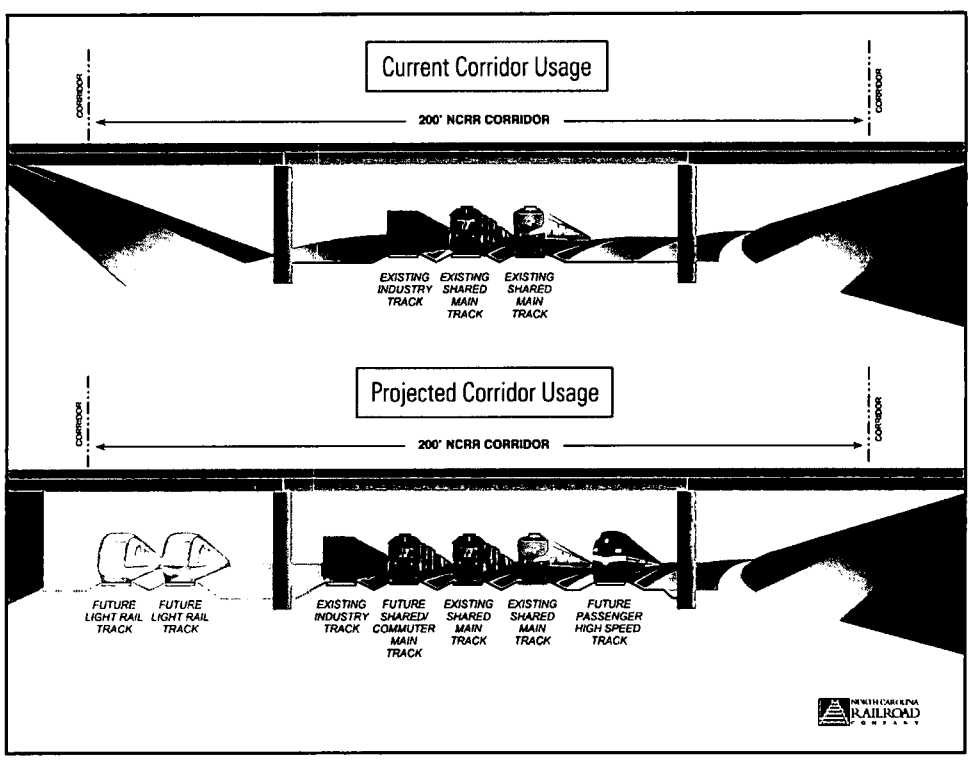
NCRR Economic Development

- Promote growth of traditional manufacturing jobs
- Work with communities to identify and preserve rail served industrial sites
- Assist with statewide rail clients
- Large transformational industrial recruitment opportunities
  - Spirit AeroSystems
  - Prospective Auto Assembly Plant
- Support our primary shareholder's efforts to grow jobs in NC



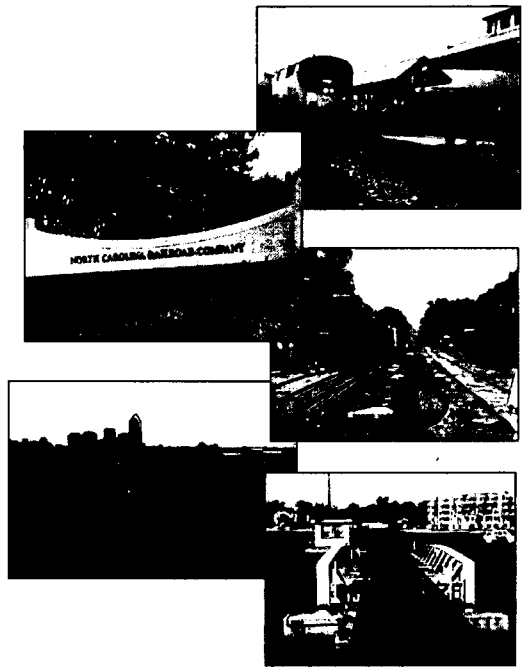
Railroads Mean Business & Jobs

DIXIEPLY
Kimberly-Clark
gsf golden state foods
SPIRIT AEROSYSTEMS
TRANSMONTAIGNE
Duke Energy
Weyerhaeuser
Electrolux
Hanson
Sanderson Farms
Progress Energy
Cargill



NCRR Assets

- 317-mile corridor from Charlotte to Morehead City
- Passenger Stations
- Yard and Maintenance Facilities
- Industrial Sites
- Curve Straightening



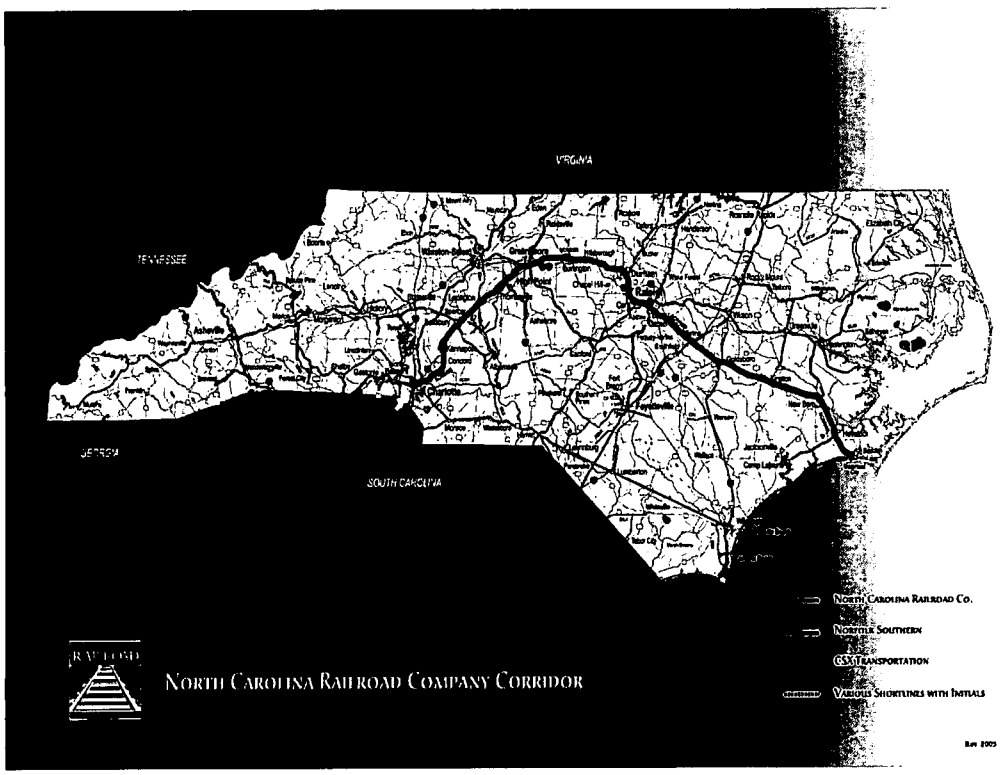
Thank you

www.ncrr.com

***Mission:** To maximize the value of the North Carolina Railroad Company's properties for the people of North Carolina through partnerships that drive economic growth, enhance freight and passenger service, improve safety and respect the natural environment.*

#4

The Economic Impact of the North Carolina Railroad: Summary of Findings



Prepared by
Katherine Heller
Dallas Wood
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Edd Hauser
Nicholas Swartz
Center for Transportation Policy Studies
UNC-Charlotte

Prepared for

Scott Saylor
Kat Christian
North Carolina Railroad

May 2007

Acknowledgements

The authors would like to thank Lorraine Connaughton of Norfolk Southern Railway, and Jeff Mann of Amtrak for their assistance in providing data without which our analyses would have been impossible.

The North Carolina Railroad Company (NCRR) is a corporation that provides valuable transportation services to the people of North Carolina. In the past, the railroad played a large part in industrializing and modernizing the state. Today, the NCRR continues to serve the needs of both freight and passenger rail customers. The common stock of NCRR is owned by the state of North Carolina. This report describes the historical importance of the railroad and estimates its significance for the economy of North Carolina at the start of the 21st century.

1. The North Carolina Railroad Company

Since its creation in 1849, NCRR has provided transportation services that play a central role in linking locations along its track and also in linking the region to other parts of the nation and the world.

Today NCRR leases its 317 miles of track, which stretch from the port at Morehead City to Charlotte, to the Norfolk Southern Railway as part of an exclusive trackage agreement. Every day, approximately 65 Norfolk Southern freight trains use this track to ship commodities across the state. In addition to freight traffic, Amtrak runs eight passenger trains, including the Piedmont and the Carolinian, along the NCRR corridor daily.

This report assesses what NCRR contributes to the North Carolina economy through these transportation services. An important part of this contribution is the critical historical influence of NCRR on the direction of the state's economic development, but this is far from the whole story: NCRR continues to vitally influence North Carolina's economy today.

2. Historic Connections Between NCRR and the North Carolina Economy

NCRR helped define North Carolina as the state it is today. During the antebellum period, between 1820 and 1850, North Carolina earned a reputation for being economically backward and culturally isolated; it was nicknamed "the Rip Van Winkle State" (Kickler, 2007). This lack of economic and cultural growth was largely due to the state's inadequate transportation infrastructure. At the time, North Carolina had few navigable waterways, and its roads were considered among the worst in the South. As a result, most North Carolina farmers and manufacturers served only local markets.

To promote economic growth, the state government funded the construction of the North Carolina Railroad (Kickler, 2007), built between 1851 and 1856 for a cost of $5 million. North Carolina purchased the controlling interest in the company (Trelease, 1991).[1] Rail transport significantly reduced the cost and difficulty of moving goods to market and opened up new markets for farms and businesses located near its route, providing access to the eastern North Carolina ports. Connections with other railroads gave access to even larger markets in other states.

This combination of lower transportation costs and access to new markets allowed commercial agriculture to flourish along NCRR's lines. Overall, the value of farms along the railroad doubled between 1850 and 1860 and nearly tripled by 1900. Tobacco production exploded from 250,000 pounds

[1] In 1998, the state government purchased the remaining private shares of stock in the company, making NCRR a state-owned company (NCRR, 2007).

to 17 million pounds over the same period; manufacturing also grew rapidly (Trelease, 1991). Growing industries created entire towns around the tracks. For example, according to historian Allen Trelease, the town of Durham hardly existed when the NCRR was founded. By 1880, Durham hosted 14 tobacco factories. As the tobacco industry grew, so did the town, laying the foundation for the city it is today (Trelease, 1991). Without Durham's tobacco manufacturing, Duke University might not exist. Durham's Bull Durham Tobacco Factory is shown below.

Another town owing its existence to the NCRR is Burlington, started as NCRR's headquarters and originally known as Company Shops because it was the location of the shops (shown above) that NCRR used to repair and maintain its engines, cars, and other equipment. Over time, because of the proximity to rail access and a growing labor force, the town (and the county that contained it) became the leading textile manufacturing center along NCRR's lines (Trelease, 1991).

The NCRR corridor, particularly the area from Raleigh to Charlotte, has since become an economic engine for the state. Industrialization and growth along the NCRR continued into the 20th century. In 1955, the 10 counties along the NCRR from Wake to Mecklenburg contained 25% of the state's population and 45% of the state's industrial workers. These counties also accounted for over half of the value added by manufacturing in the state. Thus, several cities, at least one major university, and the Research Triangle Park are located where they are because of the route followed by NCRR's rail lines. NCRR played a major role in modernizing North Carolina's economy over the past 150 years, helping transform the state from a sleeping Rip Van Winkle to a thriving member of the global economy. But NCRR's contributions to North Carolina do not end there.

3. NCRR's Economic Impact Today

To examine the contribution of NCRR to the state economy, its impact is quantified in several different ways:

- Physical measures of NCRR services: carloads shipped and passengers served,
- Total spending by NCRR's customers for the North Carolina portion of their trip,

- Cost savings experienced by shippers and passengers,
- Total spending by NCRR in the state,
- The estimated share of North Carolina's total output that is dependent on NCRR, and
- Environmental and other external benefits of rail transportation.

Some measures are straightforward, while others require careful use of economic models to estimate.

3.1 Overall analysis approach

Using data from 2005 as representative of a typical year, we examined the impact measures listed above. Some of the impact measures derive directly from the data (physical measures of NCRR services, NCRR's annual spending in the state, and the share of the North Carolina economy dependent on NCRR rail service); others require some economic modeling and analysis to estimate. To estimate the economic impact of spending by NCRR's customers or the economic impact of the cost savings they realize relative to trucking, we estimated the supply responses of industries using NCRR; then we input the resulting estimated direct spending impacts into the IMPLAN economic impact model to quantify resulting indirect (supply chain) and induced (consumer spending) impacts. Total economic impact is the sum of the direct, indirect, and induced impacts. Figure 3-1 illustrates this process.

3.2 NCRR carried 254,000 carloads of freight in 2005

Table 3-1 shows measures of NCRR freight service in 2005. Norfolk Southern Railroad data show that more than 254,000 carloads of goods originated or terminated along NCRR in 2005. Using industry-specific data on tons per carload (RailINC, 2003), we estimated that the top 95% (241,000 carloads) corresponded to more than 9.7 million tons of goods transported over NCRR and either originating or terminating in North Carolina. To estimate the ton-miles[2] of goods transported, we multiplied the estimated tons per commodity times the typical trip length for that commodity. To be conservative, our analysis focused on our estimate of the North Carolina portion of each trip. Using this logic, we estimated that 2.9 million ton-miles of freight were shipped across NCRR and within North Carolina in 2005.

Table 3-1. Physical Measures of NCRR Freight Services, 2005

Year	Carloads	Estimated Tons	Estimated Ton-Miles
2005 total	254,000		
2005, top 95%	241,000	9,716,000	9,899,000,000

3.3 NCRR carries 300,000 passengers each year

Amtrak data shown in Table 3-2 reveal that, from 2004 to 2006, more than 800,000 passengers either embarked or detrained at stations along NCRR's route, traveled more than 107 million miles, and spent nearly $16.5 million.

[2] A ton-mile is defined as a ton of commodity transported one mile. Ton-miles=tons of commodity*distance shipped in miles.

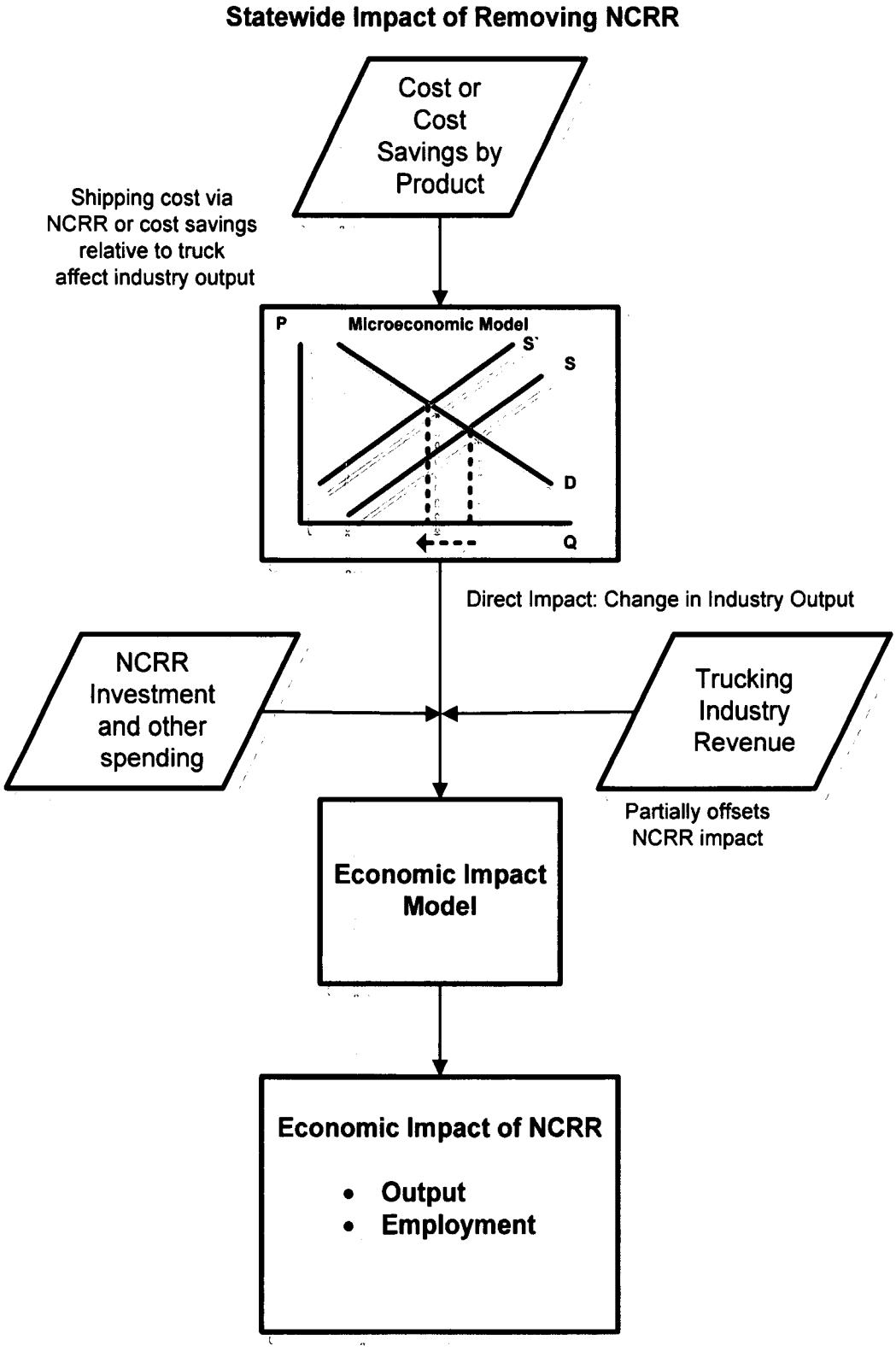


Figure 3-1. Analysis Approach

Table 3-2. Amtrak Data on NCRR Passenger Use, 2004-2006

Year	NCRR Amtrak Riders	Total Passenger Miles Traveled	Amtrak Revenue from NCRR Passengers
2004	277,053	97,971,265	13,870,731
2005	295,463	102,642,008	14,077,910
2006	310,442	107,321,098	16,481,872
Total	882,958	307,934,371	44,430,513
Average	294,319	102,644,790	14,810,171

3.4 NC freight spending by NCRR customers: $74.7 million; total NC impact: $143 million annually

To estimate the spending by NCRR freight customers, we multiplied the physical measures of NCRR services by the price of those services: ton-miles of freight transported times $0.026 per ton-mile, the average price per ton-mile in 2005, according to the U.S. Bureau of Transportation Statistics (BTS, 2002). Based on these computations, RTI estimated that NCRR's freight customers paid $74.7 million in 2005 for the North Carolina portion of their transportation (see Table 3-3). Every dollar spent by NCRR and its customers generates additional spending within the North Carolina economy. Coupling this freight spending with NCRR spending, the macroeconomic model of the North Carolina economy estimates a resulting adjustment in North Carolina industrial output of $90.6 million as a result of transporting commodities via NCRR. This direct impact results in indirect impacts as NCRR and Norfolk Southern purchase inputs to enable them to provide transportation services. Direct and indirect spending also generates induced impacts when the workers employed spend money on food, clothing, health care, and other consumption goods. The total impact includes direct, indirect, and induced impacts. Starting with direct impacts of $90.6 million, we estimated total impacts of $143 million annually.

Table 3-3. Impact of Annual Spending by NCRR and its Customers

Impact Measure	Spending by NCRR Freight Customers	Direct Impact	Indirect Impact	Induced Impact	Total Impact
Output ($)	$74,677,000	$90,600,000	$29,800,000	$22,000,000	$143,000,000
Employment		430	208	211	850

3.5 NCRR saves its customers $198 million, increasing their NC production by $223 million; total impact on NC output: $338 million annually

Because NCRR exists, its customers can use rail transportation rather than more expensive alternatives. The cost savings they experience, shown in Table 3-4, are a measure of the value of NCRR to the state. Freight customers, in the absence of NCRR, would transport their commodities by truck for at least a portion of the distance. Truck transportation is considerably more expensive than rail transportation; estimated cost per ton-mile for truck transportation ranges from $0.06 to $0.26, depending on whether the trip is short-haul or long-haul, and whether it is an entire truckload or less than a

truckload. For this study, we assumed it is long-haul and a truckload, and we estimated that truck transport would cost $0.09 per ton-mile, more than twice the cost of rail transportation. Thus, for each ton-mile of freight shipped over the NCRR, the customer saves $0.064. Overall, we estimated that freight transportation cost savings for NCRR customers total $198 million.

Similarly, Amtrak passengers traveling over NCRR would face considerably higher costs if NCRR were not available and they had to travel by automobile. Instead of $0.13 to $0.15 per passenger mile, traveling by automobile would cost an estimated $0.48 per passenger-mile. Overall, being able to travel on Amtrak through North Carolina saves passengers an estimated $35 million.

As above, we input these direct cost savings into the microeconomic model, which estimates that they result in direct impacts of $223 million in additional output by North Carolina industries. This direct impact in turn generates $338 million in additional output statewide, based on the economic impact model results.

Table 3-4. Impacts of Cost Savings by NCRR Freight Customers due to NCRR

Impact Measure	Cost Savings by NCRR Freight Customers	Direct Impact	Indirect Impact	Induced Impact	Total Impact
Output ($)	$198,000,000	$223,100,000	$73,900,000	$40,800,000	$337,700,000
Employment		611	432	385	1,428

3.6 NCRR invests millions of dollars each year in North Carolina

In 2005, NCRR had approximately $15 million in income and invested more than $13 million in properties, equipment, and capital improvement projects. At any time, NCRR has millions of dollars of complex multiyear capital improvement projects ongoing, including replacing outdated bridges, installing double tracks in heavily traveled areas, and creating safe grade separations at crossing areas. In addition to injecting millions of dollars into the state's economy, these capital projects improve NCRR's services and also provide safer, faster road transportation for vehicles near bridges and crossings. We estimate that NCRR's income is a reasonable estimate of its North Carolina spending and investment in a given year. In 2005, this amount was $15 million.

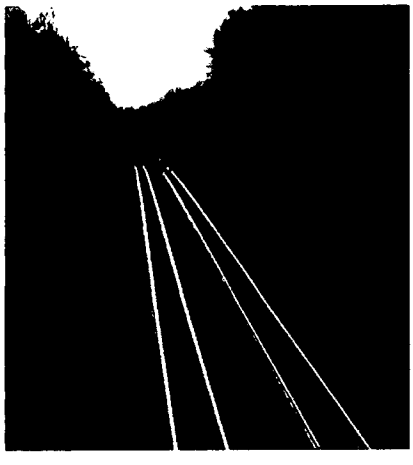
3.7 North Carolina's economy depends on NCRR's rail transportation

In counties bordering NCRR's tracks, industries using rail freight services account for $143 billion in output, more than 24% of North Carolina's total economy in 2005 (see Table 3-5). Most manufacturing industries rely to some extent on rail freight transportation, because it is so much cheaper than truck transportation. In addition, some industries are critically dependent on rail freight transport. For example, industries that depend on coal as a fuel (such as electric utilities' coal-fired generating plants) depend on rail because coal is too heavy to be transported by truck. Similarly, other industries receive bulk inputs by rail and locate their plants along NCRR's tracks or spurs as a result; having to transfer the inputs to truck would be prohibitively expensive. It should be noted that some of the rail spending in the counties bordering NCRR is for shipping freight over other lines, and some firms that rely on NCRR

freight transportation may be located in counties other than the 14 through which it runs. Nevertheless, the very large share of total North Carolina output produced by industries spending at least $100,000 on rail and located in the counties bordering NCRR's tracks indicates the critical dependence of North Carolina's economy on rail freight services.

Table 3-5. Dependence of NC Economy on Rail Transport

Data	Output	Employment
Industries spending at least $100,000 to ship commodities by rail in 14 counties along NCRR route	142,500,000,000	730,772
All of NC	590,800,000,000	4,984,225
NCRR industry share	24.1%	14.7%



3.8 Major Employers Dependent on Rail Freight Services

Another approach to assessing the relationship between NCRR freight services and the economy is to identify the sectors shipping at least $100,000 of rail freight, located in the 14 counties along NCRR's tracks, and having the greatest number of employees. Table 3-6 shows these industries.

3.9 NCRR Freight Transportation Has Environmental Benefits

In addition to costs experienced by shippers and passengers, transportation imposes external costs: costs experienced by individuals who are not directly involved in the transportation. For example, both automobile and train transportation may result in accidents where bystanders are injured or experience property damage. Similarly, both automobile and rail transportation cause air pollution, greenhouse gas emissions, and noise. Truck transportation causes the vast majority of road pavement damage, resulting in maintenance costs that are not paid entirely by the truckers and their customers. Using values from the literature (Forkenbrock, 1999), we estimate that for each ton-mile shipped by rail rather than truck, these external costs are reduced by more than $0.02, conveying $65.7 million in external benefits (cost savings). Estimated external benefits of NCRR are shown in Table 3-7.

Table 3-6. Top 50 Industries Shipping $100,000 of Freight by Rail, by Employment

IMPLAN Industry Sector	Employment
Food and related services	109,892
Wholesale trade	83,416
Real estate	55,789
New residential 1-unit structures, nonfarm	42,234
Management of companies and enterprises	29,924
Hospitals	28,318
Offices of physicians, dentists, and other health practioners	25,049
Truck transportation	24,135
Commercial and institutional buildings	23,110
Architectural and engineering services	22,432
Monetary authorities and depository credit intermediation	21,302
Services to buildings and dwellings	19,141
Automotive repair and maintenance, except car washes	15,723
Telecommunications	12,570
Management consulting services	11,154
Other new construction	10,978
Postal service	10,601
Data processing services	8,972
Nondepository credit intermediation and related activities	8,500
Pharmaceutical and medicine manufacturing	8,257
Air transportation	8,060
New residential additions and alterations, nonfarm	6,719
Highway, street, bridge, and tunnel construction	6,160
Couriers and messengers	6,136
Commercial printing	6,108
Maintenance and repair of nonresidential buildings	5,913
Software publishers	5,696
New multifamily housing structures, nonfarm	5,330
Scientific research and development services	4,992
Computer storage device manufacturing	4,751
Automotive equipment rental and leasing	4,318
Heavy duty truck manufacturing	4,276
Cigarette manufacturing	3,872
Power generation and supply	3,613
Newspaper publishers	3,385
Upholstered household furniture manufacturing	3,321
Maintenance and repair of farm and nonfarm residential structures	2,827
Paperboard container manufacturing	2,756
Wiring device manufacturing	2,482
Cookie and cracker manufacturing	2,345
Maintenance and repair of highways, streets, bridges, and tunnels	2,276
Nonupholstered wood household furniture manufacturing	2,232
Motor vehicle body manufacturing	2,086
Semiconductors and related device manufacturing	1,822
Veneer and plywood manufacturing	1,815

(continued)

Table 3-6. Top 50 Industries Shipping $100,000 of Freight by Rail, by Employment

IMPLAN Industry Sector	Employment
Noncellulosic organic fiber manufacturing	1,806
Database, directory, and other publishers	1,793
Motor vehicle parts manufacturing	1,752
Pesticide and other agricultural chemical manufacturing	1,748
Tire manufacturing	1,739
Subtotal, Top 50 Industry Sectors	683,629
TOTAL	730,772

4 Conclusions

The NCRR was instrumental in encouraging the economic development of North Carolina in the 19th century, helping to define new markets, new industries, and new cities. Today, NCRR continues to contribute to the state's economy, transporting nearly ten million tons of commodities and approximately 300,000 Amtrak passengers each year. NCRR provides transportation services worth $75 million, saves its customers $198 million, and adds $338 million to the state's output. NCRR continually invests in ongoing capital improvement projects to enhance the efficiency and safety of transportation in the state. Industries shipping inputs or products by rail in the counties bordering NCRR's tracks account for $90 billion in output, more than 24% of the state's economy. Increased safety and reduced pollution and pavement damage due to rail transportation may be valued at more than $65 million.

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Major Capital Improvements

Schedule & Commitments through 2015

#4

NORTH CAROLINA RAILROAD COMPANY

2809 Highwoods Blvd., Suite 100 | Raleigh, NC 27604 919.954.7601 | www.ncrr.com

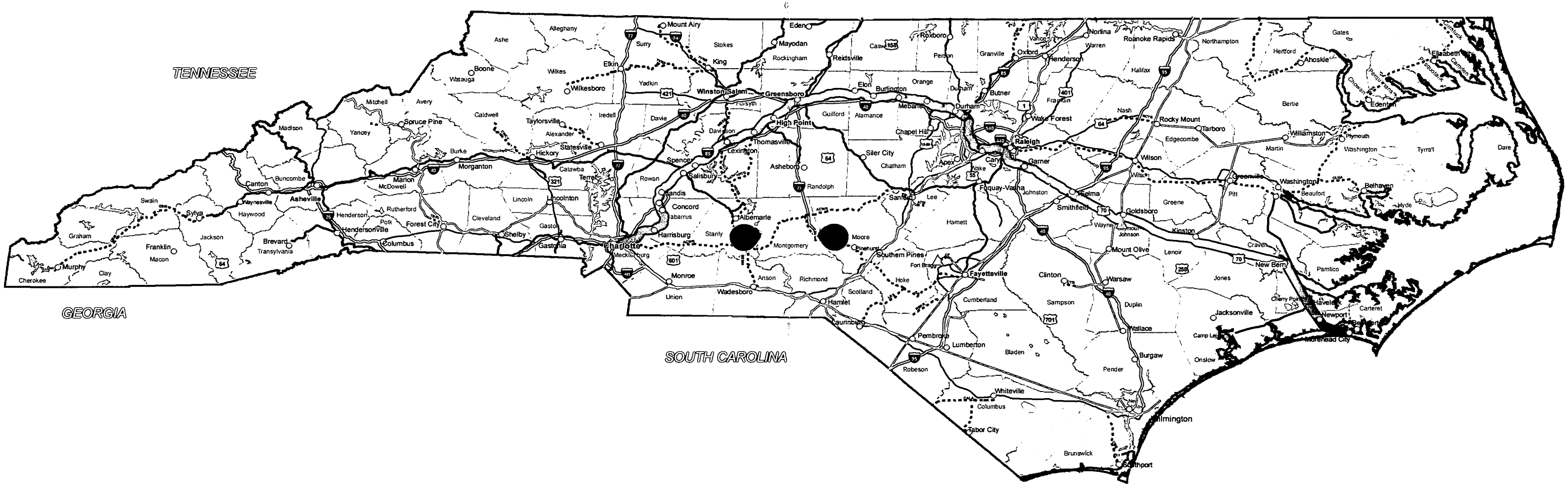
Building A Better Railroad

Summary	Benefit	Total Cost / NCRR Investment
Wake County: Double Track Morrisville to Cary – 5.9 Miles Add a second main track from McCrimmon Road to Fetner. Connect to NCDOT's Clegg siding creating double track from Raleigh to I-40 in Durham County.	Improve Capacity	$19,000,000
Mecklenburg/Cabarrus Counties: Double Track North Charlotte to Concord Segment - 12.1 Miles Add a second track and signals to reduce delays associated with meeting and passing trains (Haydock-Junker). *ARRA Funded*	Improve Capacity (Main Line)	$95,116,212 $13,000,000
Davidson County: Double Track Thomasville to Lexington Segment - 4.2 Miles Extend second track and signals to reduce delays associated with meeting and passing trains (Bowers - Lake). *ARRA Funded*	Improve Capacity (Main Line)	$47,545,437 $4,000,000
Cabarrus/Rowan Counties: Double Track Kannapolis to Salisbury Segment - 10 Miles Extend second track and signals to reduce delays associated with meeting and passing trains (N. Kannapolis to Reid). *ARRA Funded*	Improve Capacity (Main Line)	$92,593,479 $10,000,000
Lenoir County: Rebuild Bridges at Mileposts EC-27.8 and EC-27.9 Rebuild wooden bridge trestles over the Neuse River near Kinston. *50/50 with Norfolk Southern*	Improve Safety & Speed	$8,000,000 $4,000,000
Craven County: Trent River Bridge –New Bern Improve corroding steel pipe piles on the bridge over the Trent River in New Bern by encasing them in concrete. *50/50 with Norfolk Southern*	Improve Safety	$3,000,000 $1,500,000
Rowan/Davidson Counties: Rail Work at I-85 Bridge over Yadkin River Improve railroad alignment and provide room for future additional track construction near Yadkin River in Rowan and Davidson counties. *NCDOT partnership*	Improve Safety & Speed	$4,444,659 $3,000,000
Eastern Grade Crossing Improvements (Johnston/Wayne/Lenoir/Craven/Carteret Counties) Improve grade crossing protection on unsignaled or partially signalized grade crossings between CSX Junction in Selma and Morehead City (115 miles). *NCDOT/NS/NCRR partnership*	Improve Safety and Speed	$7,641,750 $2,227,200
Mecklenburg County: Grade Separation at Sugar Creek Road in Charlotte Eliminate a very busy and dangerous at-grade railroad crossing with grade separation (overhead bridge) of the main freight & passenger line at Sugar Creek Rd. *NCDOT/Fed. Funding*	Improve Safety and Speed	$34,000,000 $10,000,000
Craven County: New Bern Siding Construct a siding and associated support tracks and facilities near New Bern and curvature along the existing connection between NCRR EC line and the NS Chocowinity line. *Norfolk Southern partnership*	Improve Storage Track Capacity	TBD $8,000,000
Wayne County: Passing Siding near Goldsboro Add a passing siding and increase capacity on the eastern part of the NCRR. There are currently no passing sidings between Selma and Morehead City (114 miles). *Norfolk Southern partnership*	Improve Capacity	$4,060,000 $3,500,000
Wake County: Walker Street Bridge – Cary The Town of Cary is considering extending Walker Street under the NCRR. Their plans call for a temporary rail bridge structure as part of construction. NCRR's contribution to this project would allow the temporary bridge to remain as a permanent structure for a second main line. *Town of Cary partnership*	Improve Safety & Speed	TBD $1,000,000
Durham County: Reconstruct/Improve Grade Separations – Durham Bridge and crossing improvements for downtown Durham to improve roadway and pedestrian crossing safety. *Subject to other funds*	Improve Safety & Speed	$8,000,000 $750,000
Construct Three Pedestrian Underpasses between Raleigh and Charlotte (Alamance and Guilford Counties) This project will construct pedestrian underpasses in three selected pilot locations in connection with grade crossing closures or high volume pedestrian locations. The project with Elon University was completed in 2010. The underpass cost $2.5 million (NCRR - $1 million; Elon University - $1.5 million). *Prop. 50-50 Match w/local or other funds*	Improve Safety	$6,000,000 $3,000,000
Survey/Monumentation Project This project will establish permanent rail corridor monumentation for corridor management & engineering/planning purposes. It will incorporate geodetic monuments in a statewide survey grid.	Corridor Management	$2,000,000

Summary	Benefit	Total Cost / NCRR Investment
Wake/Johnston Counties: Upgrade track condition between Raleigh and Selma Upgraded the track class between Selma and Raleigh to increase passenger speed to 59 mph for approximately 30 miles. It also upgraded crossing circuits. Completed in 2002 *NCDOT partnership*	Improve Efficiency & Speed for Passenger Trains	$2,590,000
Durham County: Extend Siding in West Durham (Funston) Extended a passing siding and straightened a curve west of Durham for approximately a 1-mile segment. Completed in 2003 *NCDOT partnership*	Improve Efficiency & Speed for Passenger Trains	$2,300,000 $75,000
Lenoir County: Repair/Replace Neuse River Bridge in Kinston and Improve Rail Increased the load of bridge to permit 286,000 lb. standard railcars as on other segments of NCRR and allow for increased port traffic. The project also replaced jointed rail with continuous welded rail for a 14-mile segment in Kinston. Completed in 2004	Improve Efficiency & Speed	$6,750,000
Lenoir County: Replace Jointed Rail Replaced jointed rail with continuous welded rail for a 17-mile segment near Kinston. Completed in 2005	Improve Efficiency & Speed	$3,875,000
Durham County: Replace NC 54 Railroad Bridge in Research Triangle Park Replaced an existing single track railroad bridge in RTP with a double track bridge. It also improved traffic flow and eliminated substandard clearance for the vehicular traffic below. Completed in 2006	Improve Rail Capacity & Ease Vehicle Congestion	$5,500,000
Durham County: Hopson Road Grade Separation & Realignment Acquired acreage for future straightening of a curve in Durham County (RTP) for adding a passing siding and improving curvature to allow higher speeds for freight and passenger trains. NCRR completed land acquisition in 2006. NCDOT received ARRA funds to add a grade separation at Hopson Road and to realign the curve, thereby eliminating a crossing hazard and improving speed by flattening a curve.	Improve Capacity & Speed	$13,898,994 $2,000,000 (land acquisition)
Craven County: Replace Bridge Trestle at Batchelder Creek Replaced a single track wooden trestle over Batchelder Creek in Craven County. Completed in 2006	Improve Capacity & Safety	$372,000
Wake/Johnston Counties: Replace Restricted Bridge in Clayton Replaced a bridge structure on the main line to eliminate speed restrictions and improve clearance on Old Hwy 70 in Clayton. Completed in 2008	Improve Safety & Speed	$889,600
Wake/Johnston/Wayne Counties: Construct Three Segments of Passing Tracks and CTC & Communications This work improved capacity by adding three passing tracks totaling approximately 8 miles between Raleigh and Goldsboro to improve passenger and freight train performance and service. It added Centralized Traffic Control for 31 miles to raise to the same standard as Raleigh to Charlotte. The project also included the installation of the Cabarrus Street Interlocking and revised the track layout to increase speed to and from the yard in Raleigh. The project also improved the Boylan Storage Track. Completed in 2008	Improve Capacity, Speed & Efficiency	$20,880,000
Repair/Renovate - Neuse River Bridge in Johnston County & Hwy 87 Bridge in Alamance County Bridge repair/renovation to eliminate had clearance and elevation restrictions. Completed in 2008	Improve Clearance/Loading	$78,236
Wayne/Lenoir/Craven/Carteret Counties: Continuous Welded Rail Installation and Drainage Improvement Upgraded 90 lb. rail (originally dated to 1924) with higher grade continuous welded rail. Completed in 2007. Also improved drainage in Dover and constructed a retaining wall to support the track and welded rail. This portion of the project was completed in 2009.	Improve Reliability Safety & Drainage	$4,836,000
Guilford County: Double Track High Point/Greensboro Segment - 9 Miles Added a second track to reduce delays associated with meeting and passing trains. DOT studies identified this portion of railroad as one of the most congested. (Cox-Hoskins) Completed in 2009 *NCDOT/NS/NCRR partnership*	Improve Capacity and Efficiency	$20,975,360 $4,000,000
Lenoir County: Straighten Curve in Kinston Straightened a curve in the railroad in downtown Kinston improving train speeds from 10 mph to 25 mph and improving clearances. Completed in 2010	Improve Safety and Speed	$3,300,000
Craven/Carteret Counties: Field Welding Welded joints in the rail between New Bern and Morehead City. The rail is 100 lb. continuous welded rail, but has many joints as a result of breakage and detected defects.	Improve Safety and Speed	$338,175
Lenoir/Craven Counties: Replace Bridges in Eastern North Carolina This project will replace trestles over creeks in Lenoir and Craven counties to address settling piers and weight requirements. Completed in 2011	Improve Speed and Safety	$3,300,000

To view an interactive map depicting the NCRR Capital Projects, please visit www.ncrr.com

North Carolina Railroad Company Corridor



North Carolina Railroad Company

CSX Transportation

Norfolk Southern

Various Short Lines

NORTH CAROLINA RAILROAD COMPANY

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

September 30, 2011

MEMORANDUM

TO: Members, SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM: Rep. Harold J. Brubaker, Chairman
SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Tuesday	October 25, 2011	10:00 a.m.	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at 919-715-4946.

cc: Committee Record _X_
Interested Parties _X_

Cindy Coley (Rep. Brubaker)

From: Cindy Coley (Rep. Brubaker)
Sent: Thursday, September 29, 2011 4:35 PM
To: Cindy Coley (Rep. Brubaker)
Subject: House Select Committee on State-Owned Assets

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

September 30, 2011

MEMORANDUM

TO: Members, SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM: Rep. Harold J. Brubaker, Chairman
SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Tuesday	October 25, 2011	10:00 a.m.	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at 919-715-4946.

cc: Committee Record _X_
Interested Parties _X_

MINUTES
SELECT COMMITTEE ON STATE-OWNED ASSETS
Tuesday, November 18, 2011

The House Select Committee on State-Owned Assets met on Friday, November 18, 2011 at 10:05 a.m., in Room 544 Legislative Office Building, Raleigh, North Carolina. In attendance were Representative Brubaker (Chairman); and Representatives Avila, Brandon, Brawley, Crawford, Folwell, Howard, Lewis, Moffitt, Pittman, Spear, Starnes, West and Wray. Mark Bondo (Fiscal Staff), Kory Goldsmith (Research Staff), Greg Roney (Research Staff), Ben Stanley (Bill Drafting) and Committee Assistant Cindy Coley were present.

Chairman Brubaker called the meeting to order and recognized House Sergeant-At-Arms Staff Reggie Sills, Martha Gadison and Martha Parrish.

Chairman Brubaker advised the Committee that Bill Atkinson, CEO of WakeMed, would not be able to attend the meeting but he would be rescheduled for the December meeting.

Chairman Brubaker recognized Jon Nance, Chief Engineer, Department of Transportation. Mr. Nance distributed the "NCDOT Surplus and Residue Property and Procedures for Sale and Disposal" report which is attached to these Minutes as Exhibit #1.

Mr. Nance advised the Committee Members of the following:

1. In 2010, the surplus and residue properties produced income of $5.2 Million Dollars. It cost the DOT $2.2 Million Dollars that same year to maintain these properties.

2. There are currently 3,031 Right-of-Way Residue Properties valued at $28,544,420.

3. The Fair Market Value of these properties is the Value at Taking.

4. Mr. Nance stated that Fair Market Value is determined on the "Highest and Best Use" of the property at the time of Taking.

5. All 14 of our Divisions are now going through these DOT properties to determine which will be "For Sale".

Mr. Nance reviewed and explained the DOT Condemnation Process which takes place when property owners are not willing to sell their property. The Committee Members repeated their following concerns with the DOT Condemnation Process:

1. How is the current Fair Market Value determined?

2. How is the Highest and Best Use of the property determined?

3. What happens to property owners who owe more on their mortgage than the DOT pays for the property?

4. Is DOT opposed to the "Upset Bid Process"?

Chairman Brubaker requested that Staff look at the current Eminent Domain Statutes and get recommendations from the Committee Members about possible future legislation dealing with damages to owners where the Market Value falls below the amount owed and property is being taken by eminent domain.in North Carolina.

Chairman Brubaker further advised that Mr. Nance will provide a list of properties For Sale in each of the Committee Members Counties by the January 2012 Committee Meeting.

Chairman Brubaker announced the creation of the following Sub-Committee of the House Select Committee on State-Owned Assets:

Rep. Timothy Moffitt, Chairman
Rep. Marilyn Avila
Rep. Bill Brawley
Rep. Timothy Spear
Rep. Michael Wray

Chairman Brubaker announced the next meeting is scheduled for Monday, December 12, 2011, 10:00 a.m., 544 Legislative Office Building, Raleigh, North Carolina. There being no further business, the meeting adjourned at 12:00 p. m.

Harold J. Brubaker
Rep. Harold J. Brubaker, Chairman

ATTEST:

Cindy Coley
Cindy Coley, Committee Assistant

RESENTATIVE
HAROLD BRUBAKER
CHAIR
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

Cindy Coley
Committee Clerk
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

General Assembly of North Carolina

House Select Committee on State Owned Assets

State Legislative Building
Raleigh, North Carolina

AGENDA

November 18, 2011, 10:00am
Room 544 Legislative Office Building

1. Call to order and introductory remarks
   Representative Harold Brubaker, Chair

2. Comments Regarding State Ownership of Rex Hospital
   Bill Atkinson, CEO, WakeMed Health & Hospitals

3. Sale of Surplus and Residue Properties
   Jon Nance, PE, Chief Engineer, Division of Highways, NC Department of Transportation

4. Committee discussion and announcements

5. Adjourn

ADDITIONAL INFORMATION:

Persons having questions about the Commission meeting or other matters related to the Committee may contact the Committee Clerk or Committee Staff at 919-733-4910 (Fiscal Research) or 919-733-2578 (Research).

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	9/22/2011	10/25/2011	11/18/2011				
Brubaker, Harold, Senior Chair	Yes	Yes	Yes				
Avila, Marilyn	N	Yes	Yes				
Brandon, Marcus	N	Yes	Yes				
Brawley, Bill	Yes	Yes	Yes				
Brisson, William	Yes	N	N				
Carney, Becky	N	Yes	N				
Crawford, James	N	Yes	Yes				
Folwell, Dale	N	Yes	Yes				
Hager, Mike	Yes	N	Yes				
Howard, Julia	N	Yes	Yes				
Lewis, David	Yes	Yes	Yes				
Moffitt, Timothy	Yes	Yes	Yes				
Owens, Bill	Yes	N	N				
Setzer, Mitchell	N	N	N				
Spear, Timothy	N	Yes	Yes				
Starnes, Edgar	Yes	Yes	Yes				
West, Roger	Yes	No	Yes				
Wray, Michael	N	Yes	Yes				
Pittman, Larry			Yes				

Committee Sergeants at Arms

NAME OF COMMITTEE State Owned Assets

DATE: 11-18-2011 **Room:** 544

House Sgt-At Arms:

1. **Name:** Reggie Sills
2. **Name:** Martha Gadison
3. **Name:** Martha Parrish
4. **Name:** _____
5. **Name:** _____

Senate Sgt-At Arms:

1. **Name:** _____
2. **Name:** _____
3. **Name:** _____
4. **Name:** _____
5. **Name:** _____

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS — 11/18/11

Name of Committee — **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Ken Melton	K.M.A.
Michelle Frazier	MLF
CITRIS DILLON	NCSHFC
Kent Yelverton	NCDA&CS
Laura Blair	NC State Ports Authority
DAVID RICE	MANNING FULTON
Dana Sykes	Smith Anderson
Kristen Laster	FCTSG Strategies

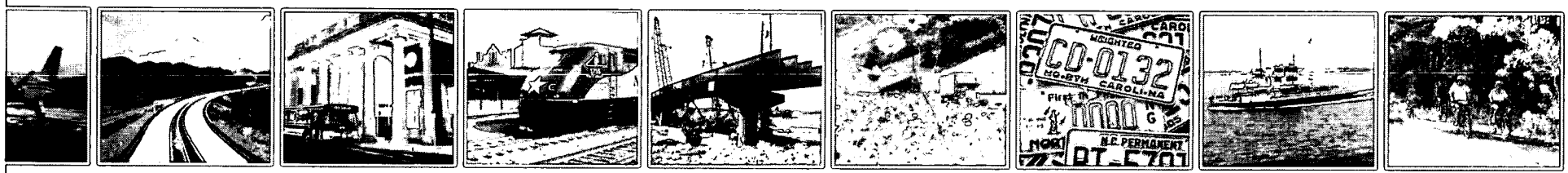
VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS 11/18/11

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

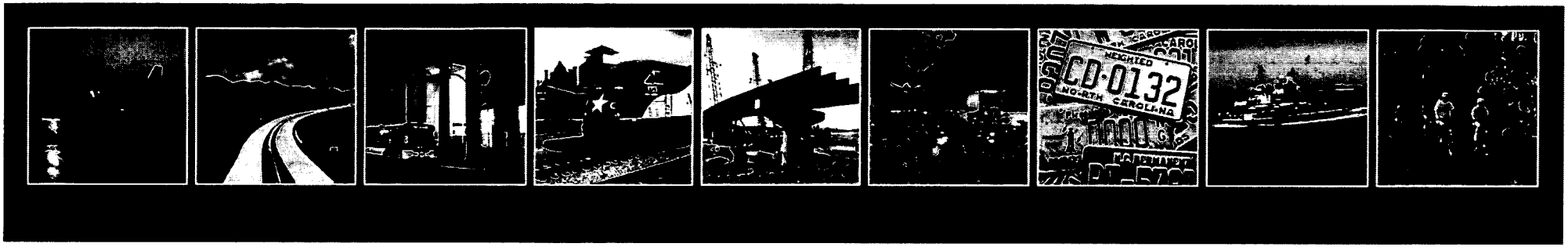
NAME	FIRM OR AGENCY AND ADDRESS
Jim Harrell	Wakemed
GREG FLYNN	gregflynn.org
John Dillard	CSX
Angie Harris	Williams Mullen
Angie Fitzpatrick	Fitzpatrick Communications
Chris Agnew	DOA
Daniel Ambrose	NCLM



NCDOT Surplus and Residue Property and Procedures for Sale and Disposal

Jon Nance
November 18, 2011

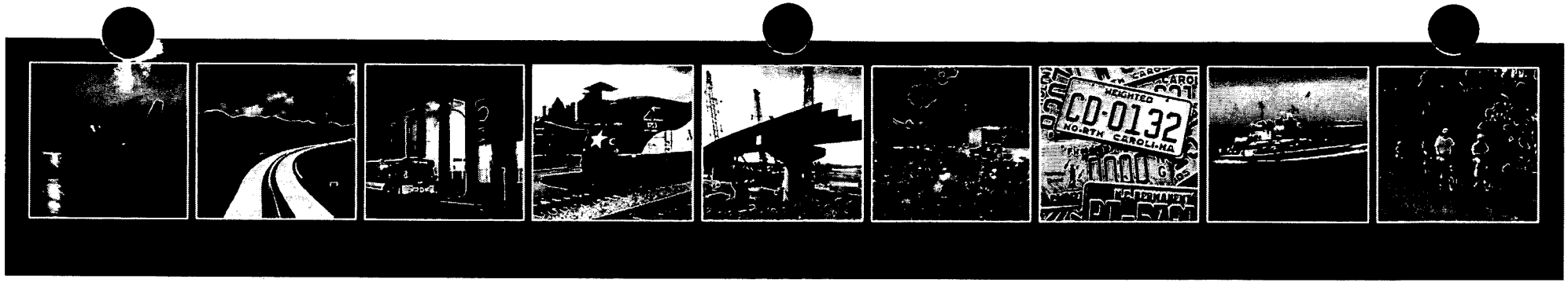
EXHIBIT #1



Four Focus Areas

- Definitions of Residue & Surplus Right of Way
- Existing Residue Properties
- Processes for Sale of Residue & Surplus Right of Way Disposal
- Future Plans to facilitate sale

STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION



Residue Definition

Residue is defined as NCDOT owned property that is beyond the originally proposed right of way limits. This land does not fall within designated right of way limits

This land was purchased due to limited economic value remaining after the necessary right of way was purchased

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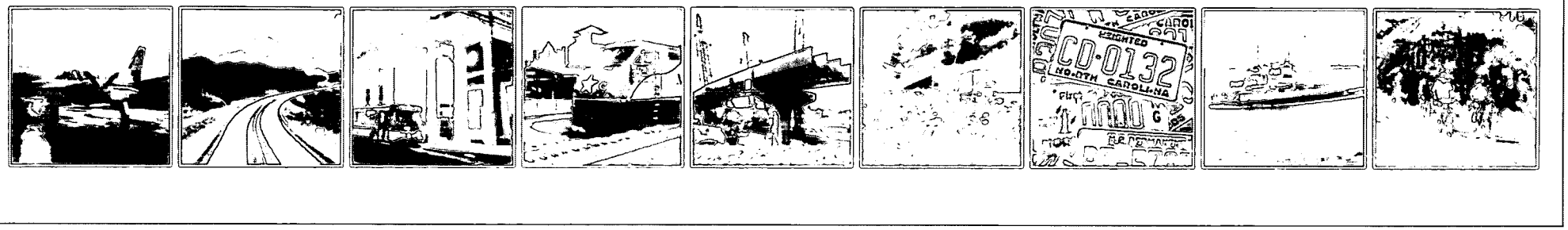
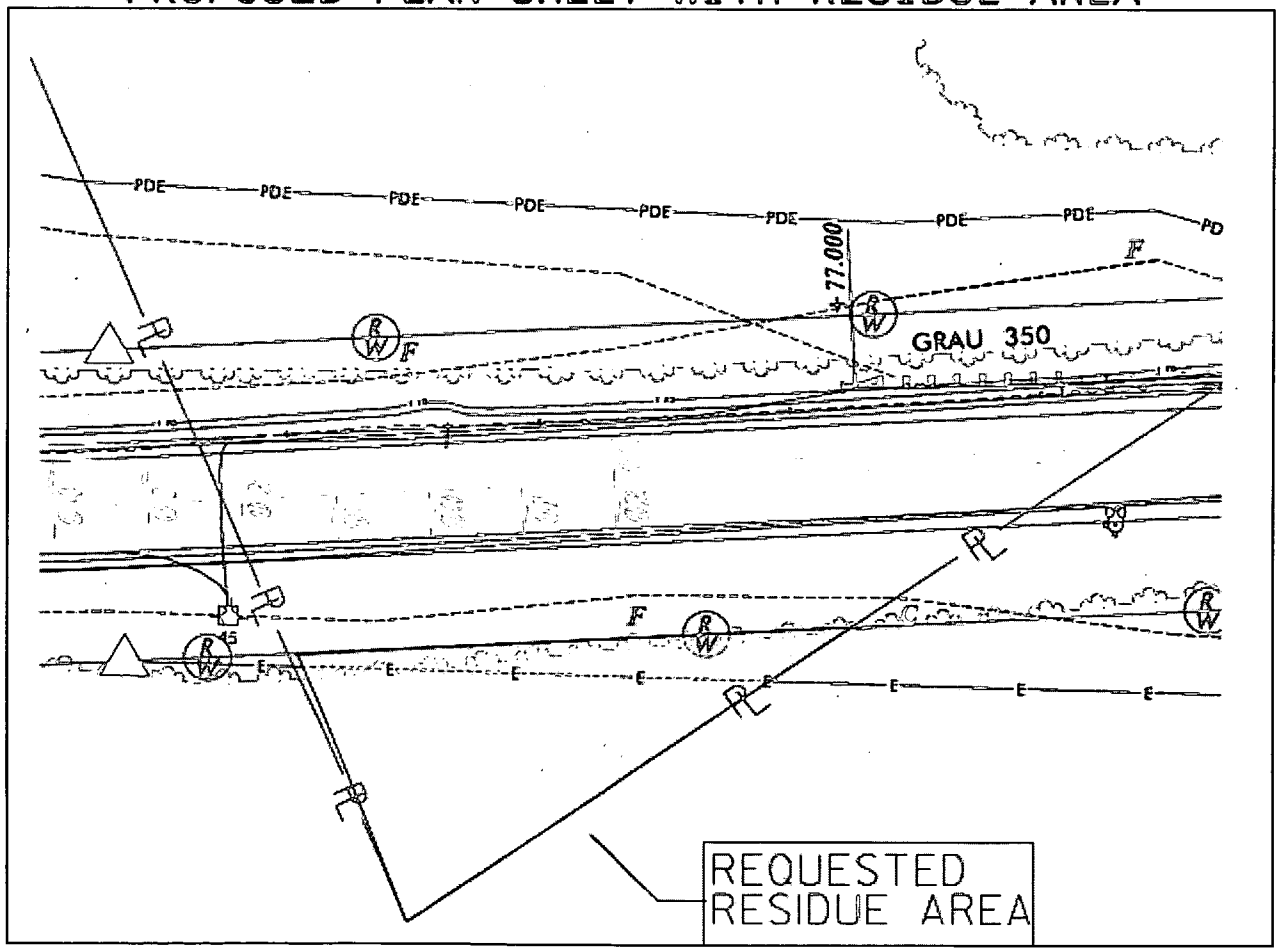
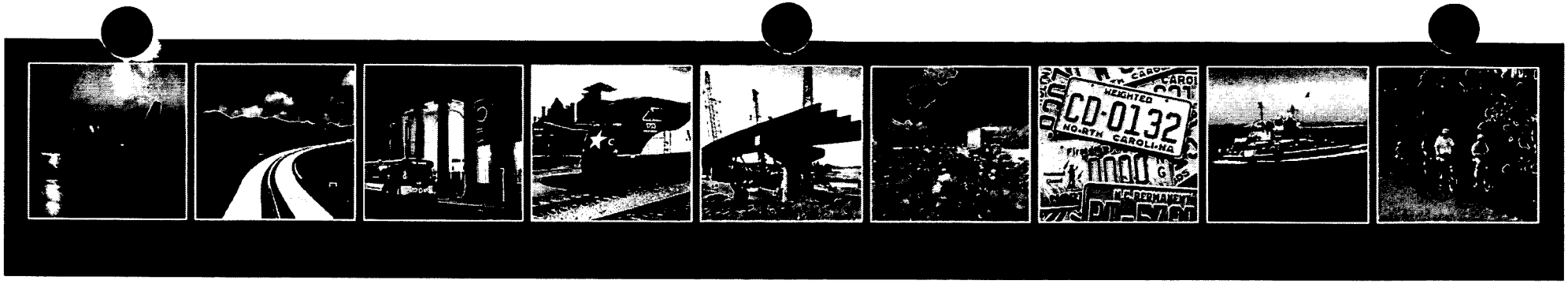
DEPARTMENT OF TRANSPORTATION



PROPOSED PLAN SHEET WITH RESIDUE AREA



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

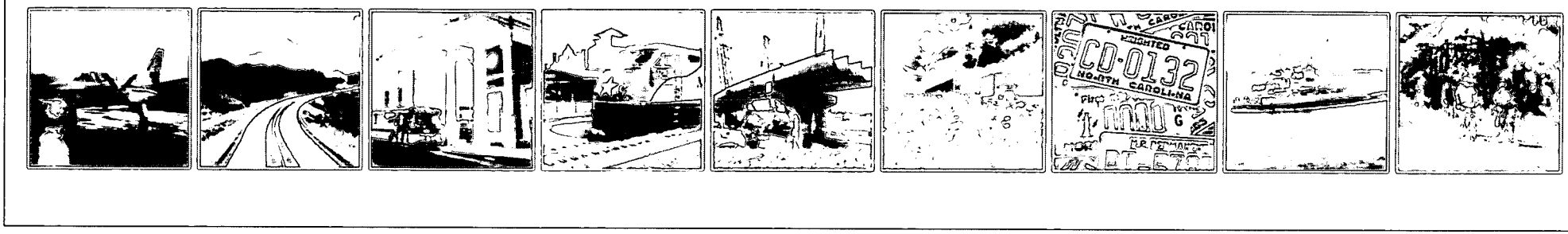


Surplus Right of Way Definition

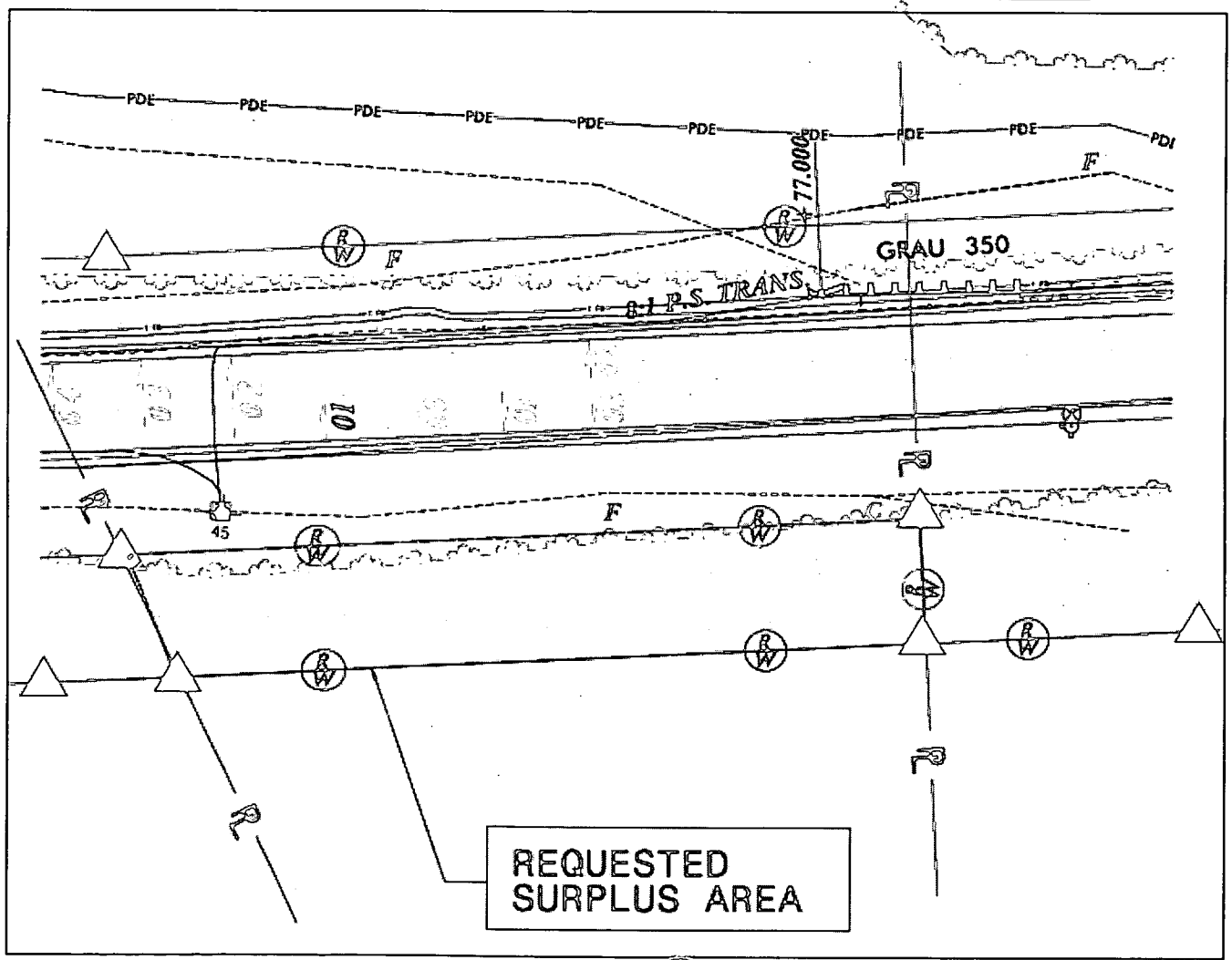
Surplus Right of Way area is NCDOT owned property that is within the originally right of way limits that has been determined to no longer be needed as right of way

Surplus right of way is determined after a request is made to purchase an area

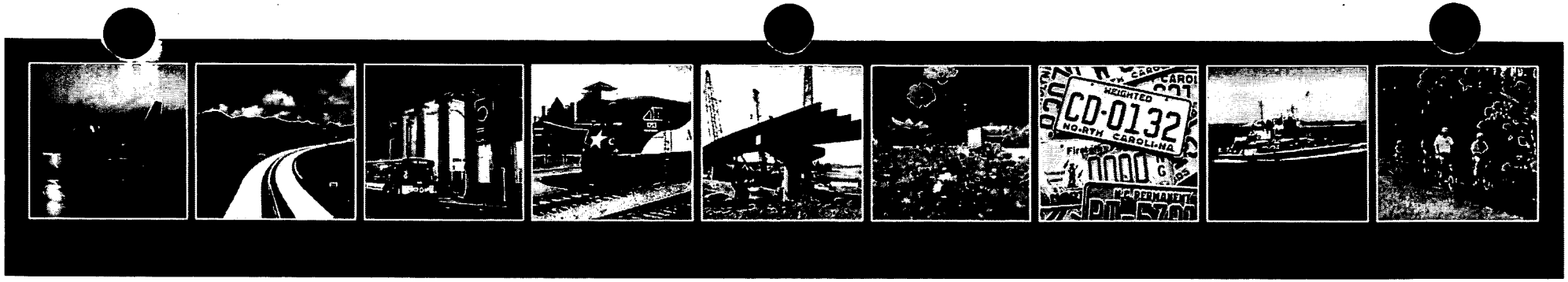
STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION



PROPOSED PLAN SHEET WITH SURPLUS R/W AREA



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION



Right of Way Residue Property

Div. 11 (212)
124.4 AC
$950,939

Div. 9 (242)
226.5 AC
$2,960,194

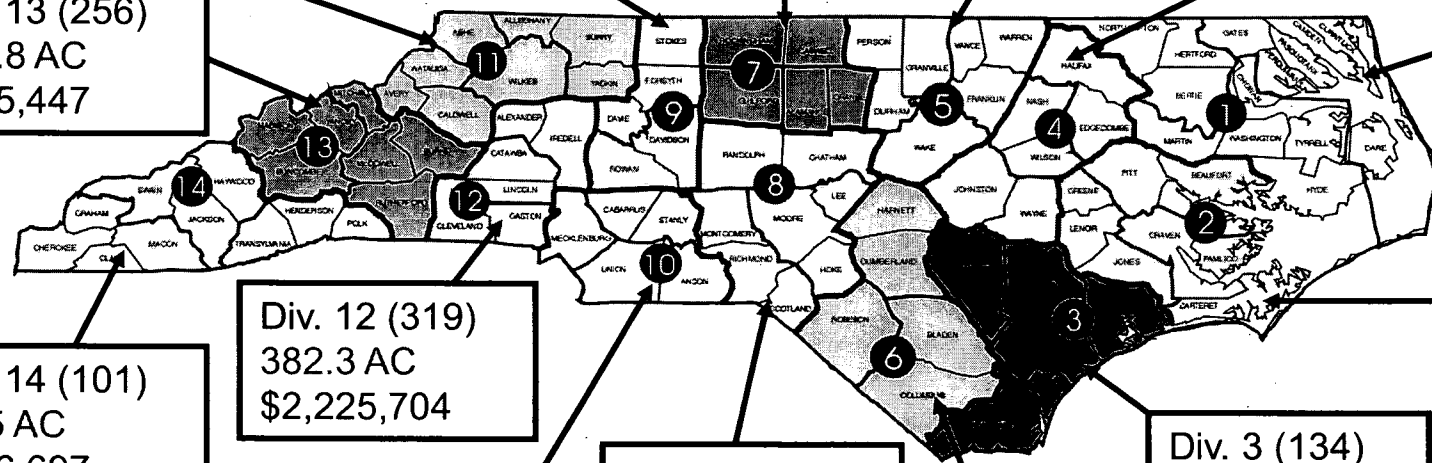
Div. 7 (386)
398.2 AC
$7,639,255

Div. 5 (261)
289.5 AC
$3,156,106

Div. 4 (177)
288.7 AC
$779,922

Div. 13 (256)
320.8 AC
$665,447

Div. 1 (109)
391,9 AC
$369,587



Div. 14 (101)
87.5 AC
$866,697

Div. 12 (319)
382.3 AC
$2,225,704

Div. 2 (113)
307.8 AC
$862,602

Div. 10 (294)
373.9 AC
$4,326,219

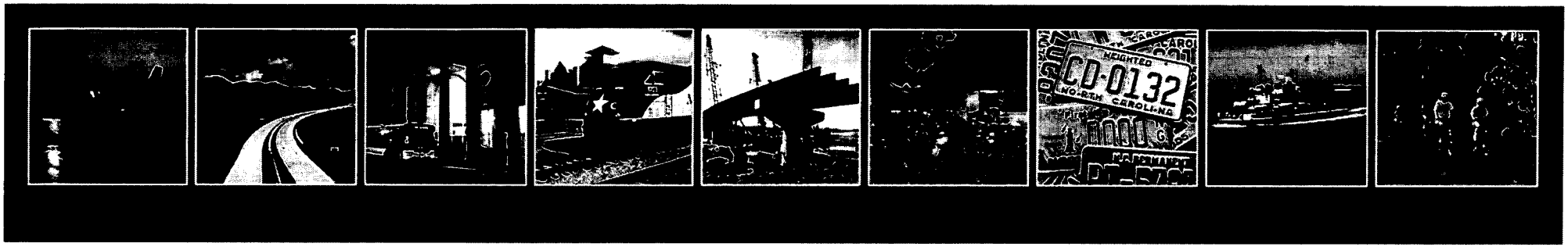
Div. 8 (221)
361.7 AC
$664,290

Div. 3 (134)
270.4 AC
$1,391,077

Div. 6 (206)
271.3 AC
$1,675,381

State Totals
3,031 Properties
4,094.8 Acres
$28,533,420

STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION



2010 Surplus Right of Way & Residue Property Management Info

Income	
Rent of Homes, Apts., Businesses, and Land	$3.9 million
Sale of Land	$1.3 million
Sale of Dwellings	$60 k
Expenses	
Maintenance, Repair, Mowing	($2.2 million)

Notes: 1) Over 3,000 residue properties, value $28.5 million
2) Sale of 42 homes in Division 13 to movers saved asbestos abatement/demolition cost of approximately $550k

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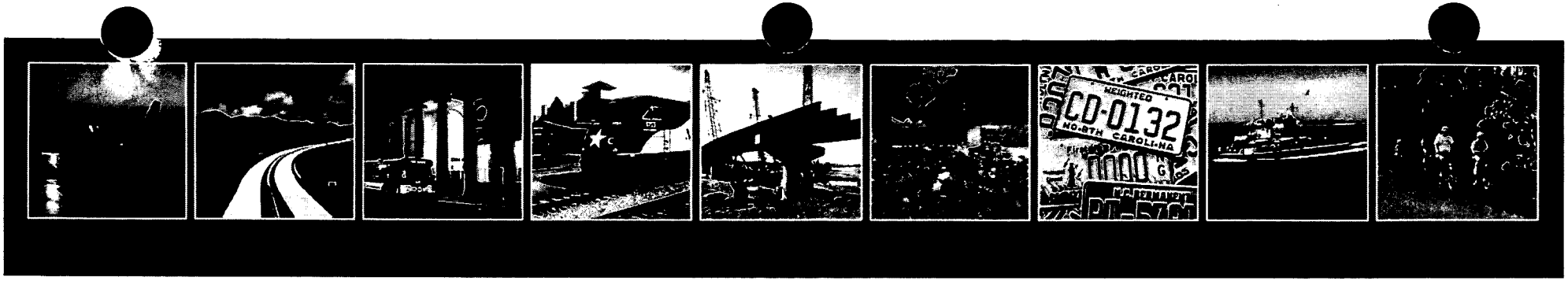

Right of Way Property Management

Buildings and other improvements acquired in connection with the Right of Way can be disposed of as follows:

- Resold to the property owner
- Sold by public or negotiated sale if no bids received after public advertisement
- Demolished by roadway contractor or demo contract
- Retained by DOT for public use
- Sold to a displacee for replacement housing

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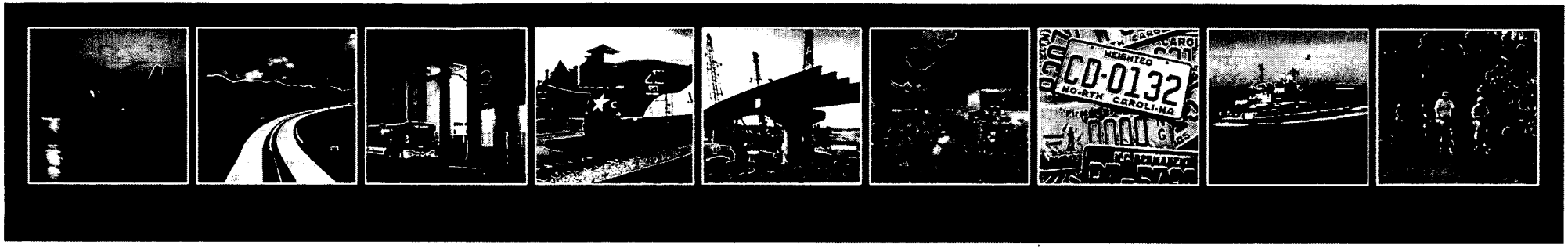

Right of Way Property Management (cont.)

Residue properties resulting from Right of Way acquisition shall be disposed of as follows:

- Sale of residues by public sale unless noted otherwise
- Sold by either sealed bid, or auction and can be rejected if bids are not in accordance with DOT appraised value
- Landlocked residues on controlled access projects can be sold to adjacent landowner through negotiation (not public sale) for at least the appraised value
- Residues can be sold to state agencies, and other govt. units for at least the appraised value

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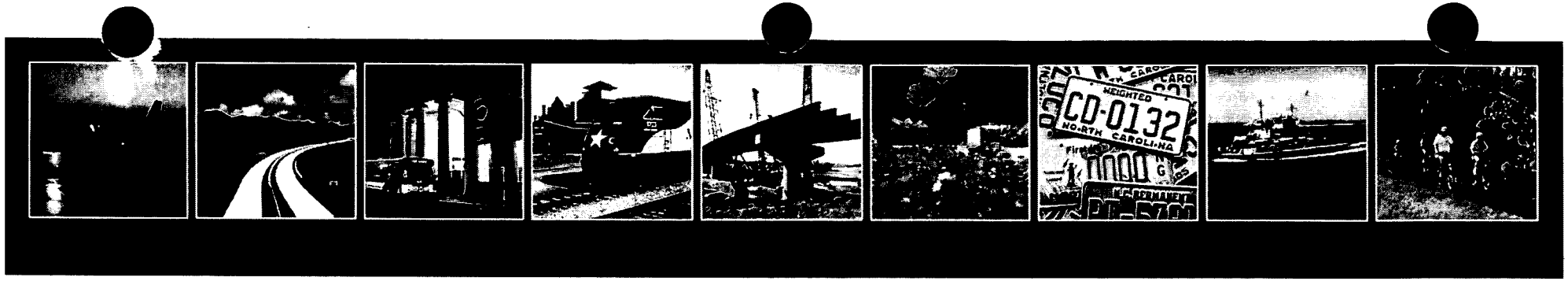
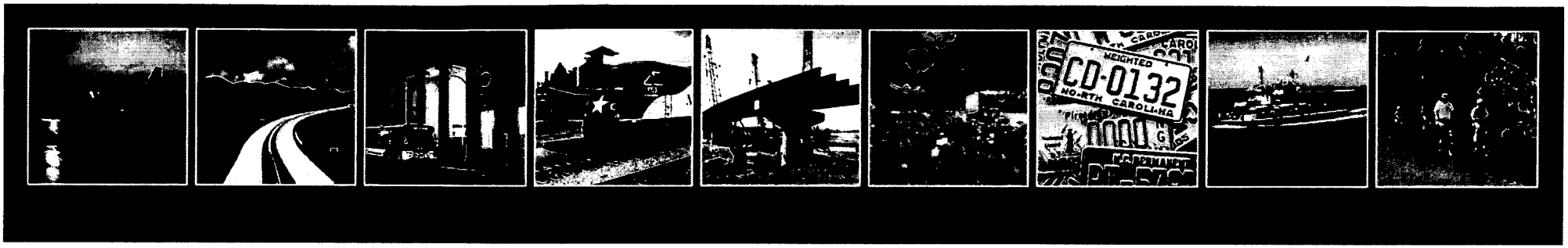
DEPARTMENT OF TRANSPORTATION



Right of Way Property Management (cont.)

- Surplus property acquired in connection with highway purposes may be exchanged with a public utility owner or another property owner for land they own which is needed for right of way
- Residues ≤ ½ acre and ≤ $1000 value may be sold to an adjoining property owner through negotiation
- Manager of Right of Way can dispose of residues < $100 by a quit claim deed to the buyers
- Residues may be sold to displacees by negotiation
- BOT, Council of State & Governor approvals

STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION



Residue Sales Process

- Residue properties are categorized by their location on completed projects or active projects
- Residue properties on completed projects are reviewed by Division Engineer
- Parcels are not sold if needed for future construction projects, have environmental issues or are needed for environmental purposes
- If available for sale, property is appraised and advertised by sealed bid or auction (all adjoining owners are notified)
- High Bid approval is determined and deed is prepared for bidder if approved

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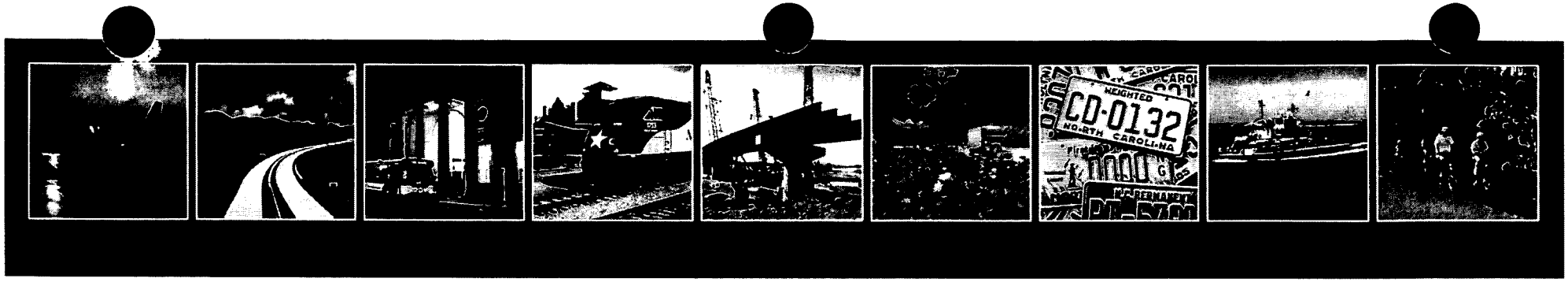
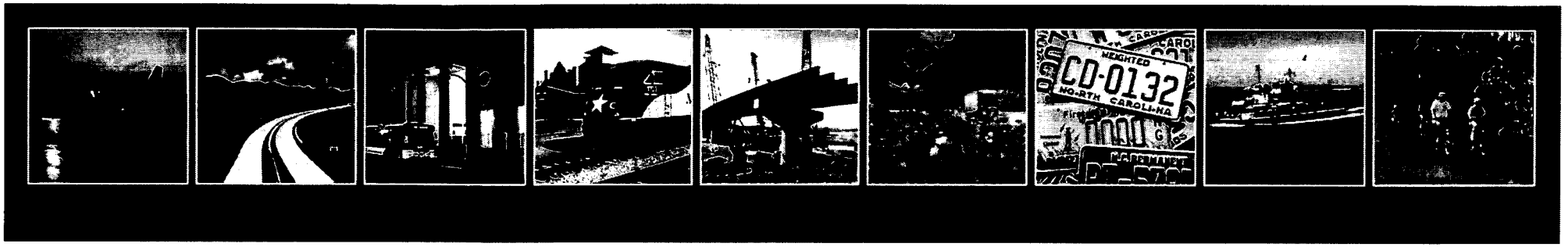


Residue Sales

Residue properties resulting from Right of Way acquisition shall be disposed of as follows:

- Sale of residues by public sale unless noted otherwise
- Sold by either sealed bid, or auction and can be rejected if bids are not in accordance with DOT appraised value
- Landlocked residues on controlled access projects can be sold to adjacent landowner through negotiation (not public sale) for at least the appraised value
- Residues can be sold to state agencies, and other govt. units for at least the appraised value

STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION



Residue Sales (cont.)

- Surplus property acquired in connection with highway purposes may be exchanged with a public utility owner or another property owner for land they own which is needed for right of way
- Residues ≤ ½ acre and ≤ $1000 value may be sold to an adjoining property owner through negotiation
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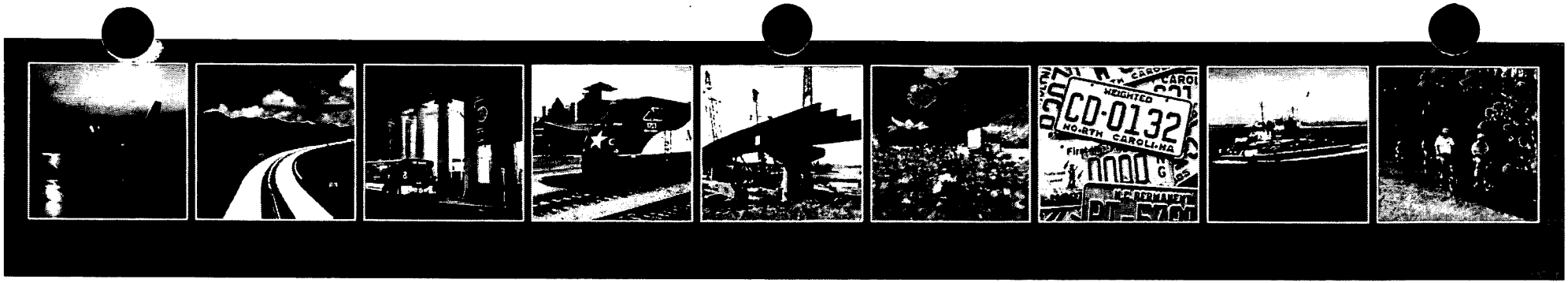
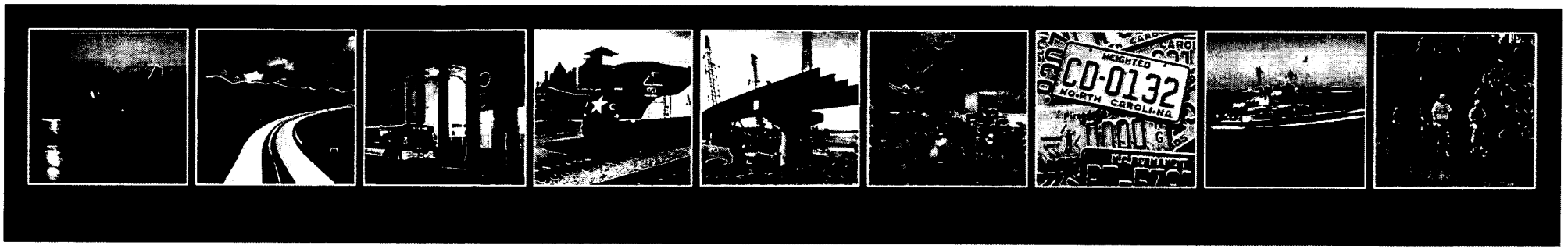


Surplus Right of Way Disposal

NCDOT acts on individual requests made to purchase existing right of way areas

NCDOT conducts a formal review to determine if right of way area is surplus or is still needed for NCDOT purposes

STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION



Some Considerations when determining Surplus Right of Way

- Is area needed for future highway purposes (for example: future lane expansions)?
- Does release adversely affect highway operation, safety, maintenance, etc?
- Is area being used for environmental mitigation?
- Is area suitable for parks, conservation, recreation, and/or similar purposes?

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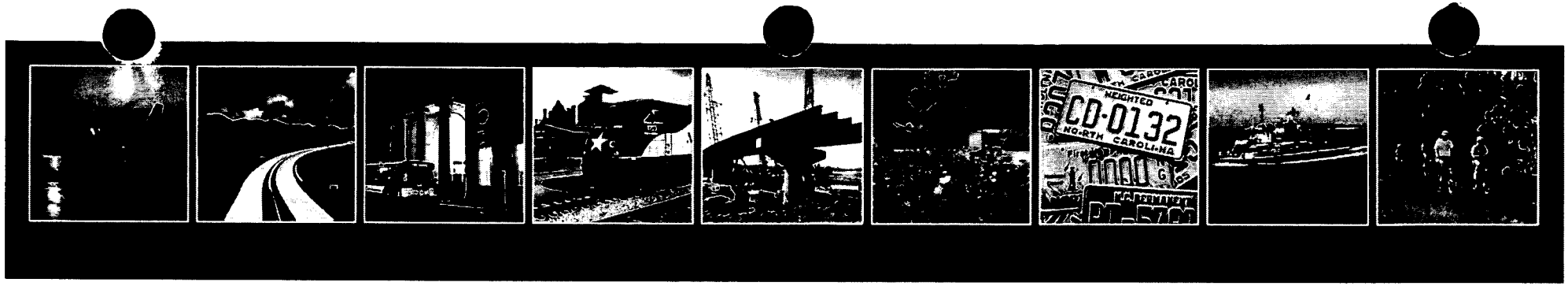

Surplus Right of Way Disposal Process Continued

After review, confirmation, and approval that area is surplus, the following occurs:

- Requesting party pays for an appraisal to be done of requested surplus area
- Appraisals are completed and requesting party pays enhancement value as determined by appraisal
- Surplus right of way is conveyed to requesting party

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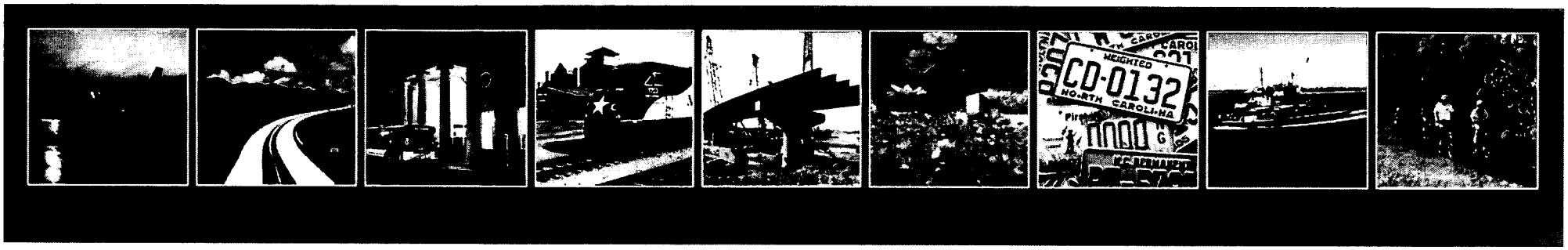

Future Plans to Facilitate Sale of Residue

- Expand methods to market residue property through advertisement on radio, signs on the property, flyers, and conducting "live auctions"

- Begin screening work on residue properties to readily identify those that can be sold

- Current initiative for internet display of all available residue properties after screening occurs

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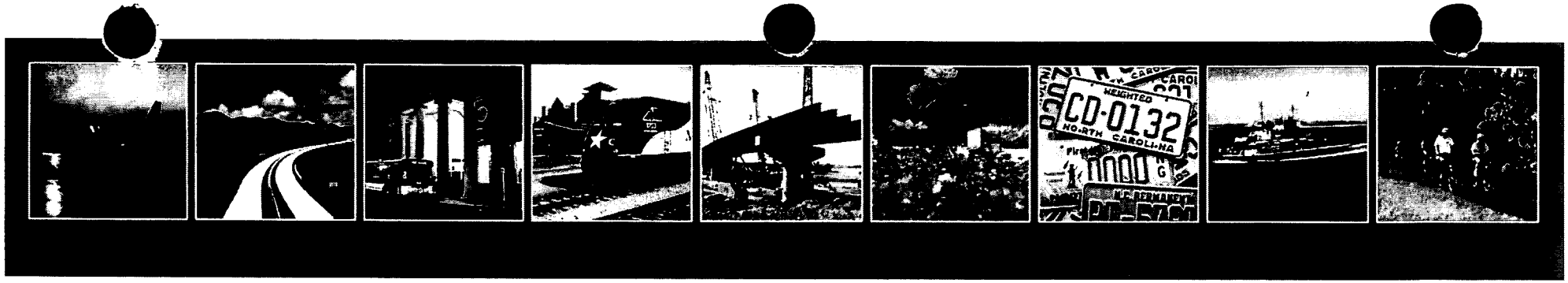
DEPARTMENT OF TRANSPORTATION



Questions

STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

Select Committee on State-Owned Assets
NORTH CAROLINA GENERAL ASSEMBLY
Raleigh, North Carolina 27601

Enter Date

MEMORANDUM

TO: Members, SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM: Rep. Harold J. Brubaker, Chairman
SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Friday	November 18	10:00 am	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

Cindy Coley (Rep. Brubaker)

From: Cindy Coley (Rep. Brubaker)
Sent: Friday, October 28, 2011 4:48 PM
To: Cindy Coley (Rep. Brubaker)
Subject: <NCGA> House Select Committee on State-Owned Assets

Select Committee on State-Owned Assets
NORTH CAROLINA GENERAL ASSEMBLY
Raleigh, North Carolina 27601

Enter Date

MEMORANDUM

TO: Members, SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM: Rep. Harold J. Brubaker, Chairman
SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Friday	November 18	10:00 am	544 LOB

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If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

MINUTES
SELECT COMMITTEE ON STATE-OWNED ASSETS
Monday, December 12, 2011

The House Select Committee on State-Owned Assets met on Monday, December 12, 2011 at 10:05 a.m., in Room 544 Legislative Office Building, Raleigh, North Carolina. In attendance were Representative Brubaker (Chairman); and Representatives Avila, Brandon, Brawley, Carney, Crawford, Folwell, Hager, Howard, Lewis, Moffitt, Pittman, Setzer, Spear, Starnes, West and Wray. Mark Bondo (Fiscal Staff), Kory Goldsmith (Research Staff), Greg Roney (Research Staff), Ben Stanley (Bill Drafting) and Committee Assistant Cindy Coley were present.

Chairman Brubaker called the meeting to order and recognized House Sergeant-At-Arms Staff Fred Hines, Jesse Hayes, and Doug Harris.

Chairman Brubaker advised the Committee that Bill Atkinson, CEO of WakeMed, would not be able to attend the meeting but he would be rescheduled for the January meeting.

Chairman Brubaker recognized Tim Walton, Manager, General Real Estate Section, Department of Administration. He provided a Preliminary List of Properties, both underused or unused properties, which are potentially available for sale (Exhibit #1).

At the request of Committee Members, Mr. Walton will provide the following at the February 2012 meeting:

1. Appraisals on all Exhibit #1 properties which could possibly be completed in about 2 – 3 weeks from the date of request and no later than 60 days.

2. Appraisals of the Timber allotments on those parcels on Exhibit #1.

Note: It is the policy (not a written Rule or created by Statute) of DOT to offer these properties first by the Upset Bid Process.

Chairman Brubaker recognized Scott Saylor, President of the North Carolina Railroad, who provided the Committee with a Report on Additional Properties Owned by the North Carolina Railroad (Exhibit #2).

Chairman Brubaker recognized David Griffin, Aquariums Director, Department of Environment and Natural Resources, who gave an overview of Jennette's Pier located on the coast in Nags Head, North Carolina (Exhibit #3). Staff to provide information to the Committee Members if the operation of Jennette's Pier by The Department of Environment and Natural Resources violates the Umstead Act.

Chairman Brubaker announced the next meeting is scheduled for Monday, January 23, 2012 at 10:00 a.m., 544 Legislative Office Building, Raleigh, North Carolina. There being no further business, the meeting adjourned at 12:10 p. m.

Rep. Harold J. Brubaker, Chairman

ATTEST:

Cindy Coley, Committee Assistant

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	9/22/2011	10/25/2011	11/18/2011	12/12/12			
Brubaker, Harold, Senior Chair	Yes	Yes	Y	Y			
Avila, Marilyn	N	Yes	Y	Y			
Brandon, Marcus	N	Yes		Y			
Brawley, Bill	Yes	Yes	Y	Y			
Brisson, William	Yes	N					
Carney, Becky	N	Yes	Y	Y			
Crawford, James	N	Yes	Y	Y			
Folwell, Dale	N	Yes		Y			
Hager, Mike	Yes	N	Y	Y			
Howard, Julia	N	Yes	Y	Y			
Lewis, David	Yes	Yes	Y	Y			
Moffitt, Timothy	Yes	Yes	Y	Y			
Owens, Bill	Yes	N	Y				
Setzer, Mitchell	N	N		Y			
Spear, Timothy	N	Yes		Y			
Starnes, Edgar	Yes	Yes		Y			
West, Roger	Yes	No		Y			
Wray, Michael	N	Yes		Y			
Pittman, Larry				Y			

Committee Sergeants at Arms

NAME OF COMMITTEE HOUSE SELECT COMMITTEE ON STATE OWNED ASSETS

DATE: Dec. 12, 2011 Room: 544

House Sgt-At Arms:

1. Name: FRED HINES
2. Name: JESSE HAYES
3. Name: DOUG HARRIS
4. Name: _____
5. Name: _____

Senate Sgt-At Arms:

1. Name: _____
2. Name: _____
3. Name: _____
4. Name: _____
5. Name: _____

DEC. 17, 2014 2:44 PM

ON STATE OWNED ASSETS

HOUSE SELECT COMMITTEE

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS DECEMBER 12, 2011

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
CHRIS DILLON	NCWRC
Jim Harrell	NWF
DAVID GRIFFIN	NC DENR
Neal Conoley	NC Aquarium Society
CRAIG BELK	NC OFFICE OF INFORMATION TECH SVCS
LYNN McGARRAH	NC Office of ITS
Sophia Brauns	SEFNC
Mary Matthews	Duke Health System
Chad Lowry	Office of the Governor
Bradford Sneeden	NCDOT
JOHN PEARSON	Capitol

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS DECEMBER 12, 2011

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Kari Barbuss	DENR
Christine Craig	WakeMed
Jim Hunnell	Hunnell Mgmt
Dana Sipes	Smith Anderson
Catherine Campbell	NC Railroad Co.
Allyson Zamora	UNCHCS
Charles Hodges	NCRR/Consultant
DAVID T. WOODARD	NCRR-DIRECTOR
SOLARI	DST
Ben Moroney	NCDOT
Jon Nance	NCDOT

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS DECEMBER 12, 2011

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
DAVID RICE	MANNING FULTON
Mary Dillon	Ellis & Winters
Kent Yelverton	NCDA+CS
Teri Saylor	OWC
Kristen Laster	Fetzer Strategic
Michelle Frazier	MFS
John Merritt	MW LLC
Spencer Hagan	DOA
Anne Bauder	DOA
Scott Saylor	NC Retail Coop
John Dillard	CSX

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS DECEMBER 12, 2011

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Sarah Sands	UM
Angie Harris	William Mullen
Marty Wilder	DENR
Cathy Hardy	DENR
Rick Helker	IBA

12/12/11 REPORT TO HOUSE SELECT COMMITTEE ON STATE ASSETS--IN COMPLIANCE WITH S.L. 2011-145, SEC. 10.3

PRELIMINARY LIST OF PROPERTIES

County	Agency/Complex	Approx. Acreage	Buildings on Selected Parcel?
Duplin	Agriculture-Animal Disease Lab	5.09	Yes
Guilford	Agriculture-Piedmont Farmers' Market	6.36	No
Iredell	Agriculture-Livestock Show and Sale Facility	46.25	No
New Hanover	Agriculture-Fuel Calibration Station	0.40	Yes
Anson	Correction-Anson Correctional Center	2.93	No
Carteret	Correction-Carteret Correctional Center	45.48	No
Gates	Correction-Gates Correctional Center	22.86	Yes
Granville	Correction-Umstead Correctional Center	34.00	Yes
Hoke	Correction-South Central Regional Office	6.91	No
Mecklenburg	Correction-Charlotte Correctional Center	27.98	No
Moore	Correction-Moore Correctional Center	6.93	No
Moore	Correction-Moore Correctional Center	3.51	No
Northampton	Correction-Odom Correctional Center	149.56	No
Scotland	Correction-Scotland Correctional Center	96.24	No
Warren	Correction-Warren Correctional Center	34.66	Yes
Lenoir	Crime Control & Public Safety-NCNG Armory	3.92	Yes
Edgecombe	DOT-Tarboro Maintenance Yard	15.01	No
Franklin	DOT-Bunn Maintenance Yard	52.24	Yes
Mecklenburg	DOT-Huntersville Maintenance Unit	47.50	No
New Hanover	DOT/DMV Wilmington District Office	13.78	Yes
Johnston	Wildlife Resources Commission-Micro Boat Access	2.00	No

EXHIBIT #1

EXHIBIT #2

North Carolina Railroad Company

Property Summary

Original Corridor Property

Rail Corridor	County	Land Area Acres	Roadway Area	Net of Roadways	Ad Valorem Taxes
	Alamance	413.0	36.6	376.4	
	Cabarrus	417.0	15.4	401.6	Taxed
	Carteret	361.0	36.4	324.6	
	Craven	1,108.0	64.5	1,043.5	as Part
	Davidson	604.0	22.8	581.2	
	Durham	394.0	30.4	363.6	of
	Gilford	810.0	37.9	772.1	
	Johnston	639.0	45.0	594.0	Norfolk
	Jones	99.0	1.1	97.9	
	Lenoir	456.0	27.9	428.1	Southern
	Mecklenburg	278.0	14.6	263.4	
	Orange	417.0	17.8	399.2	System
	Randolph	15.0	-	15.0	
	Rowan	501.0	30.3	470.7	Property
	Wake	663.0	38.6	624.4	
	Wayne	487.0	40.8	446.2	
Total Corridor Property		7,662.0	460.1	7,201.9	

Corridor Additions

Property Description	County	Nearest Town	Land Area Acres	Year Acq.	Land Current Use	Ad Valorem Tax Value
Queen Street Property	Craven	New Bern	9.2	1850s	Land & Warehouse Former Depot Bldg	Corridor/System Property
N. Craven Street (SW)	Craven	New Bern	0.2	1850s	Vacant Lot	Corridor/System Property
National Avenue Property	Craven	New Bern	0.7	1850s	NSR Facility Property	Corridor/System Property
Neuse Lot	Lenoir	Kinston	2.6	1850s	Vacant Land Only	Corridor/System Property
W. Holly Street & N. Center (NW) Goldsboro Yard Area	Wayne	Goldsboro	1.0	1850s	Vacant NSR Facility Property	Corridor/System Property
N. Center between Beech St. & W. Holly S Goldsboro Yard Area	Wayne	Goldsboro	2.5	1850s	Vacant NSR Facility Property	Corridor/System Property
N. Center & Beech St. (NE) Goldsboro Yard Area	Wayne	Goldsboro	0.6	1850s	Vacant NSR Facility Property	Corridor/System Property
N. Center between Beech & E. Vine (west) Goldsboro Yard Area	Wayne	Goldsboro	4.4	1850s	Vacant NSR Facility Property	Corridor/System Property
N. Center between Beech & E. Vine (east) Goldsboro Yard Area	Wayne	Goldsboro	4.1	1850s	Vacant NSR Facility Property	Corridor/System Property

Property Description	County	Nearest Town	Land Area Acres	Year Acq.	Land Current Use	Ad Valorem Tax Value
W. Vine & N. Center St (SW) Goldsboro Yard Area	Wayne	Goldsboro	0.9	1850s	Vacant NSR Facility Property	Corridor/System Property
Asbury Lot	Wake	Raleigh	0.9	1850s	Land Landlocked	Corridor/System Property
Graham Former Station Lot	Alamance	Graham	1.9	1850s	Licensed Land Only	Corridor/System Property
McLeansville Former Depot Lot	Guilford	McLeansville	0.8	1850s	Vacant Land Only	Corridor/System Property
Greensboro Former Depot Lot	Guilford	Greensboro	1.7	1850s	Licensed Land Only	Corridor/System Property
Greensboro Downtown Property	Guilford	Greensboro	0.1	1850s	NSR Facility Property	Corridor/System Property
Thomasville Former Freight Depot Parcel	Davidson	Thomasville	1.9	1850s	Vacant Landlocked	Corridor/System Property
Lexington Depot	Davidson	Lexington	1.3	1850s	Leased	Corridor/System Property
Davidson Wide Area in Corridor (slope)	Davidson	Lexington	8.4	1850s	Vacant Landlocked	Corridor/System Property
High Point Depot AMTRAK Station	Guilford	High Point	2.5	1850s	Leased Land Only	Corridor/System Property
Kanapolis Former Station	Cabarrus	Kannapolis	-	1850s	NSR Facility Property	Corridor/System Property
Harrisburg Former Depot Site	Cabarrus	Harrisburg	1.9	1850s	Vacant Land Only	Corridor/System Property
Selma Downtown/Station	Johnston	Selma	1.8	1867	Licensed Land Only	Corridor/System Property
Raleigh Amtrak Station	Wake	Raleigh	0.6	1868	Amtrak Station	Corridor/System Property
Wharf Lot	Craven	New Bern	4.0	1899	Vacant Land Only	Corridor/System Property
Hilltop Road Track Relocation	Guilford	Greensboro	5.0	1906	Licensed Land Only	Corridor/System Property
Guilford College Rd Track Relocation	Guilford	Greensboro	2.3	1906	Landlocked Land Only	Corridor/System Property
West Ward Ave. Track Relocation	Guilford	High Point	3.1	1906	Vacant Land Only	Corridor/System Property
W. Market Center Dr. Track Relocation	Guilford	High Point	1.3	1906	Vacant Land Only	Corridor/System Property
Upper Lake Rd Track Relocation	Davidson	Lake	35.2	1906	Vacant Land Only	Corridor/System Property

Property Description	County	Nearest Town	Land Area Acres	Year Acq.	Land Current Use	Ad Valorem Tax Value
Lexington Heights Track Relocation	Davidson	Lexington	6.8	1906	Vacant Land Only	Corridor/System Property
I-85 Track Relocation	Davidson	Linwood	27.9	1906	Vacant Landlocked	Corridor/System Property
Albertson Road Track Relocation	Davidson	Thomasville	4.2	1907	Vacant Landlocked	Corridor/System Property
Rock River Road Property (slope)	Cabarrus	Rocky River	31.0	1909	Landlocked Land Only	Corridor/System Property
East 1st Street Property	Cabarrus	Kannapolis	0.1	1916	Vacant Land Only	Corridor/System Property
Garner Track Relocation	Johnston	Garner	3.2	1985	Landlocked Land Only	Corridor/System Property
Hopson Road Curve & Bridge Property (Acquistion cost of $2,065,276)	Durham	Morrisville	13.1	2004	Vacant Land for main curve & new bridge	Corridor/System Property
Holt Street Lot	Alamance	Mebane	2.0	2005	Vacant Land Only (industrail spur access)	59,130
Pine Level Property	Johnston	Pine Level	0.7	2006	Vacant Small lot at crossing	Corridor/System Property
Total Corridor Addiitons Property			189.5			

EXHIBIT #2

North Carolina Railroad Company - Other Property

Property Description	County	Nearest Town	Estimated Market Value	Annual Revenue	Tenant	Land Area Acres	Year Acq.	Land Current Use	Ad Valorem Tax Assessment Land	Bldg./ Improv.	Total Value	Relevant Characteristics
Raw Land												
Waynesboro Lot Former Water Station	Wayne	Goldsboro	1,000	0	None	0.7	1850's	Vacant Land Only	1,130	-	1,130	Vacant No Road Frontage
Morrisville Former Depot Former Pass/Freight Depot	Wake	Morrisville	25,000	0	None	0.3	1850's	Vacant Land Only	3,006	-	3,006	Vacant Too small to build on
S. Front & Hancock Sts. Lot Former Yard	Craven	New Bern	250,000	0	None	0.3	1880	Vacant Land Only	333,780	-	333,780	Vacant
Wye Property Former Wye	Carteret	Morehead	1,000,000	3,000	Billboard	4.4	1887	Vacant Land Only	994,500	-	994,500	Largely Vacant (billboard)
N. Craven St. Lot Former Yard/Wharf	Craven	New Bern	1,000,000	0	None	4.0	1899	Vacant Land Only	915,390	-	915,390	Vacant - River Frontage
Tiffany & Bright Sts. Property Former Wye	Lenoir	Kinston	200,000	0	None	6.7	1901	Vacant Land Only	31,025	-	31,025	Vacant
Newport Lot Former Freight Warehouse	Carteret	Newport	25,000	0	None	0.6	1903	Vacant Land Only	50,440	-	50,440	Vacant too small to build on
Clarks Lot Former Freight Depot	Craven	Clarks	15,000	0	None	0.4	1911	Vacant Land Only	8,000	-	8,000	Vacant - no road frontage
Union Station Lot Former Pass Station	Lenoir	Kinston	15,000	0	None	0.6	1916	Vacant Land Only	7,421	-	7,421	Vacant too small to build on
Rosewood Property Industrial Land	Wayne	Rose	250,000	0	None	73.3	1977	Industrial Land I.R.C. 1033 Exchange	216,420	-	216,420	No roadway frontage
Clayton Hwy 42 Industrial Land	Johnston	Clayton	1,800,000	0	None	75.2	1979	Industrial Land I.R.C. 1033 Exchange	1,239,890	-	1,239,890	Vacant
Harrisburg Industrial Park Three Lots - Industrial Land	Cabarrus	Harrisburg	500,000	0	None	9.0	2000	Industrial Land I.R.C. 1033 Exchange	547,190	-	547,190	Vacant
Burke Street Lot Depot Swap	Alamance	Gibsonville	35,000	0	None	1.3	2005	Vacant I.R.C.1031 Exchange	38,793	-	38,793	Vacant
Total			**5,116,000**			**176.8**			**4,386,985**	-	**4,386,985**	

Property Description	County	Nearest Town	Estimated Market Value	Annual Revenue	Tenant	Land Area Acres	Year Acq.	Land Current Use	Ad Valorem Tax Assessment Land	Bldg./ Improv.	Total Value	Relevant Characteristics
Leased Property												
Durham Former Depot Former Pass/Freight Depot	Durham	Durham	500,000	102,420	Blackwell St Mngmnt Co	2.2	1850's	Leased Land Only	964,691	73,416	1,038,107	Public Parking original passenger station site
Burlington Engine House Lot Amtrak Station	Alamance	Burlington	3,000,000	93,563	City of Burlington & NCDOT	0.6	1850s	Leased	95,967	2,018,628	2,114,595	Passenger Rail Station & Parking
Raleigh Warehouse Redevelopment Properl Former Freight Depot	Wake	Raleigh	3,500,000	320,472	Various	2.3	1850's	Building and Parking Leased	2,293,455	1,208,980	3,502,435	Renovated in 2003
Hillsborough Former Depot Lot Former Pass/Freight Depot	Orange	Hillsborough	250,000	4,244	West End Group LLC	5.4	1850s	Licensed Land Only	278,040	-	278,040	Parking
Wye Ppty Extension	Carteret	Morehead	40,000	700	Becker Builders	1.2	1887	Licensed Land Only	278,472	-	278,472	
Station & Former Industrial Lot Public Parking	Carteret	Morehead	1,300,000	27,243	Town of Morehead City	1.7	1902	Leased Land Only	1,030,172	17,784	1,047,956	Public Parking
Waterfront & Riparian Rights Former Industrial Warf	Carteret	Morehead	1,400,000	32,721	Crystal Coast Tournament	0.6	1902	Leased Riparian Only	517,142	494,742	1,011,884	Leased
Bridges St Lot Former Atlantic Hotel	Carteret	Morehead	1,250,000	22,000 5,700	Marine Mngmnt Kivett Offices	2.0	1903	Leased Public Parking	1,119,081	29,040	1,148,121	Leased
4th Street Lot Former Atlantic Hotel	Carteret	Morehead	350,000	2,700	Dmacharter, LLC	0.2	1903	Leased Land Only	246,000	3,420	249,420	Public Parking
Hillsborough Rd & LaSalle St. Building/Warehouse	Durham	Durham	2,500,000	241,164	Advance Auto Parts	3.2	2000	Leased Building I.R.C. 1033 Exchange	842,600	454,990	1,297,590	Public Parking
Office Building	Wake	Raleigh	2,300,000	0	None	1.7	2000	NCRR Office I.R.C. 1033 Exchange	602,872	2,642,892	3,245,764	Offices
Total			**26,621,000**	**855,927**		**374.1**			**17,041,332**	**6,943,892**	**23,985,224**	
Charlotte (99-Year Lease)												
Charlotte Downtown Property Former Pass/Freight Depot	Mecklenburg	Charlotte		81,000	Norfolk Southern Corp.	5.2	1850s	Leased Land Only	32,643,200	-	32,643,200	Leased for 99 years in 1968
Total						**5.2**			**32,643,200**	-	**32,643,200**	

EXHIBIT #2

12/12/2011

NORTH CAROLINA RAILROAD COMPANY

House Select Committee on State Owned Assets

December 12, 2011

Our Mission

To maximize the value of the North Carolina Railroad Company's properties for the people of North Carolina through partnerships that drive economic growth, enhance freight and passenger service, improve safety and respect the natural environment.

NORTH CAROLINA RAILROAD COMPANY

NCRR Property

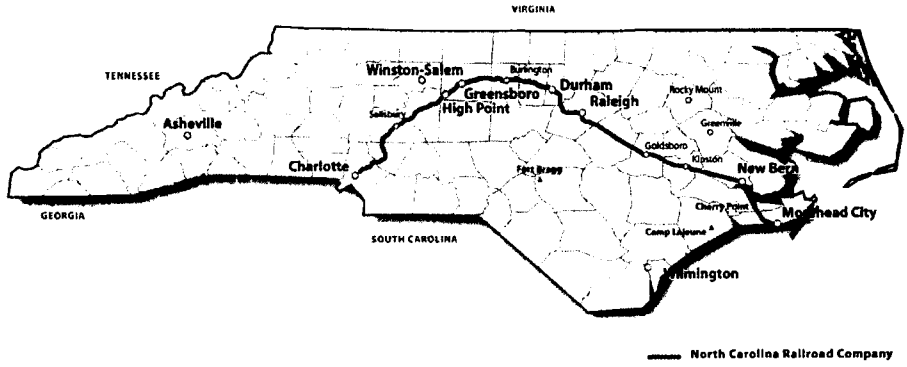
3 Categories*

- Original Corridor - 7,662 acres
- Corridor Additions - 189.5 acres
- Other Property - 203.2 acres /25 parcels (focus of today's discussion)

* All NCRR property is included in tax base

NORTH CAROLINA RAILROAD COMPANY

Original Corridor & Corridor Additions

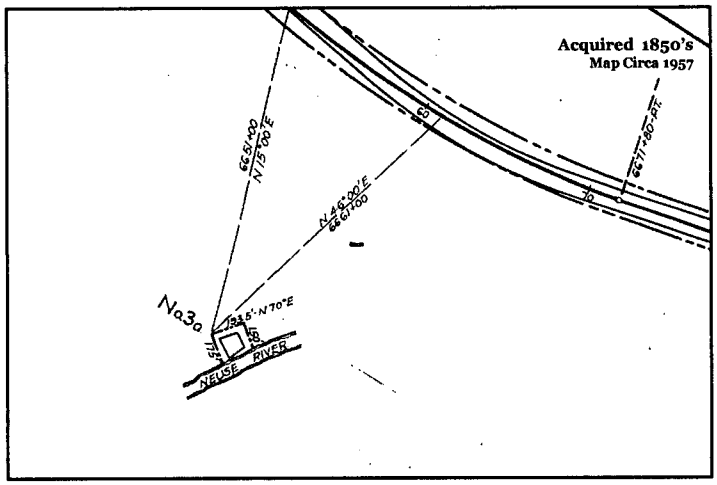


NORTH CAROLINA RAILROAD COMPANY

5

Other Property

Waynesboro Lot Goldsboro
Former Water Station



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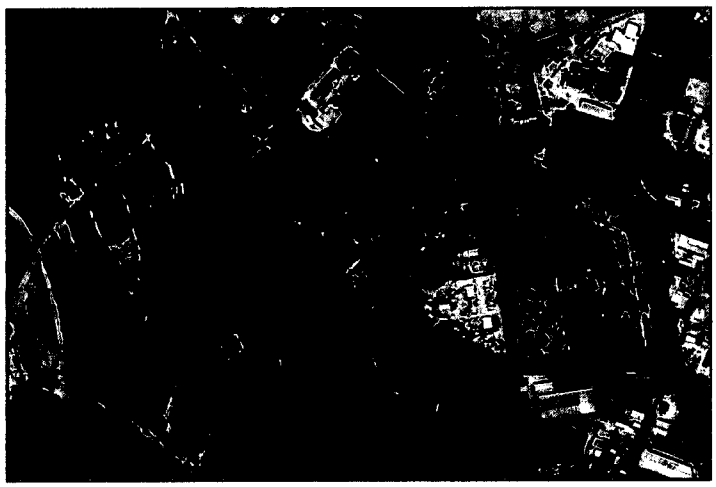
Other Property

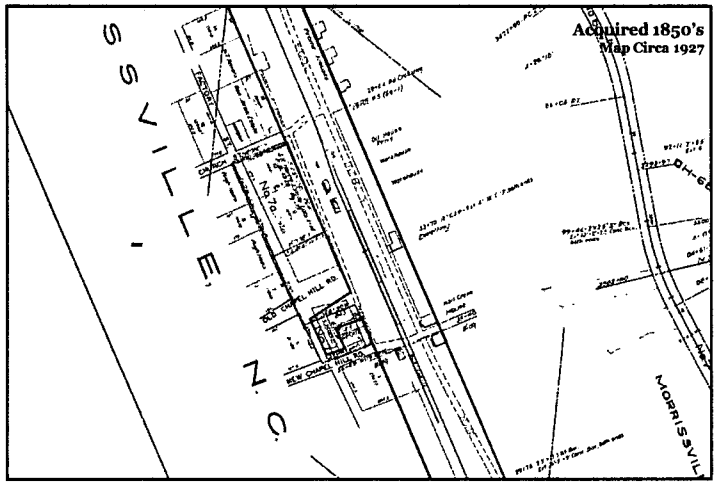
Waynesboro Lot Goldsboro
Former Water Station



7

Other Property

Morrisville Former Depot
Former Passenger/Freight Depot



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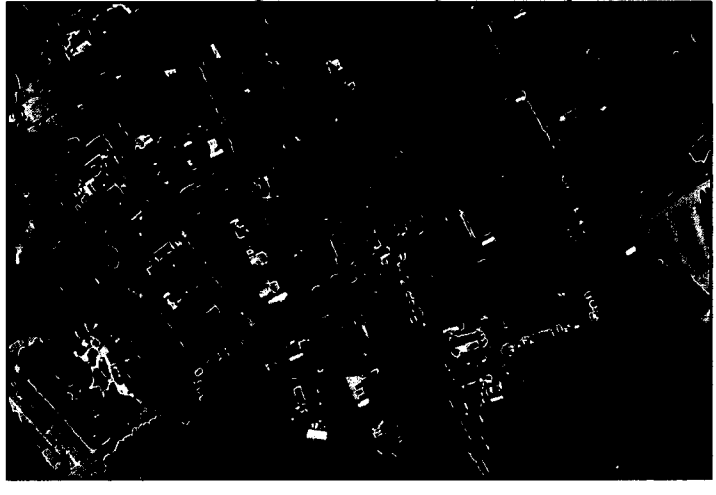
Other Property

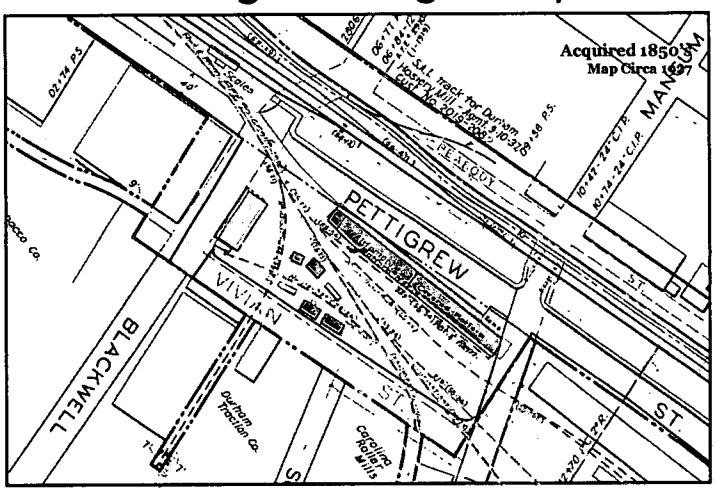
Morrisville Former Depot
Former Passenger/Freight Depot



9

Other Property

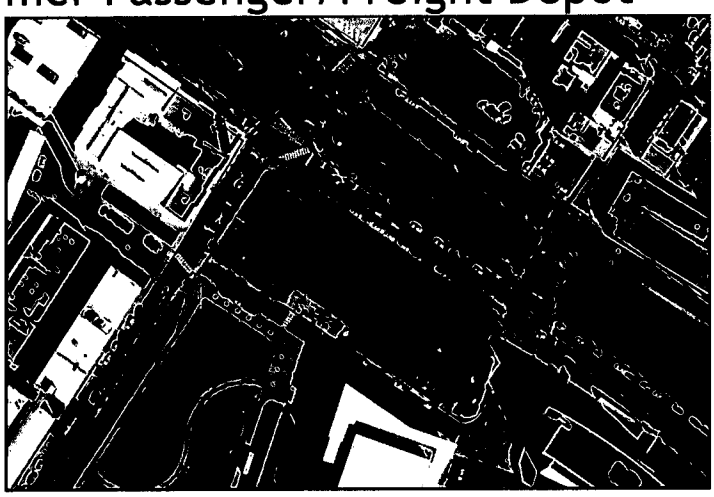
Durham Former Depot
Former Passenger/Freight Depot



10

Other Property

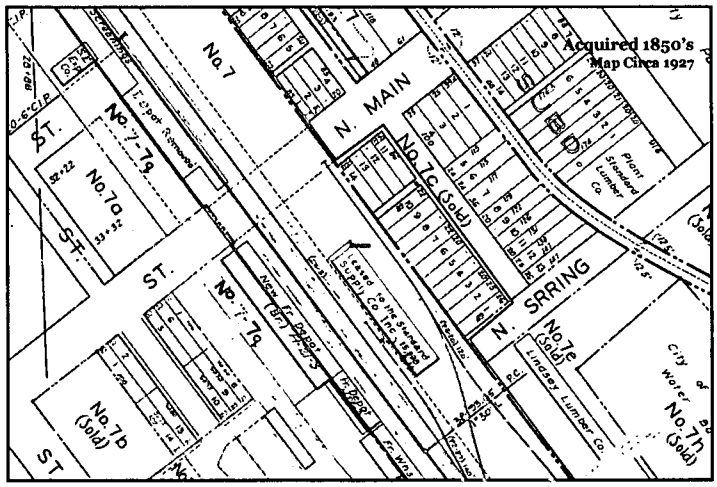
Durham Former Depot
Former Passenger/Freight Depot



11

Other Property

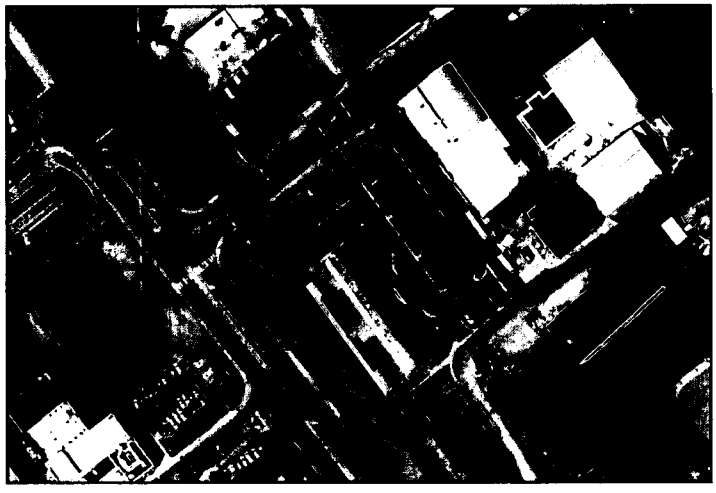
Burlington Engine House Lot
Amtrak Station



12

Other Property

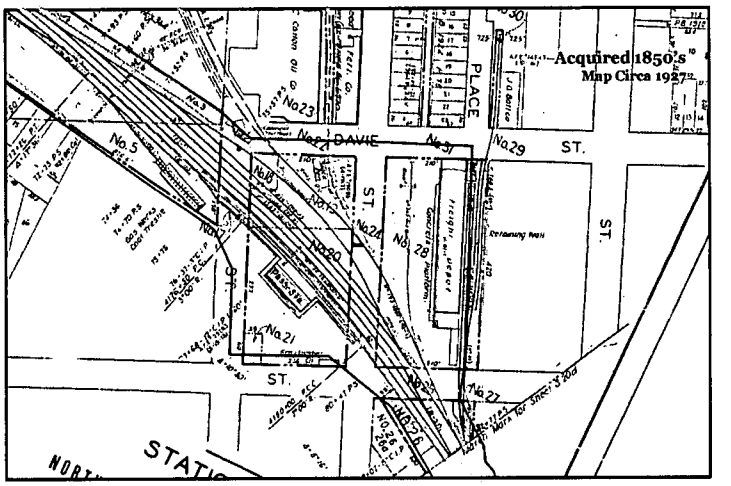
Burlington Engine House Lot
Amtrak Station



13

Other Property

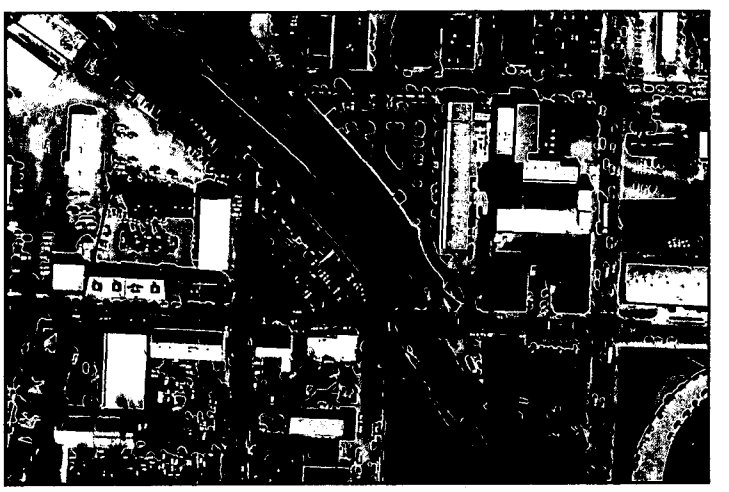
Raleigh Warehouse Redevelopment Property
Former Freight Depot



14

Other Property

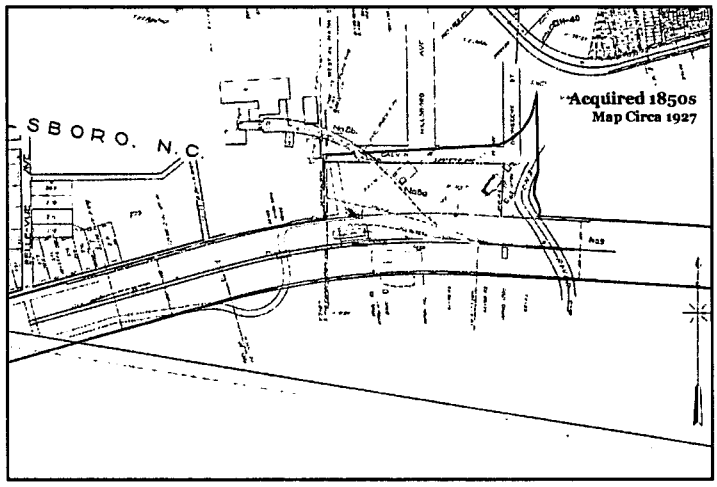
Raleigh Warehouse Redevelopment Property
Former Freight Depot



15

Other Property

Hillsborough Former Depot Lot
Former Passenger/Freight Depot



16

Other Property

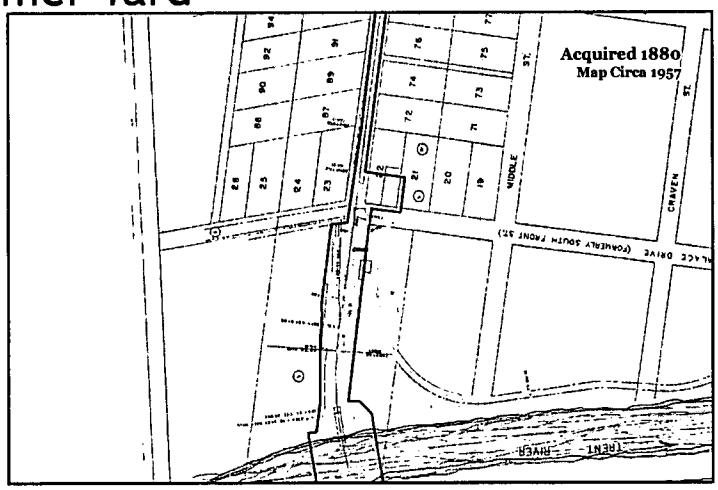
Hillsborough Former Depot Lot
Former Passenger/Freight Depot

17

Other Property

S. Front & Hancock Sts. Lot Former Yard

New Bern

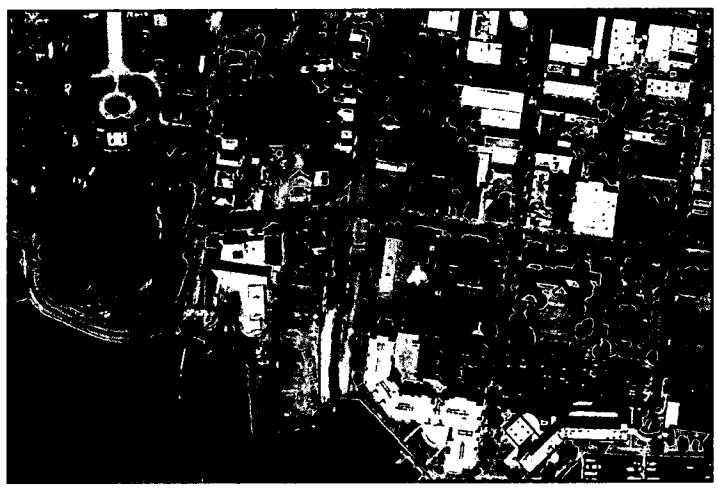


18

Other Property

S. Front & Hancock Sts. Lot Former Yard

New Bern

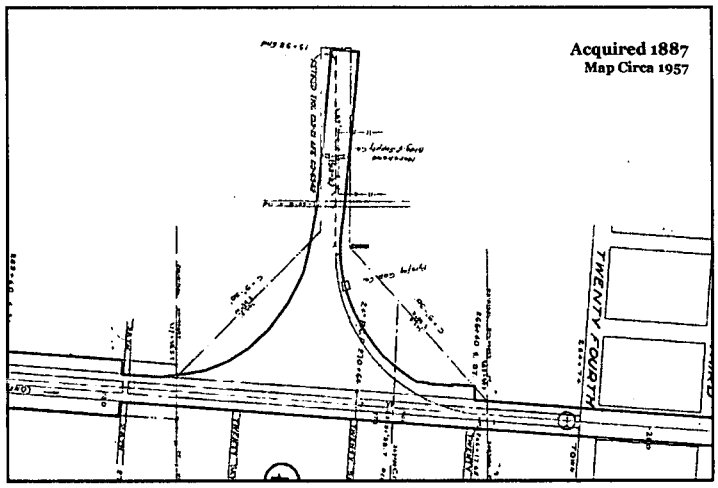


19

Other Property

Wye Property

Morehead City



20

Other Property

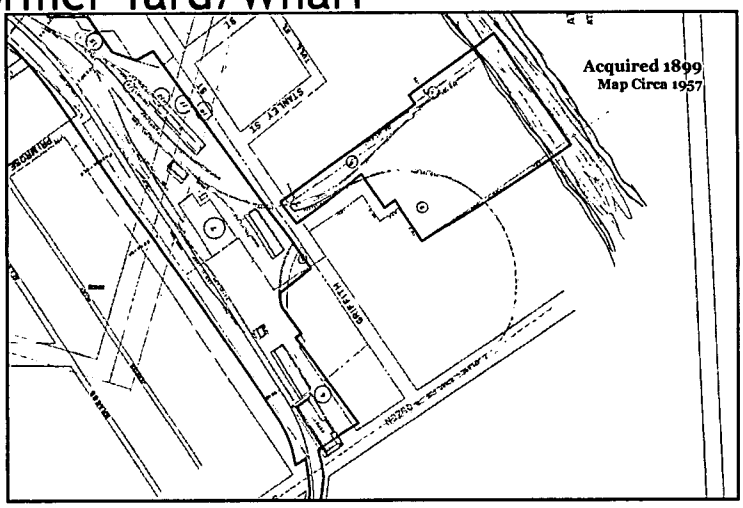
Wye Property

Morehead City

21

Other Property

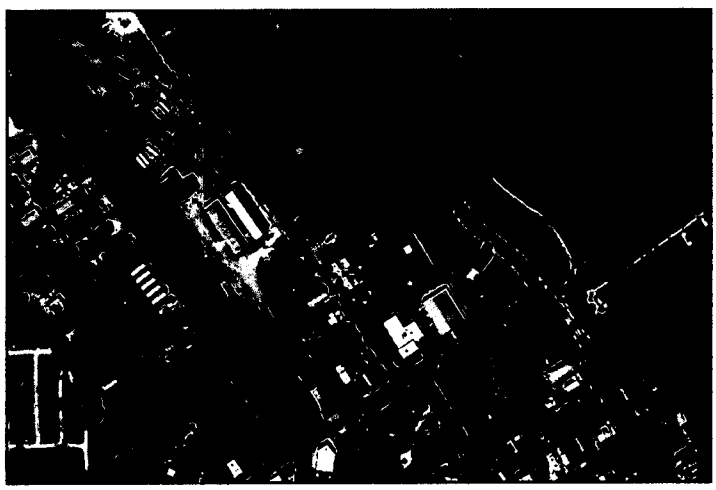
N. Craven Street Lot — New Bern
Former Yard/Wharf



22

Other Property

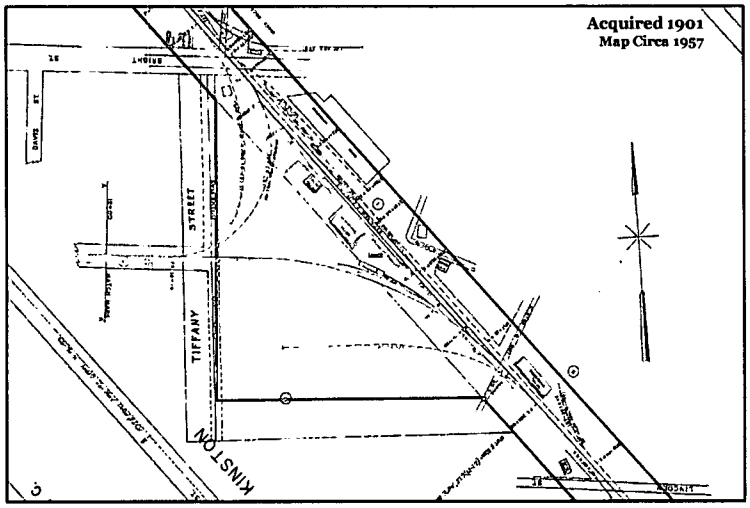
N. Craven Street Lot — New Bern
Former Yard/Wharf



23

Other Property

Tiffany & Bright Sts. Property Kinston
Former Wye



24

Other Property

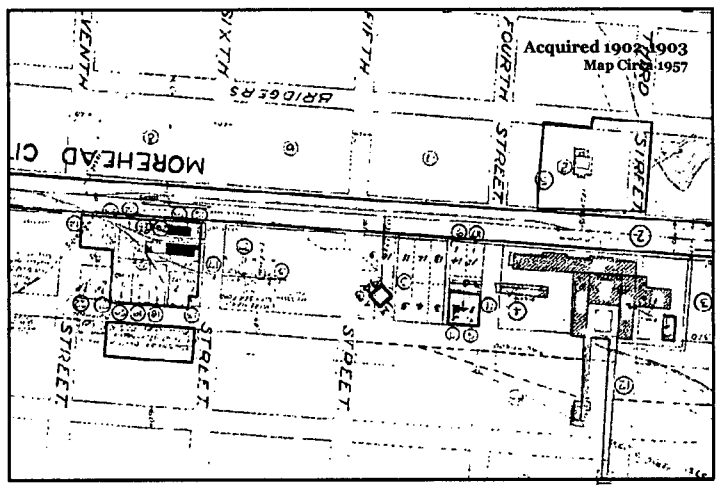
Tiffany & Bright Sts. Property Kinston
Former Wye

25

Other Property

Former Industrial and Hotel Lots

Morehead City



26

Other Property

Former Industrial and Hotel Lots

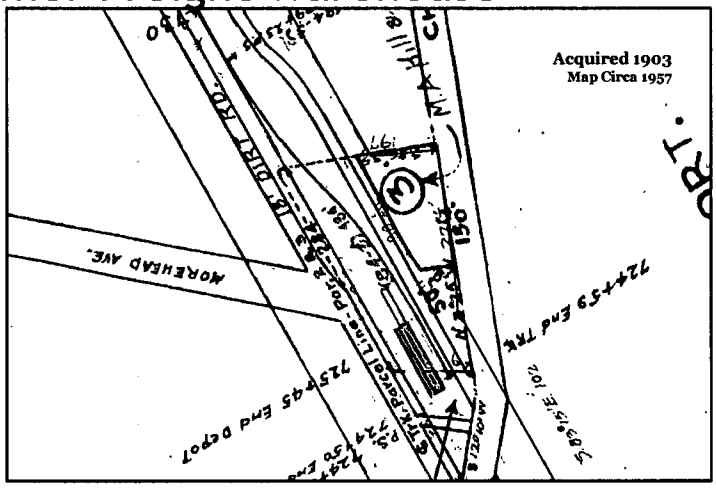
Morehead City

* Bought in 1902

27

Other Property

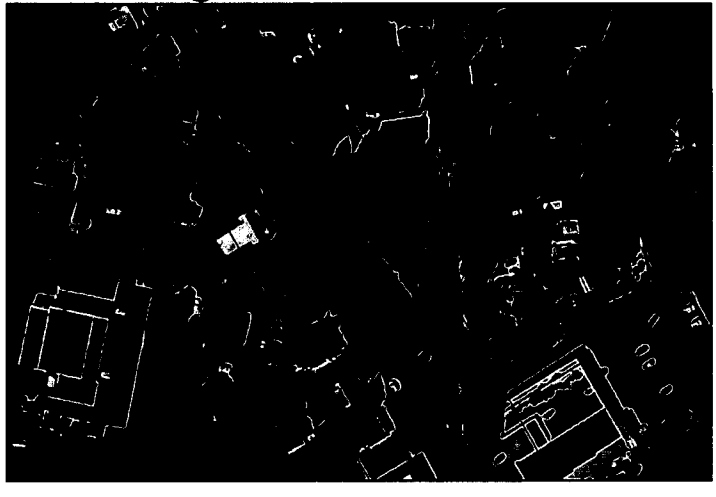
Newport Lot
Former Freight Warehouse



28

Other Property

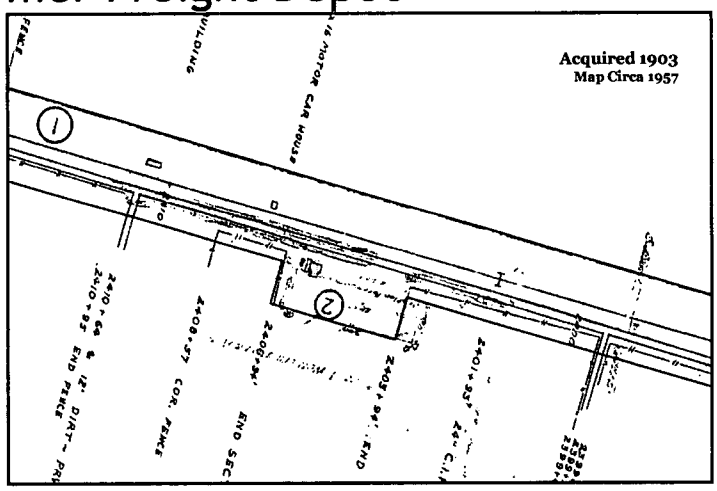
Newport Lot
Former Freight Warehouse



29

Other Property

Clarks Lot — Craven County
Former Freight Depot



30

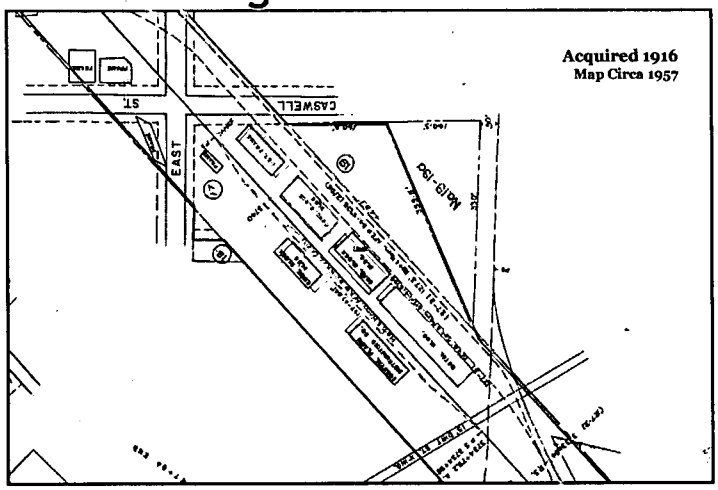
Other Property

Clarks Lot — Craven County
Former Freight Depot

31

Other Property

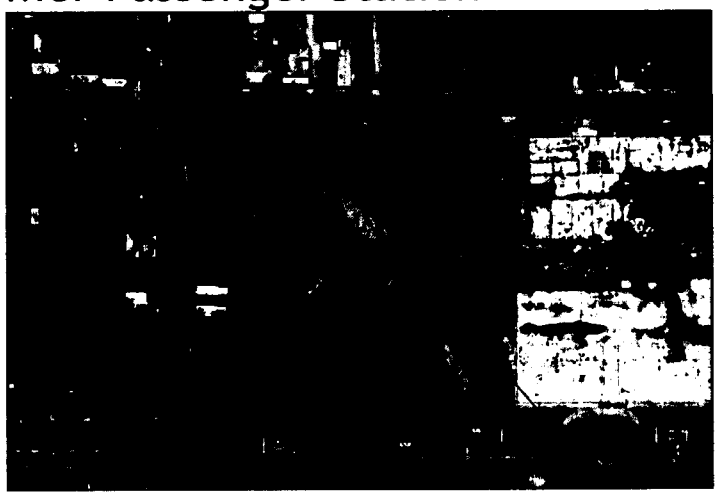
Union Station Lot — Kinston
Former Passenger Station



32

Other Property

Union Station Lot — Kinston
Former Passenger Station

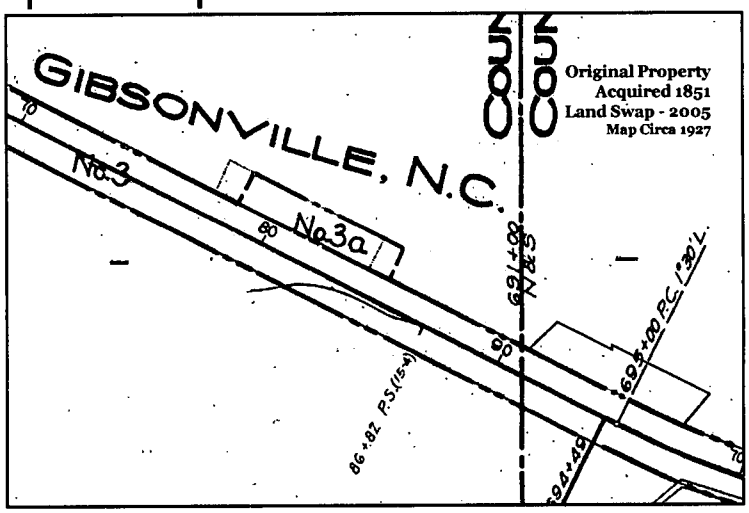


33

Other Property

Burke Street Lot Depot Swap

Gibsonville

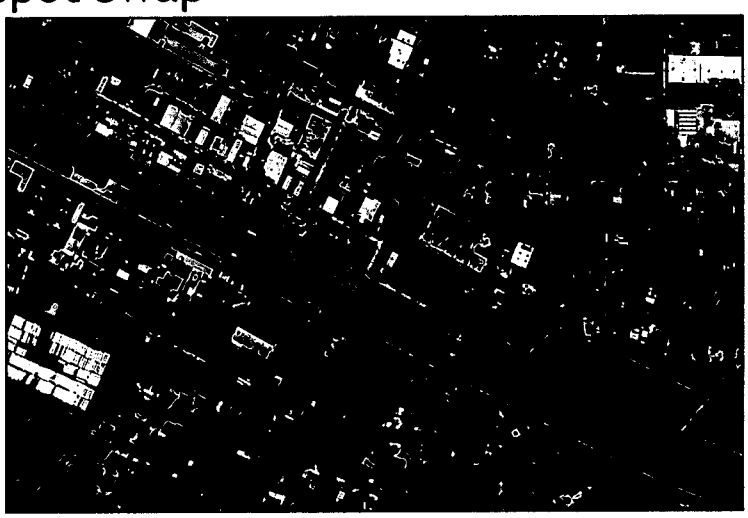


34

Other Property

Burke Street Lot Depot Swap

Gibsonville



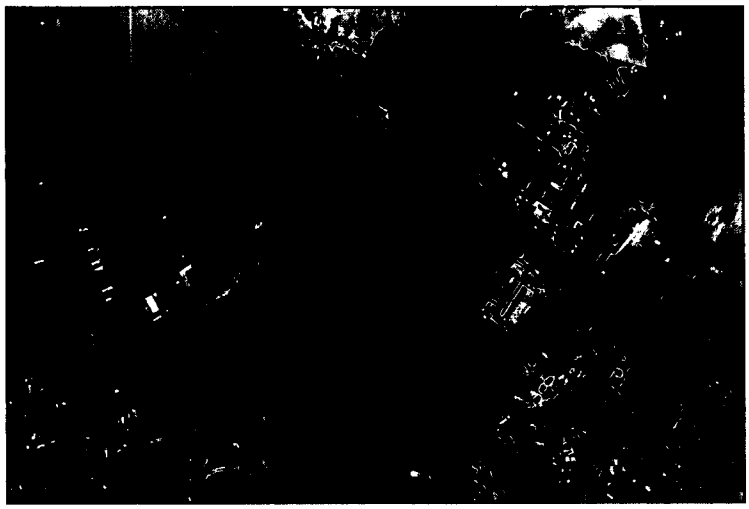
35

Other Property

Rosewood Property Industrial Land

Wayne County

Acquired 1977



Bought in 1970's

*

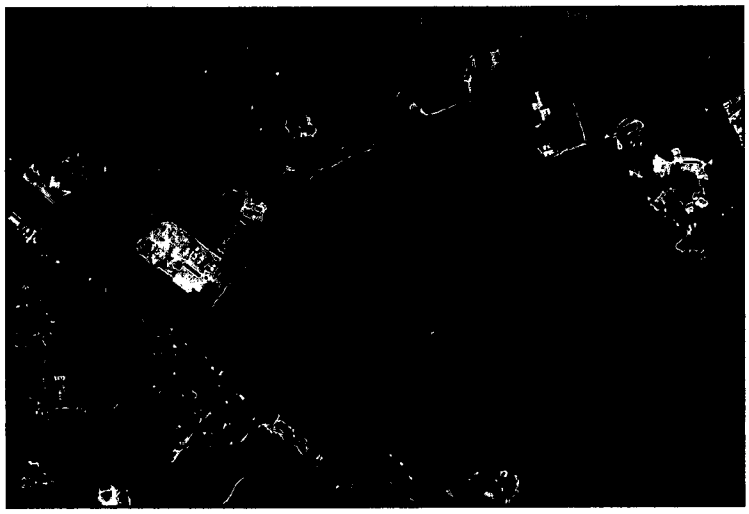
36

Other Property

Clayton Hwy 42 Industrial Land

Clayton

Acquired 1979



37

Other Property

Harrisburg Industrial Park

Acquired 2000

38

Other Property

NCRR Office Building Raleigh

Acquired 2000

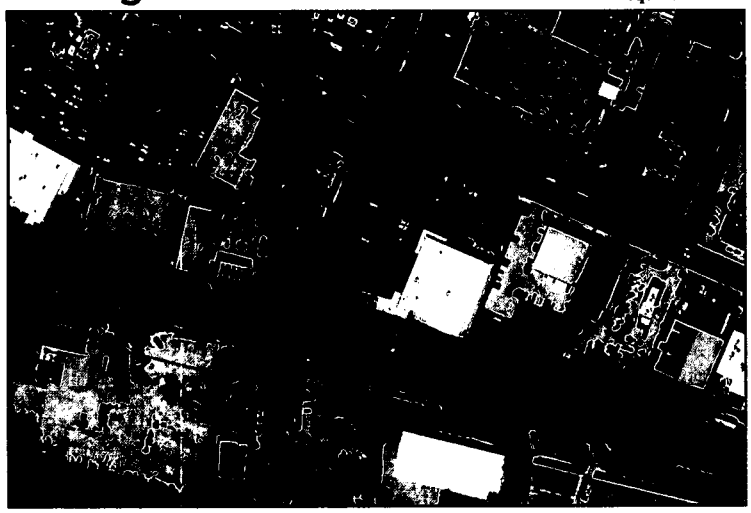
High Woods Office Park
1.6 Million

39

Other Property

Hillsborough Rd. & LaSalle St. Durham
Building/Warehouse

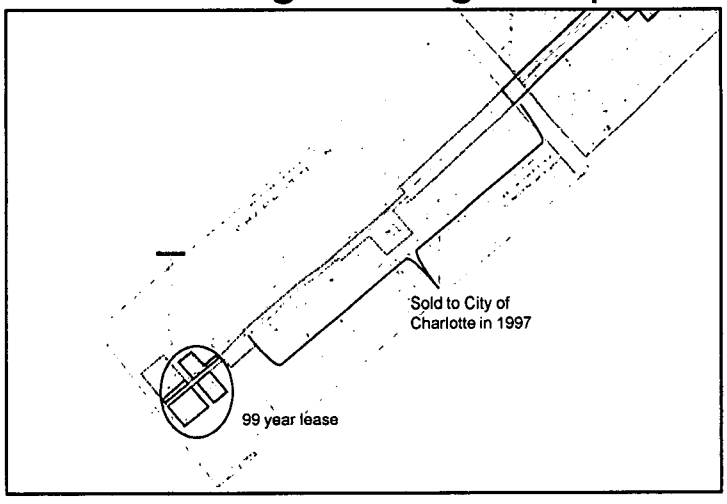
Acquired 2000



40

Other Property

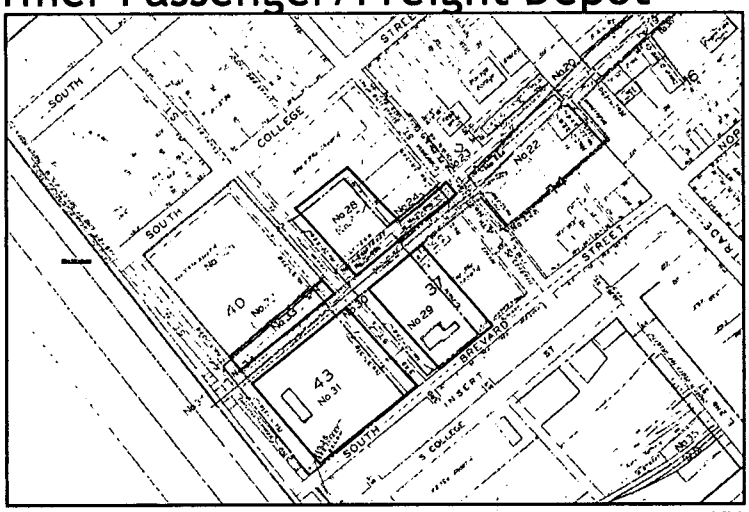
Charlotte Downtown Property
Former Passenger/Freight Depot



41

Other Property

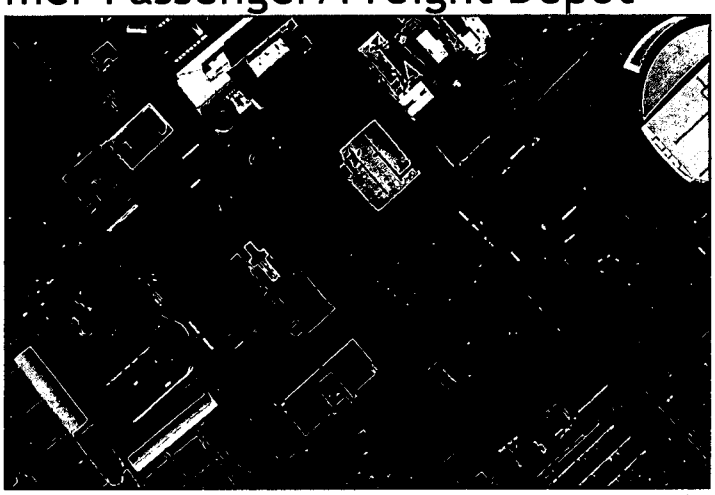
Charlotte Downtown Property
Former Passenger/Freight Depot



42

Other Property

Charlotte Downtown Property
Former Passenger/Freight Depot



99 Year Lease with Norfolk So. until 2018 when base/ payment Increases

NCRR Corporate Powers

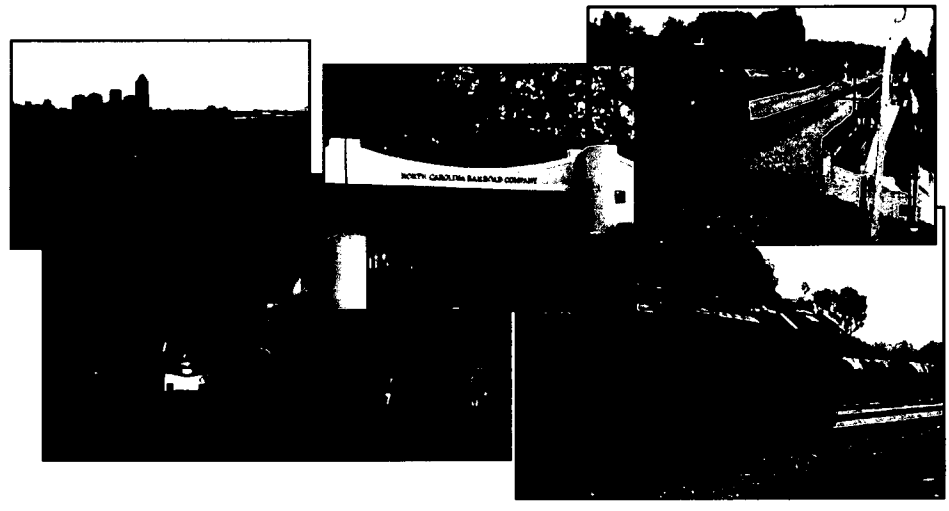
- "Purchasing, holding, selling, leasing and conveying" both real and personal property" -- *Charter, § 6 (1849); N.C. Gen. Stat § 55-3-02(a).*
- "All other rights and immunities, which other corporate bodies may, and of right do, exercise" -- *Charter, § 6 (1849).*
- All general powers of corporations set forth in the NC Business Corporations Act. -- *N.C. Gen. Stat §§ 124-13 and 55-3-02.*
- NCRR "may lease, license, or improve its right-of-way and property . . . for the purpose of preserving and protecting its railroad corridor and franchise" -- *N.C. Gen. Stat § 124-12(1).*

NORTH CAROLINA RAILROAD COMPANY

NORTH CAROLINA RAILROAD COMPANY

Thank you

www.ncrr.com



House Select Committee on State Assets

Jennette's Pier Presentation

#3

WATERFRONT ACCESS STUDY COMMITTEE

FINAL REPORT TO

THE N.C. JOINT LEGISLATIVE COMMISSION
ON SEAFOOD & AQUACULTURE

THE N.C. MARINE FISHERIES COMMISSION

THE N.C. COASTAL RESOURCES COMMISSON

APRIL 13, 2007

financial advantages (see Committee recommendation on present use value taxation cited earlier).

The Committee recommends the State explore, with all due speed, sources of funding and financing mechanisms to be used in assisting owners of private fishing piers providing public access with storm damage repair, including the possibility of tapping the proposed working waterfront trust or set-aside fund to finance a low-interest loan program. Such low-interest, State-underwritten loans, regardless of financial sourcing, should be allocated only and specifically to assist private pier owners in rebuilding from damages caused by single-storm events.

The Committee recommends that the North Carolina Aquariums be authorized and funded to pilot the design, development, and operation of three (3) public fishing piers that not only would provide angling access, but also would offer public educational opportunities. This program should be initiated on a pilot basis so as to ensure that its implementation does not unfairly compete with existing privately held and operated fishing piers. Authorization and funding of such a limited pilot development program should be provided with the understanding that formal public review be conducted, during the development and after the opening of such subsidized piers, to assess fully their impact on their private "sister" piers. The Committee believes that the above N.C. Aquariums pilot program should not preclude other State agencies, such as the N.C. Division of Marine Fisheries or the N.C. Clean Water Management Trust Fund from exploring creative ways and means to collaborate and cooperate with local governments, non-profits, and private fishing pier businesses in development of pier- or jetty-based fishing access opportunities.

Fees for Public Trust Submerged Lands Easements

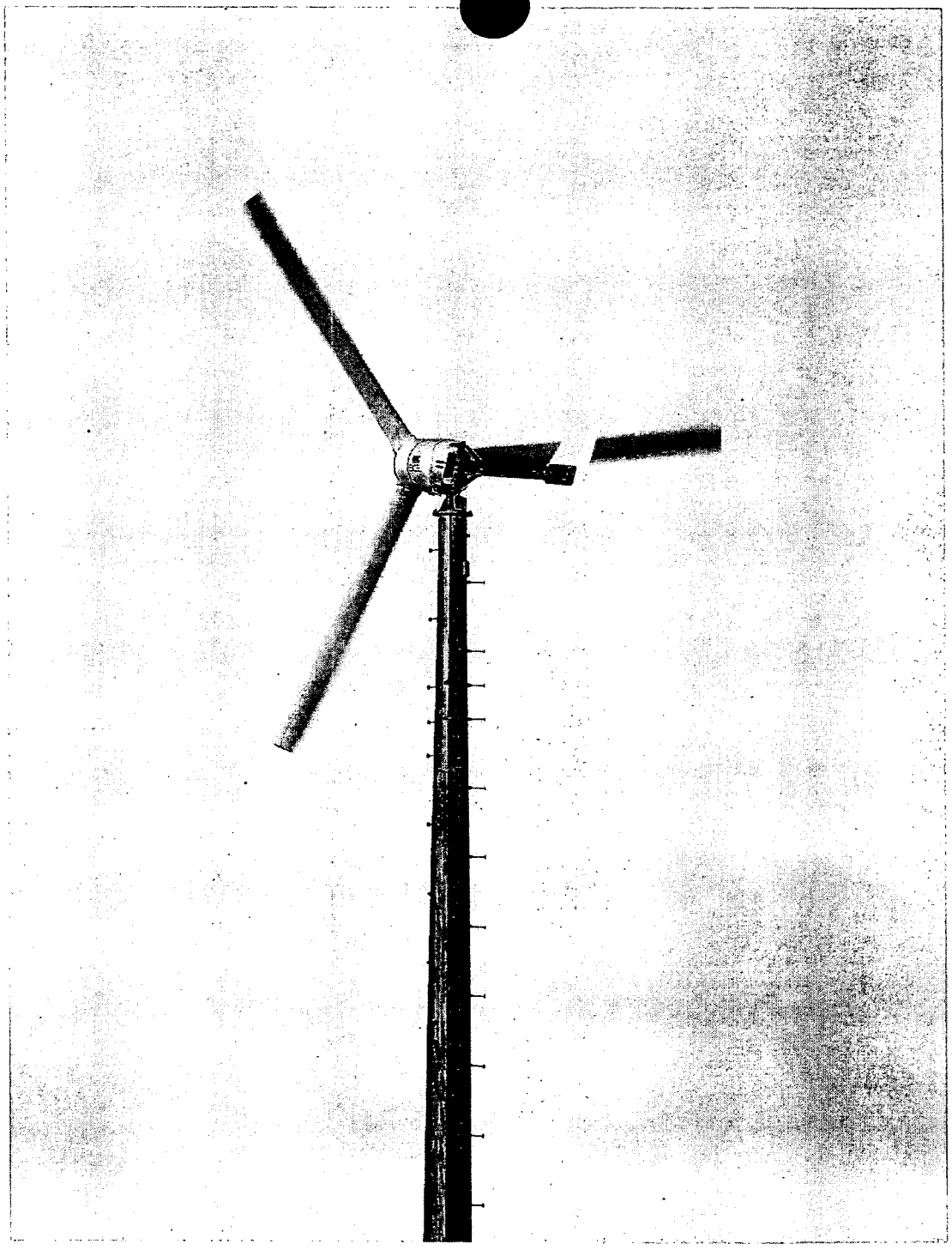
With few exceptions, all submerged lands lying under estuarine, coastal or other navigable waters ("coastal public trust waters") are State-owned public trust lands. Under State law, fee title may not be conveyed to such public trust submerged lands, but easements

Construction Cost & Sources

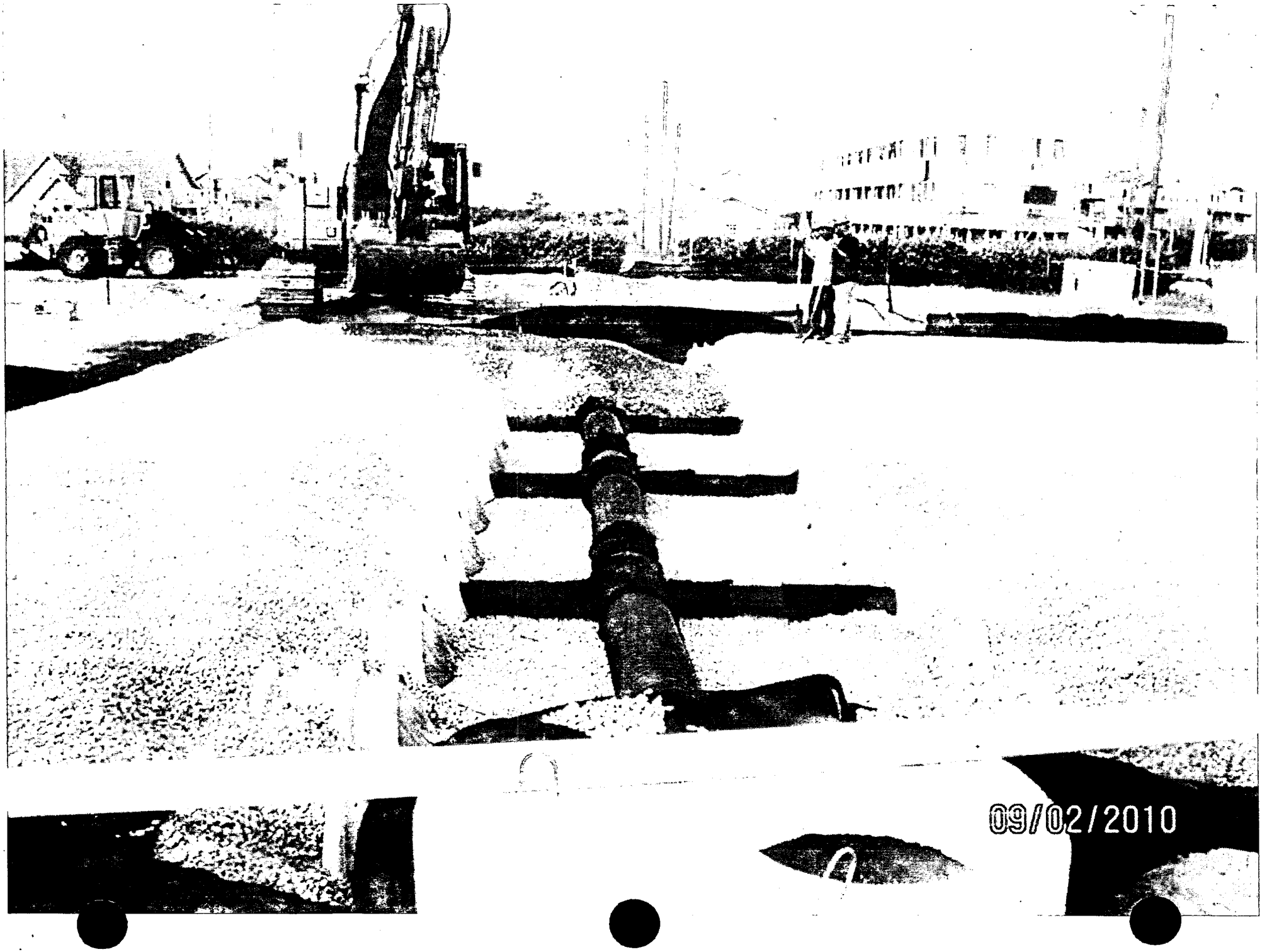
• Aquariums' Admission Fund	$10,508,790
• DENR Storm Water Fund	$10,585,757
• NC Clean Water Man. Trust	$ 1,956,263
• WAMI Fund	$ 1,500,000
• CRFL Fund	$ 379,600
• CAMA Grant	$ 130,000
• Aquarium Society	$ 400,000
Total	$25,460,410

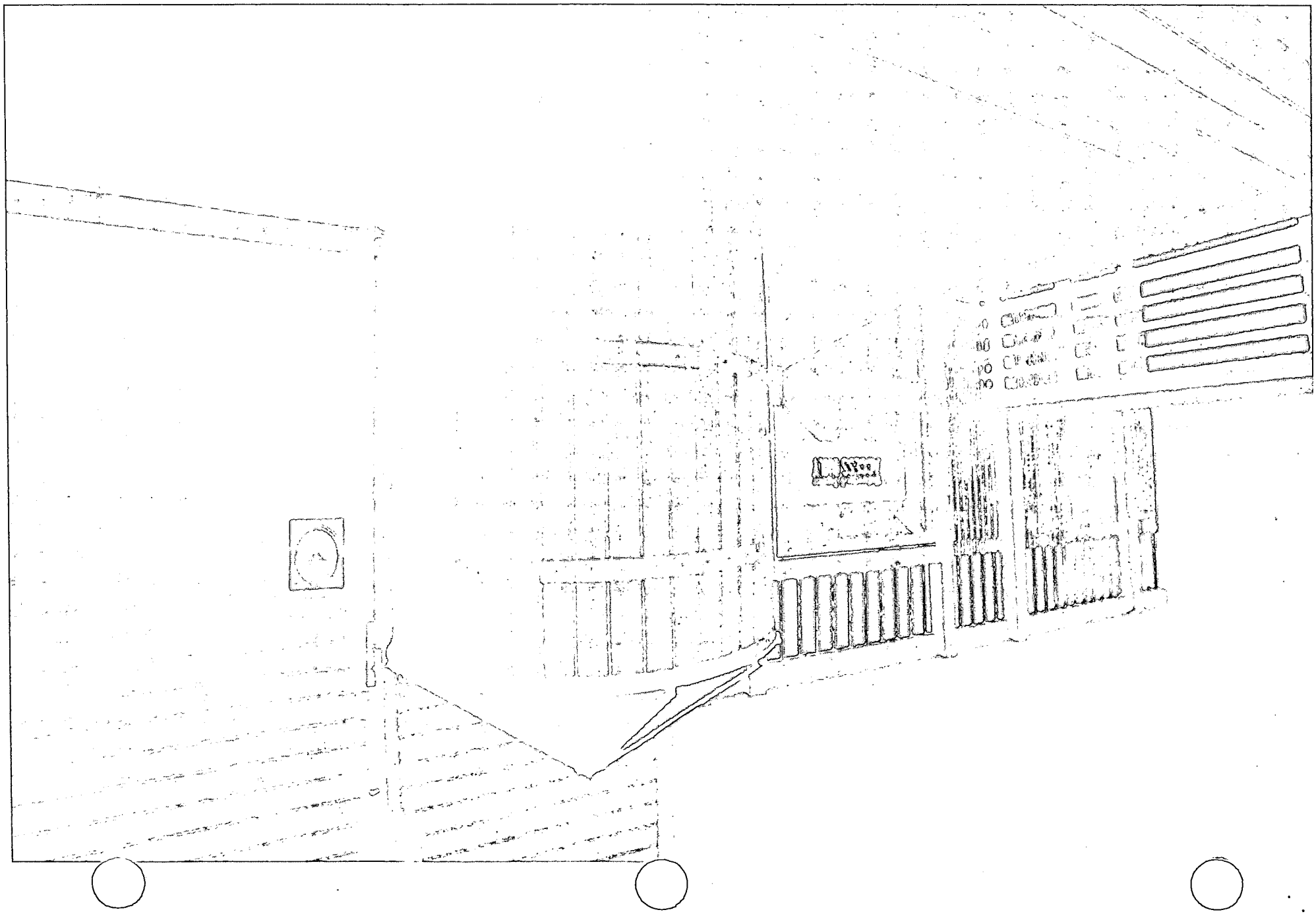
Sustainable Features

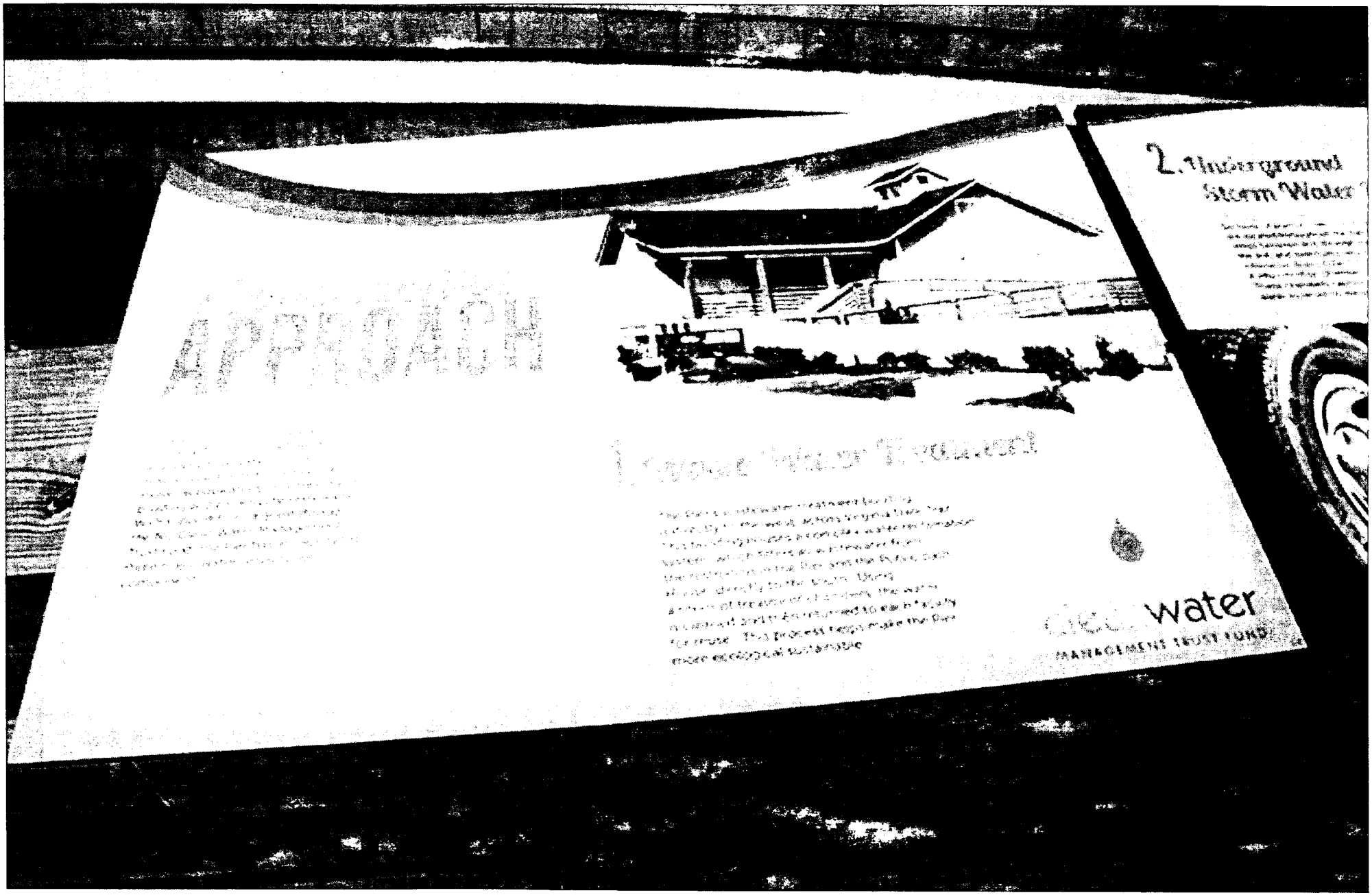
- Wind Turbines
- Solar Panels
- Rainwater Collection System
- Geothermal Heating & Cooling
- Wastewater Reuse System
- Storm water Collection/Retention System



50-60% of Annual Demand for pier-electric


09/02/2010

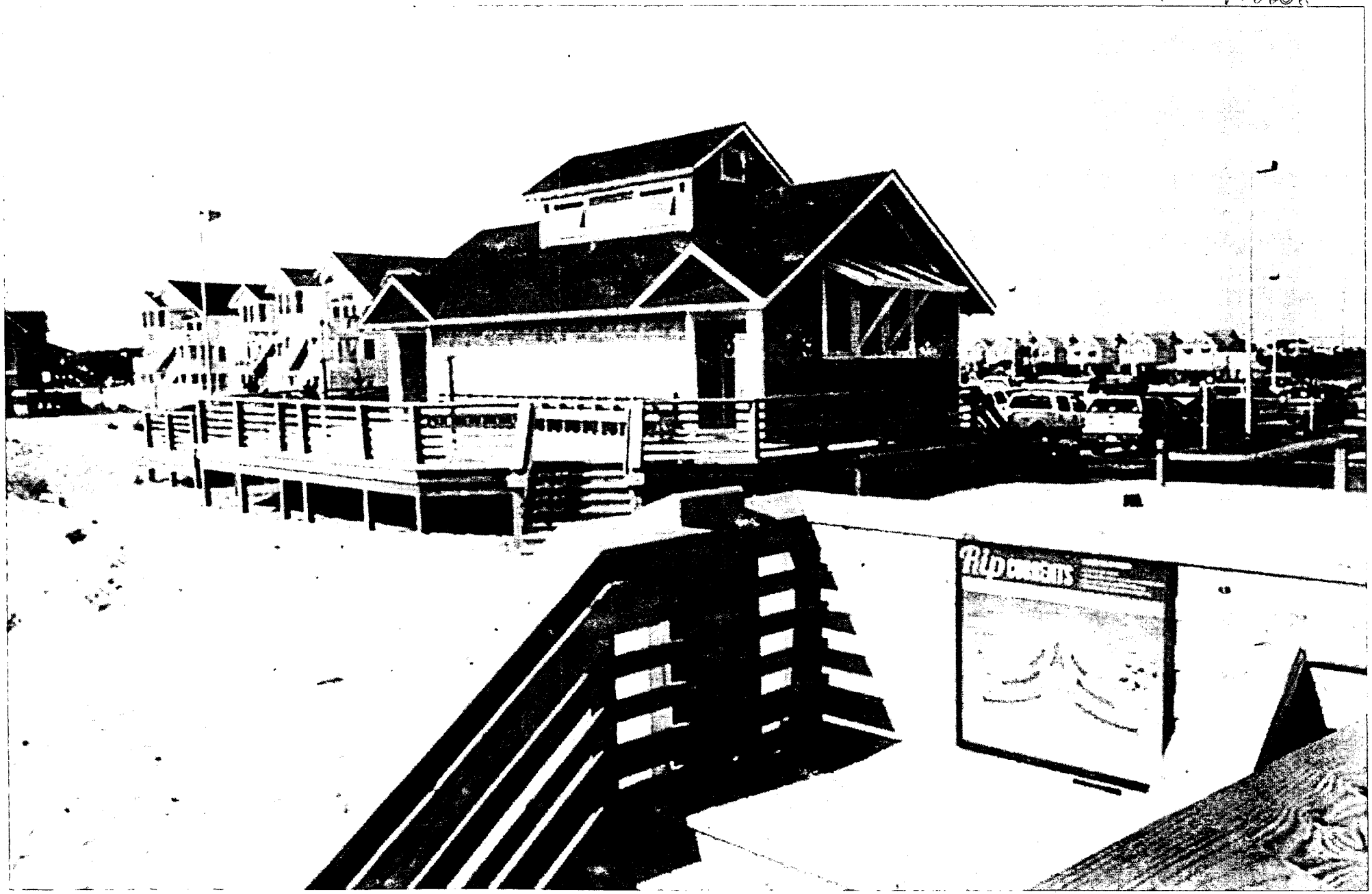


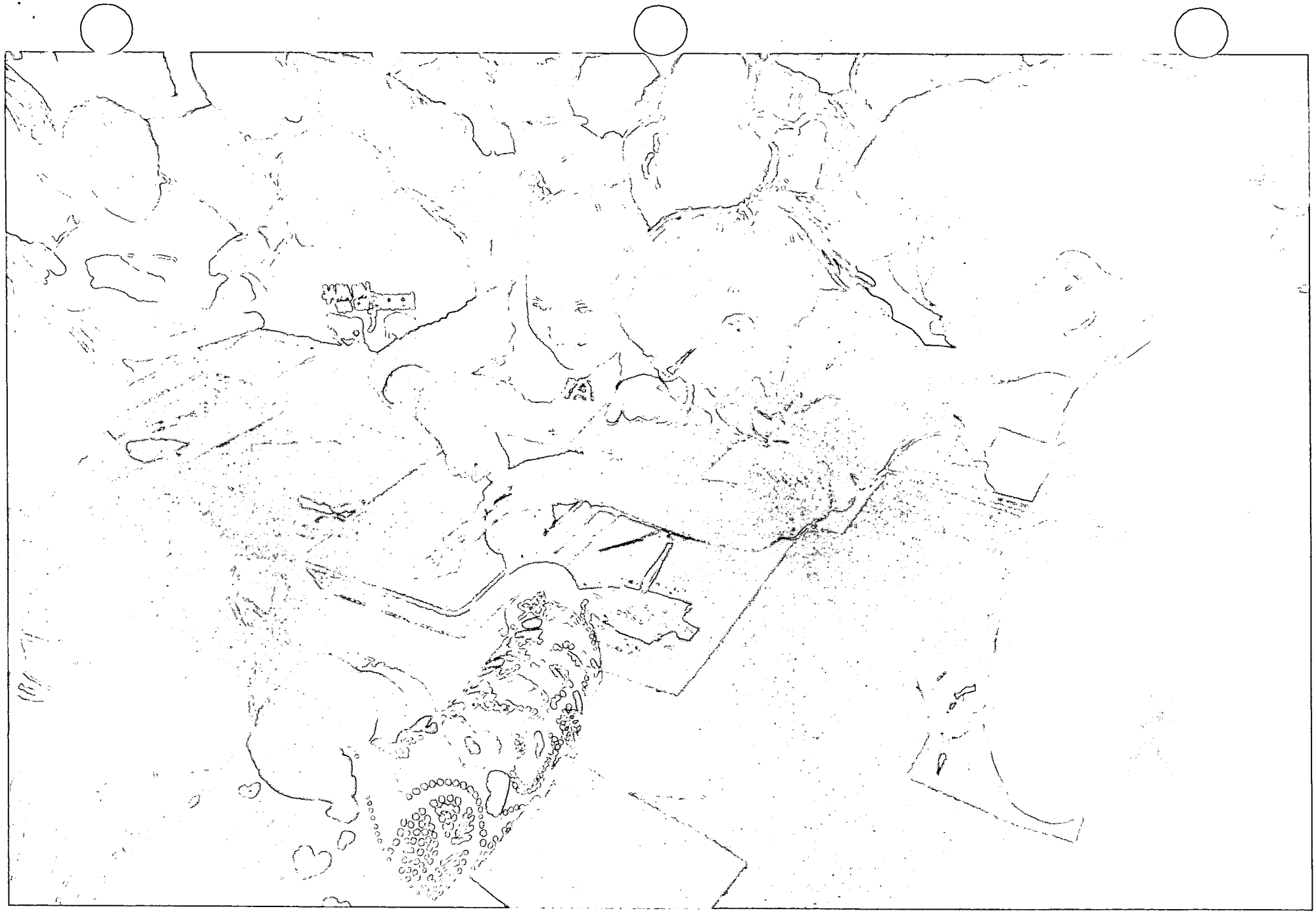

APPROACH
2. Underground
Storm Water
water

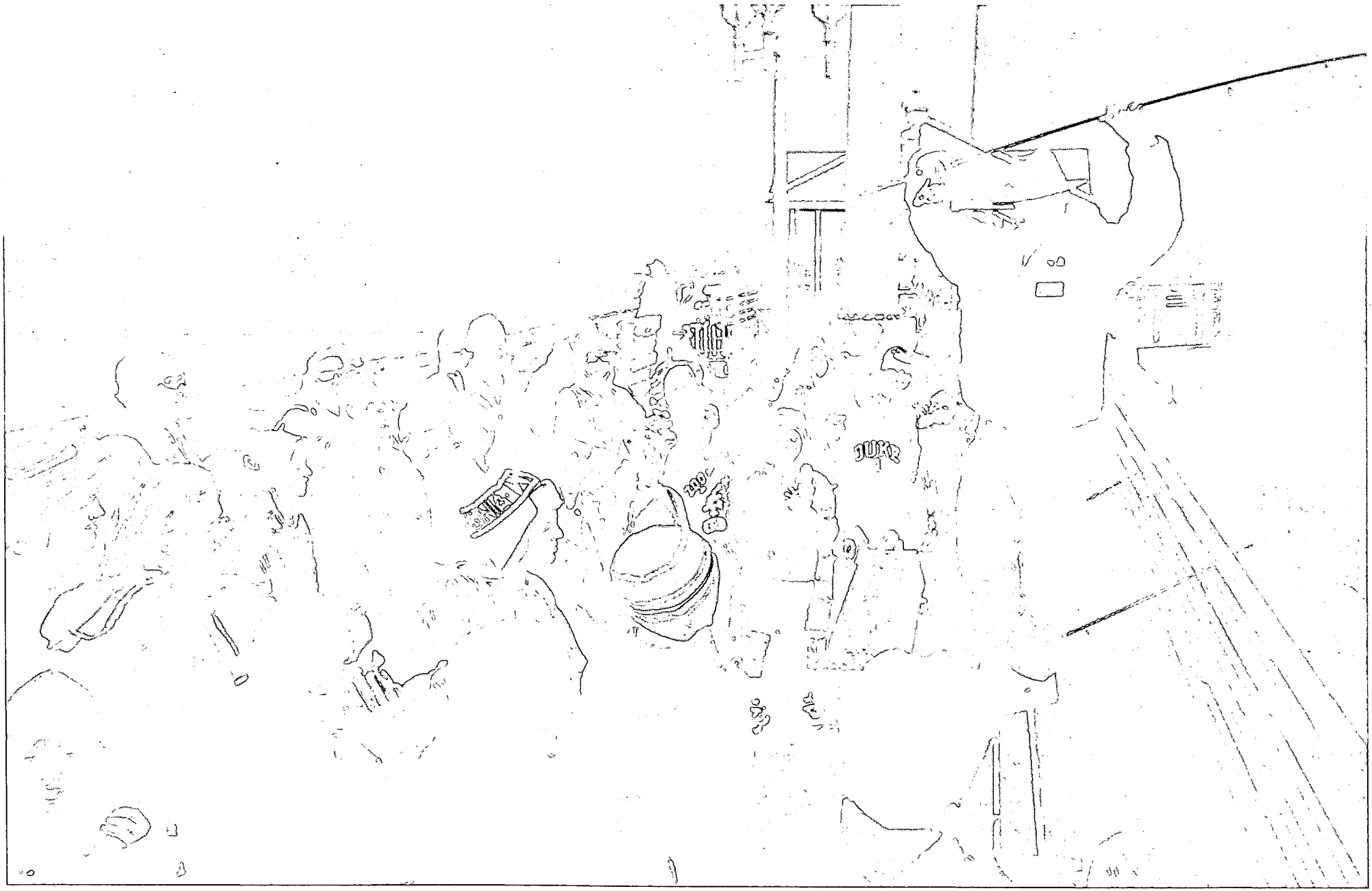
More Than a Fishing Pier …

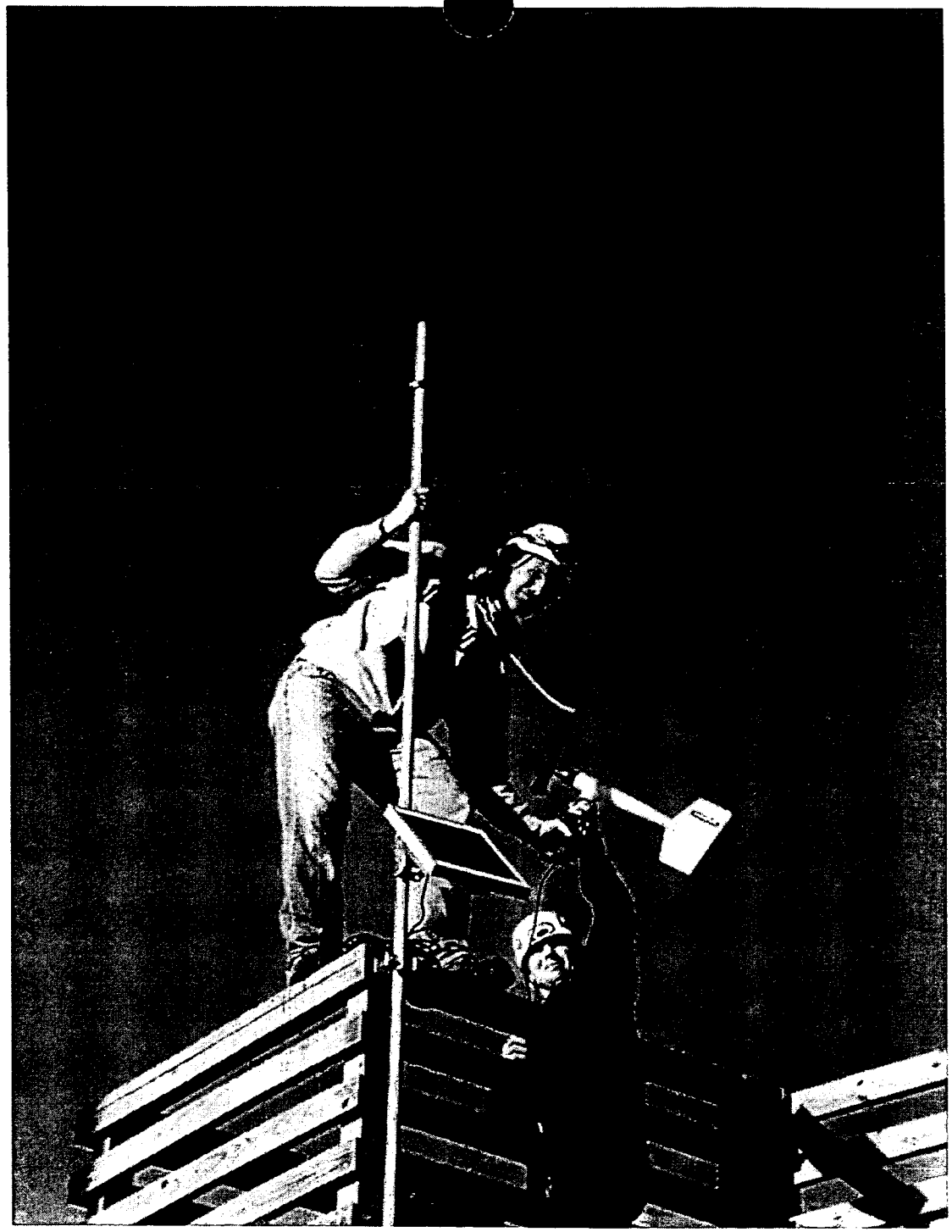
- Public Beach Access
- Public Bath House
- Educational Programs & Exhibits
- Research Facility
- Green Technology Demonstrations
- Meeting/Seminar/Conference Room

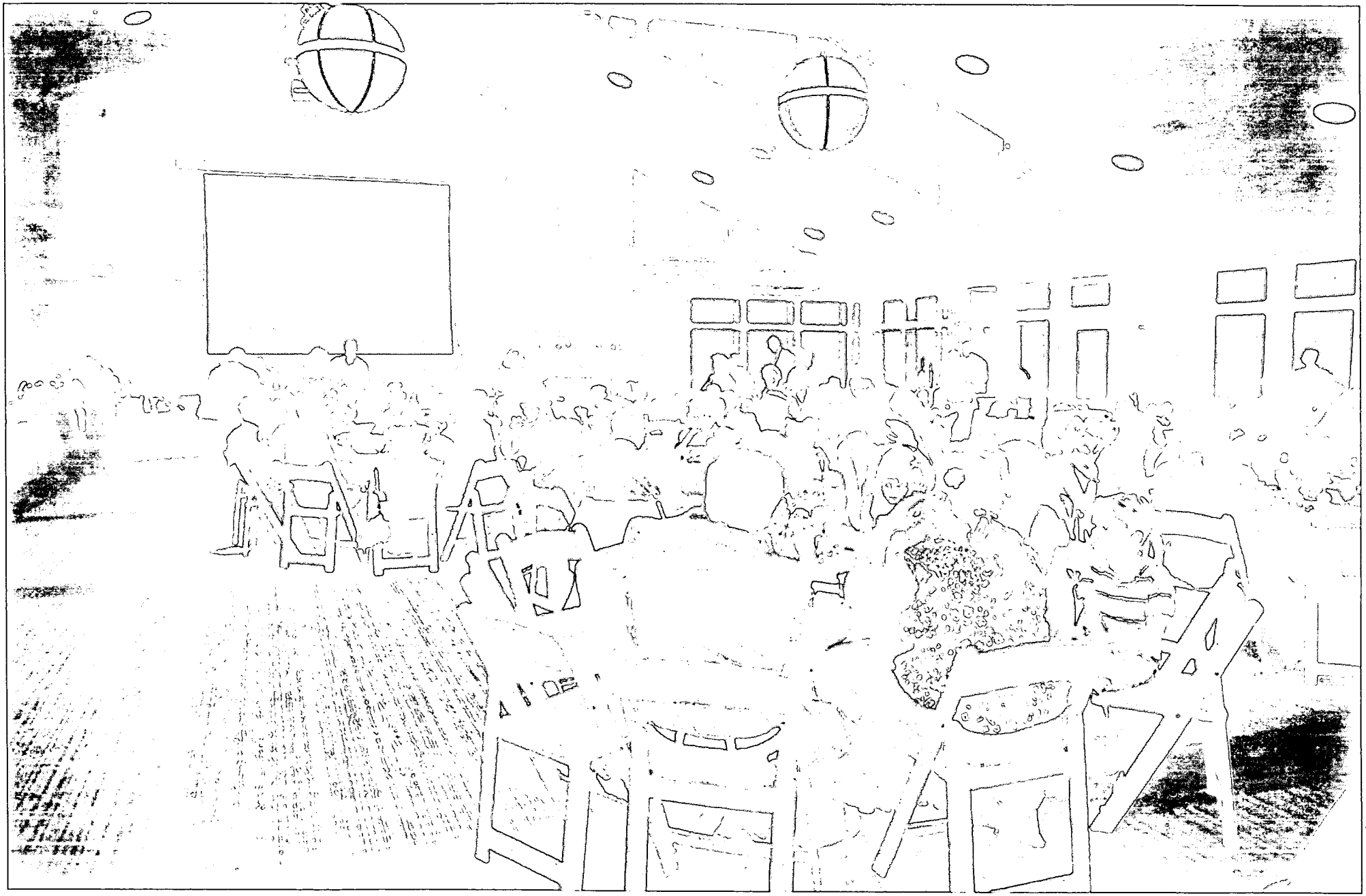
Bath House

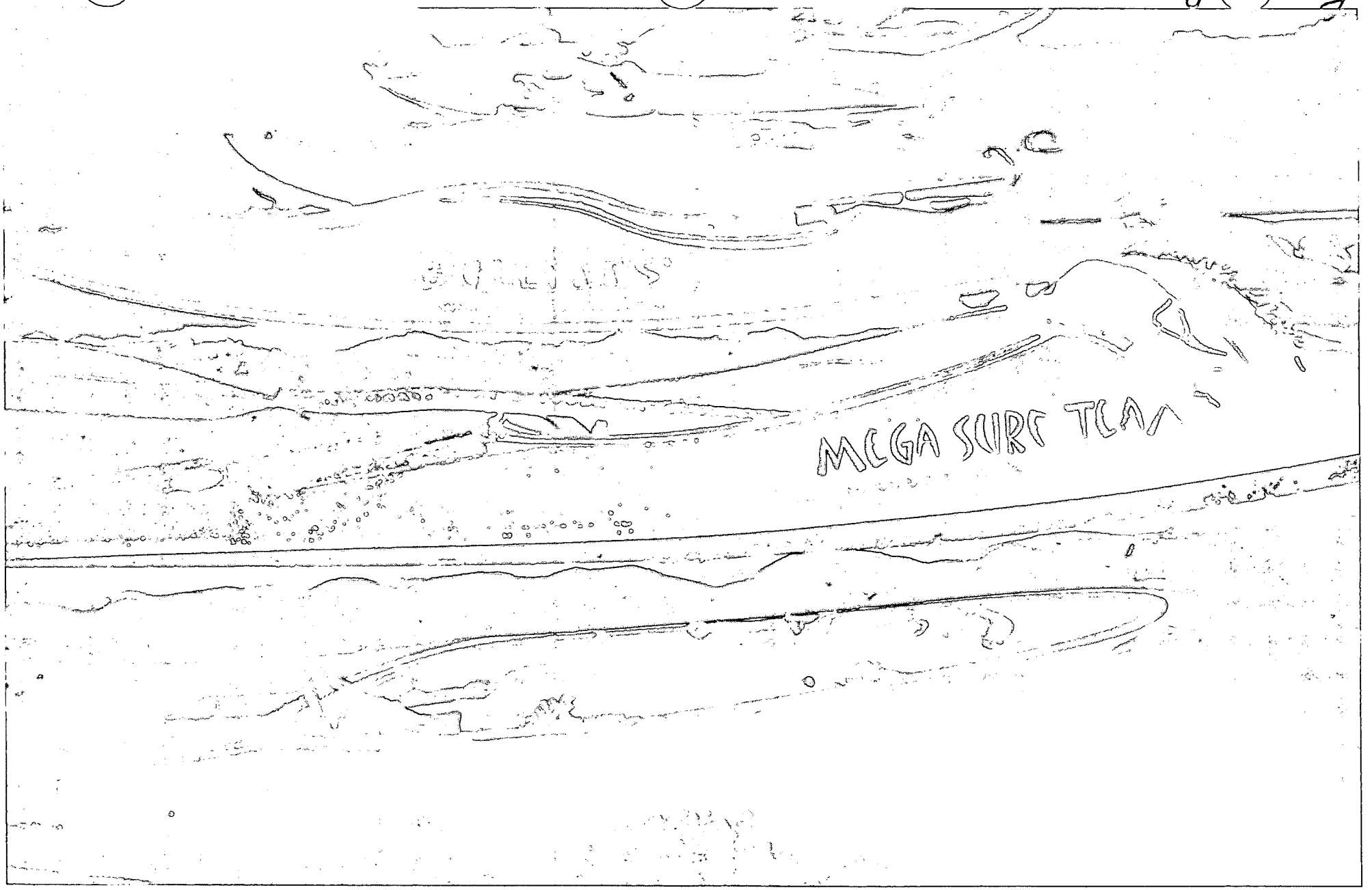











MEGA SURF TCA

Operational Costs

	7/1 to 11/30	Fiscal Year
• Staffing Costs	$382,000	$762,000
• Operational Costs	$135,000	$255,000
• Total Operating Costs		$1,017,000

Revenue

	7/1/ to date	Fiscal Year
• Fishing Admissions	$217,000	$325,000
• Walk-on Donations	$176,000	$235,000
• Facility Rentals	$ 72,000	$200,000
• Ed Programs	$ 24,000	$ 31,000
• Total Revenue	$489,000	$793,000

Self Sustaining

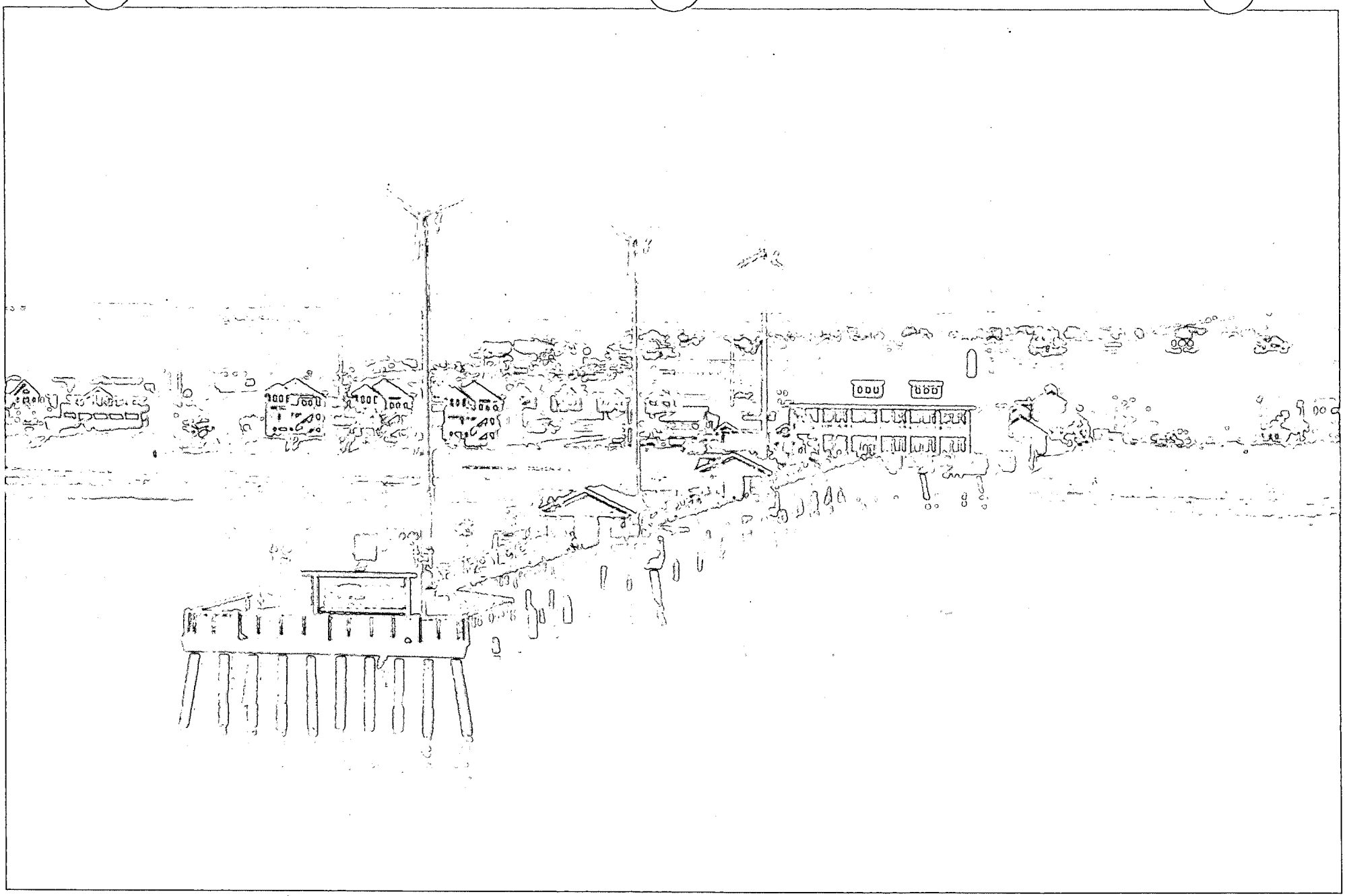
- Expenditures will not exceed revenues
- We have 7 months of operations so far
- Changes and adjustments are being made now to reduce expenses
- One-time purchases in this fiscal year will not occur in future years

Visitation
(7/1/11 to date)

- Fishermen 22,700
- Pier Visitors 150,000
- Total 172,700

Miscellaneous

- Educational Programs = 137 Participants = 4174
  - Family Fishing, Intertidal Explorations, Wonders of Wind, Creatures of the Night, After-School Explorers, Fish Biology, Squid Dissection, Sharks
- Facility Rentals – weddings, wedding receptions, parties, meetings, seminars
- Special Events – surfing championships, Lions visually impaired fishing tournament, Big Sweep, fishing tournaments



NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

November 21, 2011

MEMORANDUM

TO: Members, SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM: Rep. Harold J. Brubaker, Chairman
SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Monday	December 12, 2011	10:00 am	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

Cindy Coley (Rep. Brubaker)

From: Cindy Coley (Rep. Brubaker)
Sent: Monday, November 21, 2011 5:39 PM
To: Cindy Coley (Rep. Brubaker)
Subject: House Select Committee on State-Owned Assets

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

November 21, 2011

MEMORANDUM

TO: Members, SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM: Rep. Harold J. Brubaker, Chairman
SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Monday	December 12, 2011	10:00 am	544 LOB

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If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

MINUTES
SELECT COMMITTEE ON STATE-OWNED ASSETS
Monday, January 23, 2012

The House Select Committee on State-Owned Assets met on Monday, January 23, 2012 at 10:10 a.m., in Room 544 Legislative Office Building, Raleigh, North Carolina. In attendance were Representative Brubaker (Chairman); and Representatives Avila, Brandon, Brawley, Brisson, Carney, Crawford, Folwell, Hager, Howard, Lewis, Moffitt, Pittman, Setzer, Spear, Starnes, and Wray. Mark Bondo (Fiscal Staff), Kory Goldsmith (Research Staff), Greg Roney (Research Staff), Ben Stanley (Bill Drafting) and Committee Assistant Cindy Coley were present.

Chairman Brubaker called the meeting to order and recognized House Sergeant-At-Arms Staff Carlton Adams, Martha Parrish, and Bob Rossi.

Chairman Brubaker recognized Bill Atkinson, CEO of WakeMed, who gave a PowerPoint presentation which is attached to these Minutes as Exhibit #1.

Committee members then expressed the following questions and concerns:

1. They requested a listing of all the hospitals in North Carolina.
2. It was confirmed that the Medicaid reimbursement is different for Rex and Wake Med.

   Wake Med is an 83% reimbursement and Wake Med absorbs or makes up the difference.

   Rex is a 100% reimbursement.

Chairman Brubaker then recognized North Carolina Secretary of Commerce Keith Crisco who applauded the importance of the North Carolina Zoological Park located in Randolph County, North Carolina.

Secretary Crisco introduced Dr. Jones who made a PowerPoint presentation on behalf of the Zoo which is attached to these Minutes as Exhibit #2.

Chairman Brubaker announced the next meeting is scheduled for Thursday, February 16, 2012 at 10:00 a.m., 544 Legislative Office Building, Raleigh, North Carolina. There being no further business, the meeting adjourned at 12:30 p. m.

Rep. Harold J. Brubaker, Chairman

ATTEST:

Cindy Coley, Committee Assistant

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	9/22/2011	10/25/2011	11/18/2011	12/12/2011	01/23/2012		
Brubaker, Harold, Senior Chair	Yes	Yes	Yes	Yes	✓		
Avila, Marilyn	N	Yes	Yes	Yes	✓		
Brandon, Marcus	N	Yes	Yes	Yes	✓		
Brawley, Bill	Yes	Yes	Yes	Yes	✓		
Brisson, William	Yes	N	N	N	✓		
Carney, Becky	N	Yes	N	Yes	✓		
Crawford, James	N	Yes	Yes	Yes	✓		
Folwell, Dale	N	Yes	Yes	Yes	✓		
Hager, Mike	Yes	N	Yes	Yes	✓		
Howard, Julia	N	Yes	Yes	Yes	✓		
Lewis, David	Yes	Yes	Yes	Yes	✓		
Moffitt, Timothy	Yes	Yes	Yes	Yes	✓		
Owens, Bill	Yes	N	N	N			
Setzer, Mitchell	N	N	N	Yes	✓		
Spear, Timothy	N	Yes	Yes	Yes	✓		
Starnes, Edgar	Yes	Yes	Yes	Yes	✓		
West, Roger	Yes	No	Yes	Yes			
Wray, Michael	N	Yes	Yes	Yes	✓		
Pittman, Larry			Yes	Yes	✓		

Committee Sergeants at Arms

NAME OF COMMITTEE House Select on State Owned Assets

DATE: 1-23-12 Room: 544

House Sgt-At Arms:

1. Name: Martha Parrish
2. Name: Carlton Adams
3. Name: Bob Rossi
4. Name: _____
5. Name: _____

Senate Sgt-At Arms:

1. Name: _____
2. Name: _____
3. Name: _____
4. Name: _____
5. Name: _____

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS JANUARY 23, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Dana Simpson	Smith Anderson
Mike DeVaughn	Wake Med Health + Hospitals
Christine Cano	WakeMed
Robert Wilson	Smith Moore Leatherwood LLP
Marshall Harvey	B+A
Brad Thompson	BTA/Wake Med
Kent Yelverton	NCOA+CS
David Rice	Manning Fulton
Neal Conoley	NC Ag Soc.
David Griffin	DENR - NC Aquariums
Mark Joyner	NC Ag. Society

VISITOR REGISTRATION SHEET

Com. on State Gov. Affairs — 1-23-12

Name of Committee — Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Michelle Frazier	MFTS
Kristen Lasater	Fetzer Strategic
Susan Vick	FSP

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS JANUARY 23, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
DAVID BARNES	PS
Angel Sams	NSS
Kevin Fitzgerald	UNC
Theresa Kostrzewa	NSS
CHRIS DILLON	NCWRC

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS JANUARY 23, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Mary Wilder	DENR
Cathy Hardy	DENR
Robert Brown	RDPR
Joyce Fitzpatrick	Fitz Comm
Hugh Stevens	SMVT
David Sousa	Zoo. DENR.
Tom Fetzer	Wake Med
Laura DeVivo	NCSR
Chad Lowry	Gov office
Nathan Ramsey	Blanchard Newman & Blackwell
John Pierce	capstrat.

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS JANUARY 23, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Mike DeVaughn	Wake Med Health & Hospitals
ROBERT WILSON	SMITH MOORE LEATHERWOOD LLP
[illegible]	[illegible]
Louise D. Fisher	Volunteer Advocate for Mentally Ill
[illegible]	[illegible]
Suzanne Beasley	SEANC
Mitch Leonard	SEANC
SOLARI	DST
Chris Agren	DOAdmin
Kari Barsness	DENR
Diana Kees	DENR

VISITOR REGISTRATION SHEET

Select Committee on State Owned Assets — 1-23-12

Name of Committee — Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Ralph Tallent	ITS
Kristen Crosson	OSBM
Jennifer Wimmer	OSBM

PRESENTATIVE
AROLD BRUBAKER
CHAIR
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

Cindy Coley
Committee Clerk
300N Salisbury Street, Room 302
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General Assembly of North Carolina

House Select Committee on State Owned Assets

State Legislative Building
Raleigh, North Carolina

AGENDA

January 23, 2012, 10:00am
Room 544 Legislative Office Building

1. Call to order and introductory remarks
   Representative Harold Brubaker, Chair

2. Comments Regarding State Ownership of Rex Hospital
   Bill Atkinson, CEO, WakeMed Health & Hospitals

3. The North Carolina Zoo- Public/Private Partnerships
   Dr. David Jones, DVM
   Director of the North Carolina Zoo

4. Committee discussion and announcements

5. Adjourn

ADDITIONAL INFORMATION:

Persons having questions about the Committee meeting or other matters related to the Committee may contact the Committee Clerk at 919-715-4946 or Committee Staff at 919-733-4910 (Fiscal Research), 919-733-6660 (Bill Drafting) or 919-733-2578 (Research).

Dr. William K. Atkinson Statement - Select Committee on State-Owned Assets 1-23-12

Mr. Chairman and members of the Committee, thank you for inviting me to speak today on behalf of WakeMed Health & Hospitals.

I want to give you some background on WakeMed's offer to purchase Rex Hospital from UNC Health Care and the State of North Carolina. I want to give you some history on WakeMed – and our relationship with both Rex and the UNC Health Care System. Finally, I want to share with you our concerns about that relationship. I especially want to ask whether it is fair for hospitals owned by state government, like Rex, to compete with other hospitals – not just WakeMed, but any hospital across North Carolina. We don't mind competition – as long as it's a level playing field. But when you're competing against the government, it's not a level playing field.

WakeMed's History

First, some history. In 2011, WakeMed celebrated our 50th birthday. We were established in 1961 as Wake County's public hospital. Our mission then – and it remains our mission today – is to provide excellent and comprehensive care for people regardless of their ability to pay.

In 1997, Wake County – like many counties across the state that owned and ran hospitals – decided to get out of the hospital business. The Wake County commissioners, under the leadership of Chairman Gary Pendleton, and WakeMed's board agreed that our system would be much more flexible in a changing health care market if we were no longer part of government. Since that time, WakeMed has been and is a private-not-for-profit hospital. We receive no government subsidy. Not local, not state, not federal.

That proved to be a wise decision. WakeMed could be more agile, more efficient and more successful financially. We could meet the needs of a fast-growing population. We could maintain our mission of caring for everyone. And, we could do it without public subsidy.

How do we do it? We do it by being really good at what we do. We do it by providing a wide range of clinical and critical care services: stroke treatment, high-risk births, pediatric care, rehabilitation and trauma coverage. Among other things, we do it by being a comprehensive cardiac services provider. The WakeMed Heart Center is one of the busiest cardiac centers in North Carolina.

Today, in addition to our main hospital on New Bern Avenue, WakeMed operates in many locations throughout Wake and Johnston Counties. We will begin construction this year on at least two new facilities. Today, we operate 870 beds in all.

We operate Wake County's only Level I trauma center, prepared to deal with the most severe natural disasters, epidemics and other emergencies. We advanced to Level I when hospitals across the country were limiting emergency services growth and even threatening to close trauma centers.

We have North Carolina's first freestanding children's emergency department, where we see more than 40,000 children each year.

Last year at *Wake*Med, we saw hundreds of thousands of patients. These patients came from every county in North Carolina. Of the 130 hospitals in North Carolina, we are one of the ten biggest and busiest.

Finally, we are Wake County's largest private employer. Every year, we are adding jobs, even in a bad economy. Today, we employ nearly 8,000 people. And we are also proud of more than 1,200 volunteers who serve our community through WakeMed.

Relationship with UNC Health Care/Rex

Throughout most of our 50 years, we have had a mutually beneficial relationship with the UNC School of Medicine and UNC Health Care. Just one example: teaching medical students and residents. WakeMed is one of the largest teaching sites for UNC's School of Medicine. Year after year, these residents give WakeMed's training program the highest ratings of any hospital in the state.

WakeMed reimburses UNC for the residents' salaries, benefits and other costs for training rotations. We also cover medical liability costs for the residents and the costs for the professional physicians and other clinical staff who teach and oversee the residents while at WakeMed. And we pay the UNC School of Medicine to cover administrative costs. It's a good education for tomorrow's doctors. And it's a good deal for the state.

But our relationship with UNC today is not what it was before. The relationship changed when UNC bought Rex in 2000. Instead of a partner, UNC and Rex became a competitor that we believe is unfairly subsidized by taxpayer dollars. A number of problems have developed since.

The first problem is with Medicaid and uninsured care. Throughout the 50 years WakeMed has been in existence, the leaders of WakeMed felt that Rex was not doing its fair share. But Rex was a private hospital then. Now it is part of state government. And Rex is still not doing its fair share. This reality is cloaked because Rex's limited charity care often is lumped in with the charity care done by the total UNC system.

Today, WakeMed is the largest provider of Medicaid and charity care in Wake County. Based on state data, we provide over 80 percent of the care to Wake County's Medicaid population and WakeMed is consistently in the top 12 system's in the state for the provision of charity care while Rex is consistently among the lowest 11 hospitals statewide.

Even though WakeMed provides a disproportionate share of this care in Wake County, the state pays UNC a multi-million dollar tax subsidy. This has totaled $44 million in past years, and the total this year is $18 million.

Members of the committee, this is not a level playing field. It is time for Rex – as a state-owned hospital – to take on the state's responsibility for directly providing more Medicaid and charity care in Wake County.

Here is another problem. The state pays higher Medicaid reimbursement rates to UNC than WakeMed and other hospitals across North Carolina. Currently, UNC gets reimbursed 100 percent of its allowable costs for treating Medicaid and uninsured patients. Rex will soon get reimbursed at these same rates. WakeMed and other hospitals get on average only 83 percent of our allowable costs for treating Medicaid patients and less than 15% for uninsured patients. Again, the playing field is not level.

On top of this is the fact that Rex, although owned by state government, is not transparent. Unlike other private, non-profit hospitals like WakeMed, Rex does not file a 990 with the IRS. While Rex does undergo a private audit, it is not audited by the state auditor. It resists public record requests. As a result, Rex, although it is a state owned hospital, is one of the least transparent hospitals in North Carolina.

These problems came to a head in October 2010 when UNC and Rex recruited away from WakeMed a large group of heart doctors. This move literally struck at the heart of WakeMed's ability to carry out the mission we have met for 50 years. Our cardiac business is how we make up the losses we incur from doing the majority of the charity care in Wake County. It is very simple: if you cripple WakeMed's heart program, you cripple our ability to provide this level of charity care.

Now, UNC and Rex want to build a new heart center in Wake County – a heart center that will directly compete with WakeMed and needlessly duplicate the heart services we already provide. The initial cost will be $278 million, but will likely grow much higher in short order.

Let me pause here to note that – thanks to Tom Ross, President of the UNC system – leaders from our two systems recently began discussing these issues. We hope the talks will address some of the problems. But only time will tell.

Offer to Acquire Rex

Over the last year, WakeMed has looked hard at the problems that developed in our relationship with UNC Health Care since Rex Hospital became part of state government. We examined ways to level the playing field between our system and the state. We decided that one solution is to buy Rex Hospital. On May 11 last year, WakeMed made a formal offer to acquire Rex for $750 million – plus our assuming $125 million in Rex's debt.

Certainly, $875 million is a lot of money. Before making our offer, we had to make sure WakeMed could afford it. We carefully examined our cash reserves and our bond rating. We prepared our offer in conjunction with Citi, our investment bankers. A special committee of our Board of Directors, led by experienced private sector financial and business people, developed specifics of the offer. Fortunately, because we are a well-managed system that focuses on innovation and efficiency, WakeMed is financially very strong. We determined that the offer is one that makes financial sense for WakeMed and the patients we serve.

The UNC Health Care Board voted not to accept our offer, although they did not discuss the offer with us directly before making their decision. We believe our offer deserves more careful consideration from the State of North Carolina.

In fact, this is not the first time a combination of WakeMed and Rex has been discussed. It almost happened in 2000. Then, Rex was a private hospital, and it was facing financial difficulties. That was before I came to WakeMed, but I understand that there were serious negotiations about WakeMed and Rex merging. The boards of the two hospitals and their medical staffs had extensive talks about merger. In the end, however, Rex was purchased by the State of North Carolina through the UNC Health Care System.

We Seek a Level Playing Field

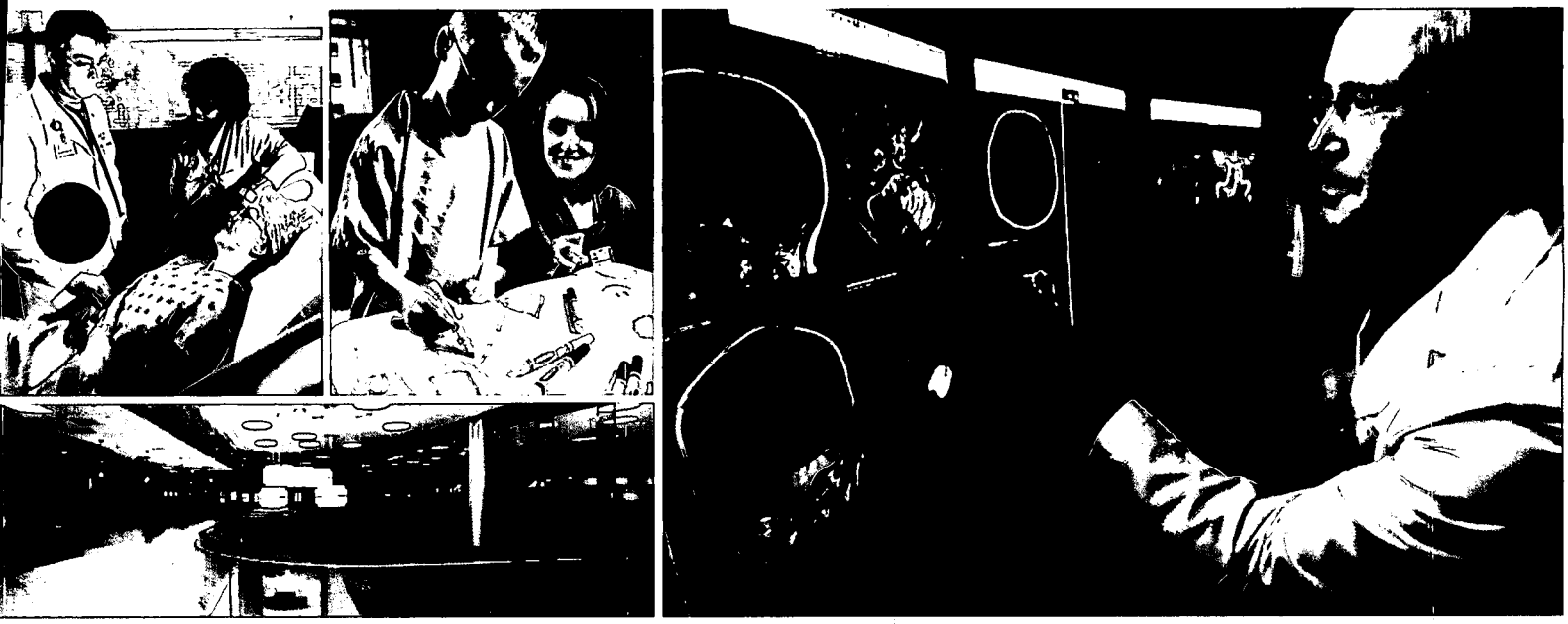
Let me conclude with this. WakeMed is in a competitive business in a very competitive market. We compete every day with hospitals in our region and across the state. We accept that competition, and we welcome it. But today we are facing direct competition from an arm of state government, competition that is backed by public dollars. That is unfair. And it could jeopardize our ability to provide services in Wake County and beyond.

This is not a problem for WakeMed alone. It could face any hospital or any physician practice in any county of North Carolina. Suppose your local hospital or physicians suddenly faced taxpayer-subsidized competition from the state? Suppose the state began using the revenue from care in your county to send money back to the UNC Health Care System in Chapel Hill? Would you think that's fair?

We believe it is fair to ask here: What is the proper role of government? Is it proper for government and the University or North Carolina to compete with private hospitals? Is it right for that competition to be subsidized by tax dollars? Is it right to jeopardize the ability of non-profit hospitals like WakeMed to meet the needs of people who seek our services regardless of their ability to pay?

Ladies and gentlemen, we know how to compete. We have competed successfully for 50 years. All we seek is a level playing field. And that, members of the committee, is the core of the issue.

I thank you for inviting me to address you, and I will try to answer any questions you may have regarding WakeMed or our stated concerns.



Who is bearing the cost of Charity Care and Medicaid in Wake County?

#1A

The cost to provide uncompensated care to the community is continuing to rise, and the cost of providing this care is not being shared proportionally among the hospitals caring for patients in Wake County. For purposes of this illustration, uncompensated care is defined as the unreimbursed cost of care provided to Charity/Self-Pay and Medicaid patients; it does include unreimbursed costs for Medicare patients or bad debt.

The largest providers in Wake County include: WakeMed, a private, not-for-profit organization which receives no taxpayer support, and Rex Healthcare, which is owned by the State of North Carolina and operates as an entity of UNC Health Care whose mission and purpose is to provide care for residents of the state. Yet, WakeMed delivers more than 80 percent of the uncompensated care in Wake County. To illustrate the point, the following data uses information reported by the health systems to multiple sources (cited in the following pages) for fiscal years 2008, 2009, and 2010.

Each data source uses a slightly different methodology to calculate costs of uncompensated care, but the data is submitted independently by each hospital. The bottom line remains the same across the different sources – it is an unlevel playing field with WakeMed doing more than its fair share, while Rex provides significantly less care to the uninsured and Medicaid populations than nearly all hospitals in North Carolina.

As illustrated in the following, across the three years and three independent sources of data, *WakeMed provides more than double the percentage of care to the uninsured and Medicaid populations than does Rex.* Yet, Rex is a private not-for-profit 501 (c)(3) entity that claims exemption from filing IRS Form 990 public disclosure data because it is owned by the State of North Carolina.

UNC also claims that Rex is an integral part of the UNC Health Care system's mission of teaching, research and caring for the needs of North Carolinians. If that is the case, then why isn't Rex providing more care for those with the greatest need?

North Carolina Division of Medical Assistance – Medicaid Reimbursement Initiative

Plan year 2010 – uses FY 2008 data from Hospital Medicaid Cost Reports.

Each hospital submits a cost report to the North Carolina Division of Medical Assistance (DMA), which includes their costs for the provision of uninsured (Charity) and Medicaid care, as well as the organization's total allowable expenses for treating Medicaid and uninsured patients. While not all expenses can be included in the cost report based on Medicaid rules, the rules for inclusion are the same for all hospitals.

The analysis on the following page ranks each hospital in North Carolina by its commitment for caring for the underserved. The DMA data takes the unreimbursed cost of providing care to the uninsured and Medicaid populations as a percentage of the organization's overall expenses. By using the percentage, the cost to provide this care becomes proportionate to the size of the organization. The DMA data shows that WakeMed Raleigh Campus ranks 11th in the state, WakeMed Cary Hospital ranks 38th, and Rex ranks 97th out of the 109 North Carolina acute care hospitals participating in the Medicaid Reimbursement Initiative. These percentages also show that WakeMed Raleigh provides proportionally 256 percent and WakeMed Cary 184 percent more care to the uninsured and Medicaid populations does than Rex.

A Proportional Ranking of NC Hospitals Providing Unreimbursed Charity and Medicaid Care

Hospital Cost vs. Medicaid and Uninsured Deficit
2010 MRI Plan
2008 Data

Provider Name	Total Facility Cost		Unreimbursed & Uninsured Costs Less Uninsured Payments	Unreimbursed Uninsured and Medicaid Deficit	Total Unreimbursed/Uninsured Care Costs + Medicaid Cost Deficit as % of Total Facility Costs after Teaching & Enhanced	Ranking of Total Unreimbursed/Uninsured Care Costs + Medicaid Cost Deficit as % of Total Facility Costs after Teaching and Enhanced Funds
Our Community Hospital	$ 1,882,725		$ 388,150	$ 388,150	20.62%	1
Davie County Emergency Health Corporation	$ 7,334,872		$ 1,124,431	$ 1,124,431	15.33%	2
Pender Memorial Hospital	$ 10,251,028		$ 1,498,815	$ 1,498,815	14.62%	3
Thomasville Medical Center	$ 47,530,148		$ 5,132,730	$ 6,618,171	13.92%	4
Richmond Memorial Hospital	$ 34,693,117		$ 2,649,481	$ 4,622,487	13.32%	5
Southeastern Regional Medical Center	$ 185,301,018		$ 15,515,689	$ 23,949,734	12.92%	6
Chatham Hospital	$ 15,032,946		$ 1,903,394	$ 1,903,394	12.66%	7
Onslow Memorial Hospital	$ 89,754,065		$ 9,182,983	$ 11,311,834	12.60%	8
Davis Regional Medical Center	$ 47,740,232		$ 4,791,578	$ 5,885,911	12.33%	9
Murphy Medical Center	$ 34,448,339		$ 3,532,853	$ 4,212,508	12.23%	10
WakeMed Raleigh Campus	$ 556,527,826	$ 16,960,072	$ 46,606,899	$ 67,168,971	12.07%	11
Brunswick Community Hospital	$ 44,769,353		$ 3,976,469	$ 5,272,813	11.78%	12
Lexington Memorial Hospital	$ 49,897,938		$ 3,761,153	$ 5,722,721	11.47%	13
Central Carolina Hospital	$ 58,917,691		$ 4,361,527	$ 6,667,639	11.32%	14
[redacted]						
Union Regional Medical Center	$ 109,181,210		$ 8,174,889	$ 9,720,138	8.90%	35
Sampson Regional Medical Center	$ 41,303,862		$ 2,949,220	$ 3,599,454	8.71%	36
Mission Hospital	$ 574,014,193		$ 26,131,416	$ 49,809,364	8.68%	37
WakeMed Cary Hospital	$ 120,812,089	$ 1,573,722	$ 8,900,832	$ 10,474,554	8.67%	38
Johnston Memorial Hospital	$ 99,464,500		$ 7,359,767	$ 8,610,061	8.66%	39
Angel Medical Center	$ 28,069,029		$ 2,421,228	$ 2,421,228	8.63%	40
Person Memorial Hospital	$ 28,214,212		$ 1,851,018	$ 2,404,884	8.52%	41
Maria Parham	$ 60,002,164		$ 3,128,214	$ 5,094,628	8.49%	42
Duke Raleigh Hospital	$ 144,322,080	$ 1,597,453	$ 10,414,735	$ 12,012,188	8.32%	43
Stanly Regional Medical Center	$ 59,503,425		$ 3,292,633	$ 4,917,284	8.26%	44
Franklin Regional Medical Center	$ 35,481,914		$ 1,226,893	$ 2,931,410	8.26%	45
Haywood Regional Medical Center	$ 43,911,124		$ 2,960,846	$ 3,623,210	8.25%	46
The Moses H. Cone Memorial Hospital	$ 605,232,202		$ 31,446,119	$ 49,035,218	8.10%	47
Cape Fear Valley Medical Center	$ 392,620,346		$ 24,147,414	$ 31,424,802	8.00%	48
Presbyterian Hospital Huntersville	$ 65,058,046		$ 3,804,470	$ 5,175,840	7.96%	49
Rowan Regional Medical Center	$ 157,314,918		$ 9,695,138	$ 12,485,023	7.94%	50
Cleveland Regional Medical Center	$ 108,483,077		$ 7,016,765	$ 8,556,721	7.89%	51
Duke University Hospital	$ 1,031,522,874	$ 25,909,822	$ 56,331,295	$ 81,241,217	7.88%	52
ALAMANCE REGIONAL MEDICAL CENTER	$ 182,968,508		$ 8,439,155	$ 12,670,808	7.78%	53
Caldwell Memorial Hospital	$ 68,022,587		$ 3,732,784	$ 5,225,611	7.68%	54
Presbyterian Hospital Matthews	$ 92,305,143		$ 5,276,706	$ 7,039,761	7.63%	55
[redacted]						
Asheville Memorial Hospital	$ 19,722,036		$ 1,384,479	$ 1,384,479	7.02%	65
Halifax Regional Medical Center	$ 58,773,706		$ 2,566,891	$ 4,817,775	7.01%	66
University of North Carolina Hospitals	$ 756,455,638	$ -	$ 52,622,007	$ 52,622,007	6.96%	67
Albemarle Hospital	$ 88,314,702		$ 5,062,871	$ 6,134,691	6.95%	68
Iredell Memorial Hospital, Incorporated	$ 113,691,349		$ 6,041,700	$ 7,877,940	6.62%	69
Swain County Hospital	$ 9,956,149		$ 691,124	$ 691,124	6.91%	70
[redacted]						
Park Ridge Hospital	$ 79,164,200		$ 3,131,472	$ 4,307,790	5.44%	93
Transylvania Community Hospital	$ 37,138,822		$ 1,930,678	$ 1,930,678	5.20%	94
St. Luke's Hospital	$ 20,954,334		$ 1,070,918	$ 1,070,918	5.11%	95
Chowan Hospital	$ 36,721,081		$ 1,748,041	$ 1,748,041	4.76%	96
REX HOSPITAL	$ 381,869,407	$ 3,532,711	$ 14,479,285	$ 18,011,996	4.72%	97
Pitt County Memorial Hospital	$ 695,344,598		$ 32,259,168	$ 32,259,168	4.64%	98
Carteret County General Hospital Company	$ 82,013,389		$ 2,890,303	$ 3,714,956	4.53%	99
MARTIN GENERAL HOPSITAL	$ 20,295,813		$ 28,224	$ 845,320	4.16%	100
Beaufort County Hospital	$ 50,111,423		$ 1,005,133	$ 1,883,178	3.76%	101
Carolinas Rehabilitation	$ 56,894,387		$ 757,586	$ 1,833,047	3.22%	102
Presbyterian Orthopaedic Hospital	$ 62,624,348		$ 1,450,981	$ 1,935,373	3.09%	103
Blue Ridge Regional Hospital	$ 27,925,055		$ -	$ 621,519	2.23%	104
Medical Park Hospital	$ 46,215,453		$ 512,812	$ 880,010	1.90%	105
North Carolina Specialty Hospital	$ 26,091,437		$ 1,306	$ 195,770	0.75%	106
Allenbaugh Memorial Hospital	$ 9,800,427		$ 28,382	$ 28,382	0.29%	107

WakeMed Raleigh & Cary 11.45%

Rex 4.72%

243% difference

WakeMed proportionally provides 243% more u sured and Medicaid de than does Rex.

#11 WakeMed Raleigh

#38 WakeMed Cary

#43 Duke Raleigh Hospital

#52 Duke Univ. Hospital

#67 UNC Hospital

#97 Rex Hospital

Source: NC Division of Medical Assistance

North Carolina Hospital Association Community Benefits Reports (NCHA)

FY 2009 & FY 2010 Submission

The majority of hospitals in North Carolina are participating in the voluntary reporting program called ANDI. The data is self reported based on the community benefit guidelines developed by the NCHA. Hospitals can use a variety of methods to calculate costs, but most of the larger organizations use their own internal cost accounting systems.

Like the earlier DMA-MRI table, the data below takes the unreimbursed costs of Charity and Medicaid care provided as a percentage of the organization's overall costs. Comparing the percentage of overall expenses for uncompensated care between WakeMed and Rex, WakeMed provided 221 percent more uncompensated care than Rex in FY 2009 and 218 percent more in FY 2010.

Important to note in this data, is the fact that **UNC does not deduct the appropriation it received in FY2009 and FY2010 for charity care from its unreimbursed costs for care provided to the uninsured.**

FY 2009
Source: NCHA ANDI Community Benefit Public Website

	Total Operating Expenses (in 000's)	(A) Estimated Costs of Treating Charity Care Patients (in 000's)	Charity Care Estimated Costs as a % of Operating Expenses =	(E-G) Estimated Unreimbursed Costs of Treating Medicaid Patients (in 000's)	Unreimbursed Estimated Costs - Medicaid as a % of Operating Expenses (in 000's)	Estimated Costs for Charity Care + Unreimbursed Medicaid Costs	Charity Care Estimated Costs & Unreimbursed Medicaid Costs as a % of Operating Costs =	
WakeMed	$885,351	$70,712	7.99%	$31,418	3.55%	$102,130	11.54%	221% difference
Rex	492,560	22,098	4.49%	3,666	0.74%	25,764	5.23%	
UNC Hospitals	853,484	63,074	7.39%	27,827	3.26%	90,901	10.65%	
UNC Hospitals **Net of State Appropriation**		21,000	2.46%			48,800	5.72%	

FY 2010
Source: NCHA ANDI Community Benefit Public Website

	Total Operating Expenses (in 000's)	(A) Estimated Costs of Treating Charity Care Patients (In 000's)	Charity Care Estimated Costs as a % of Operating Expenses =	(E) Estimated Unreimbursed Costs of Treating Medicaid Patients (In 000's)	Unreimbursed Estimated Costs - Medicaid as a % of Operating Expenses	Estimated Costs for Charity Care + Unreimbursed Medicaid Costs (In 000's)	Charity Care Estimated Costs & Unreimbursed Medicaid Costs as a % of Operating Costs =	
WakeMed	$890,990*	$67,312	7.55%	$33.432	3.75%	$100,744	11.31%	218% difference
Rex	535,228	26,157	4.89%	2,028	0.38%	28,185	5.27%	
UNC Hospitals	887,586	65,321	7.36%	30,211	3.40%	95,532	10.76%	
UNC Hospitals **Net of State Appropriation**		23,500	2.65%			53,900	6.05%	

April 2011 Certificate of Need Applications – Form B

Uses FY 2010 Audited Financial Statements

Form B is included in every Certificate of Need application filed with the NC Division of Health Service Regulation. The most recent filings by WakeMed and Rex on April 15, 2011, used FY 2010 data. It lists financial information submitted by each organization, including projections for the coming years. In this data, Charity care and unreimbursed costs for Medicaid are reported as gross charges and then deducted from those charges to determine the actual unreimbursed costs. A cost-to-charge ratio, which is a good estimate of the organization's cost to provide the care, is used to determine the cost. As you will see, in dollars, WakeMed provides nearly $90 million in care for the uninsured and Medicaid populations while Rex provides $21 million.

To make these costs proportionate to the size of the organization, the $90M and $21M costs respectively are divided by total expenses of each organization. WakeMed's expenses for uncompensated care are 9.99 percent of its total expenses and Rex's are 3.96 percent. As a result, WakeMed provides 252 percent more uncompensated care than Rex.

FY 2010
Source: CON Applications Form B

(In 000's)	**WakeMed**	**Rex**
Net Charity Care Costs	$70,600	$15,200
Medicaid Deficit	18,903	6,045
Total Charity & Medicaid Deficits	$89,503	$21,245
Total Operating Expenses	$896,377	$536,600
Total Charity & Medicaid Deficit as % of Total Operating Expenses	9.99%	3.96%

WakeMed proportionally provides **252% more** Charity and Medicaid than does **Rex**

252% difference

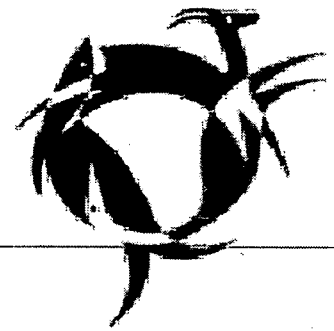
Joint Commission Gold Seal of Approval™ for Stroke Care

WakeMed

Raleigh Campus
3000 New Bern Avenue
Raleigh, NC 27610

WakeMed Health & Hospitals ◦ www.wakemed.org
Raleigh Campus ◦ Cary Hospital ◦ North Healthplex ◦ Apex Healthplex ◦ Brier Creek Medical Park ◦ Clayton Medical Park
Wake Forest Road Outpatient Rehab Center ◦ Fuquay-Varina Outpatient & Skilled Nursing Facility ◦ Zebulon/Wendell Outpatient & Skilled Nursing Facility
Blue Ridge Surgery Center ◦ WakeMed Physician Practices ◦ Home Health

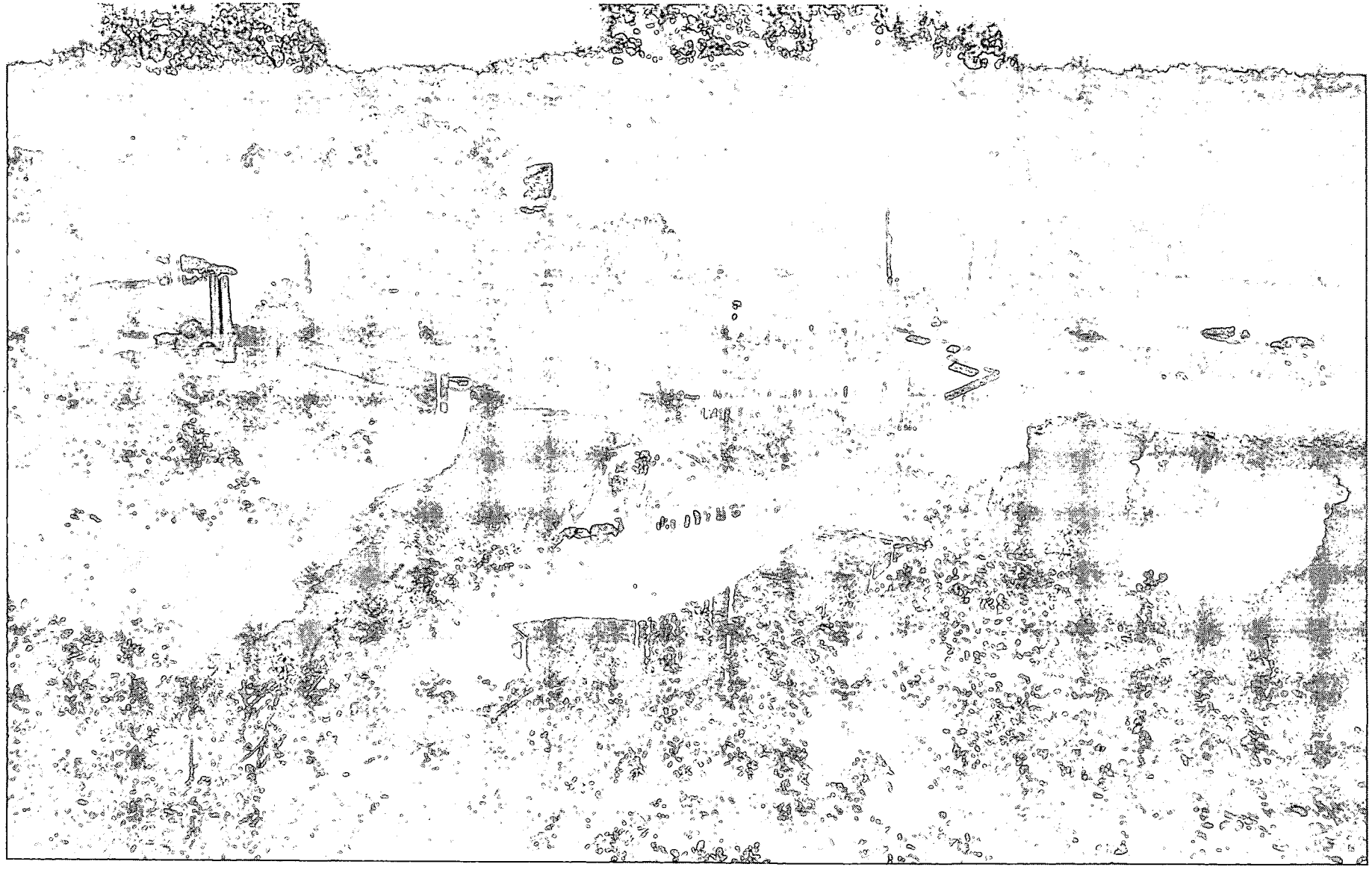
Select Committee on State-Owned Assets
Presentation
Monday, January 23rd, 2012



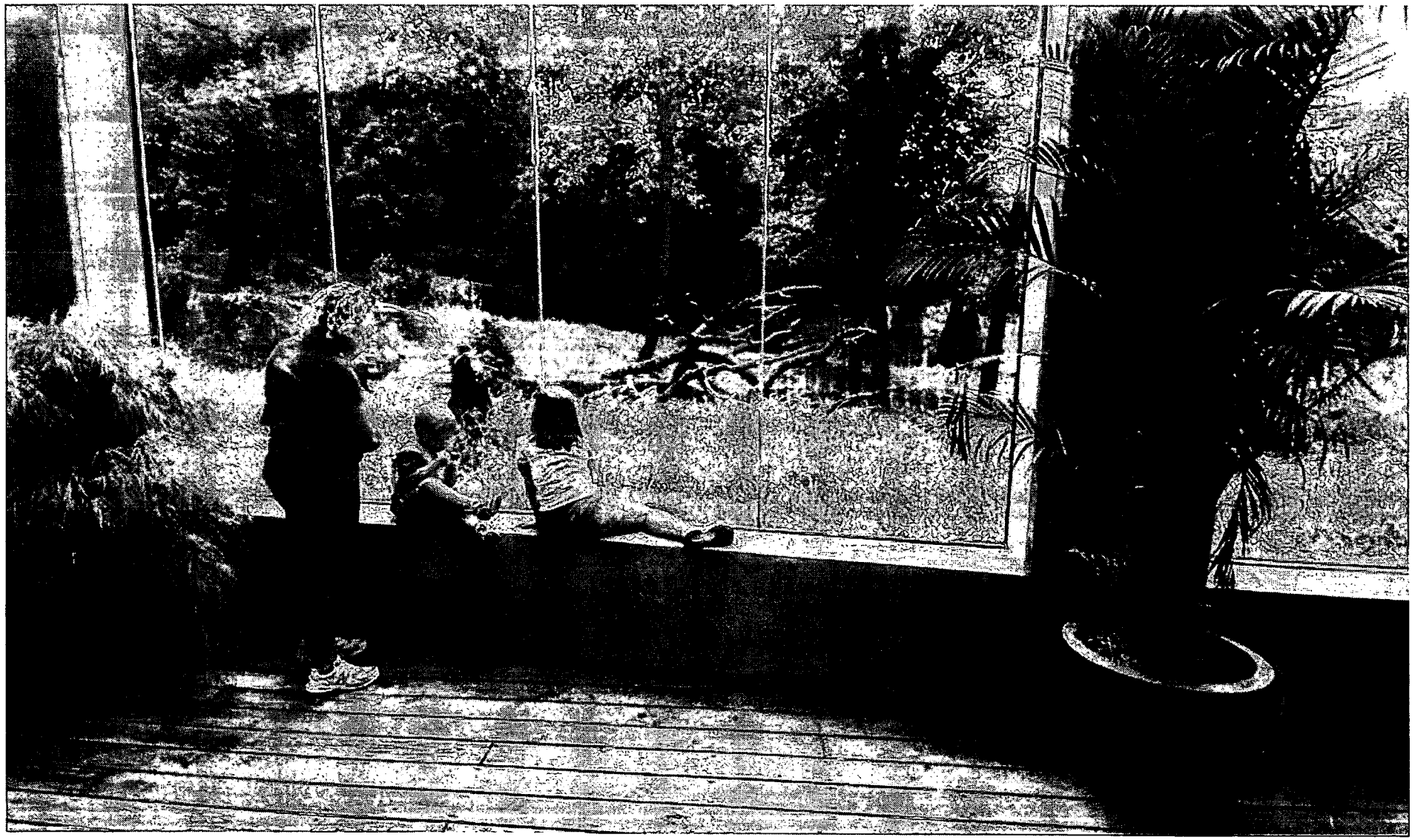
North Carolina Zoo

The Future Zoo
Expansion and Governance

North Carolina ZOO

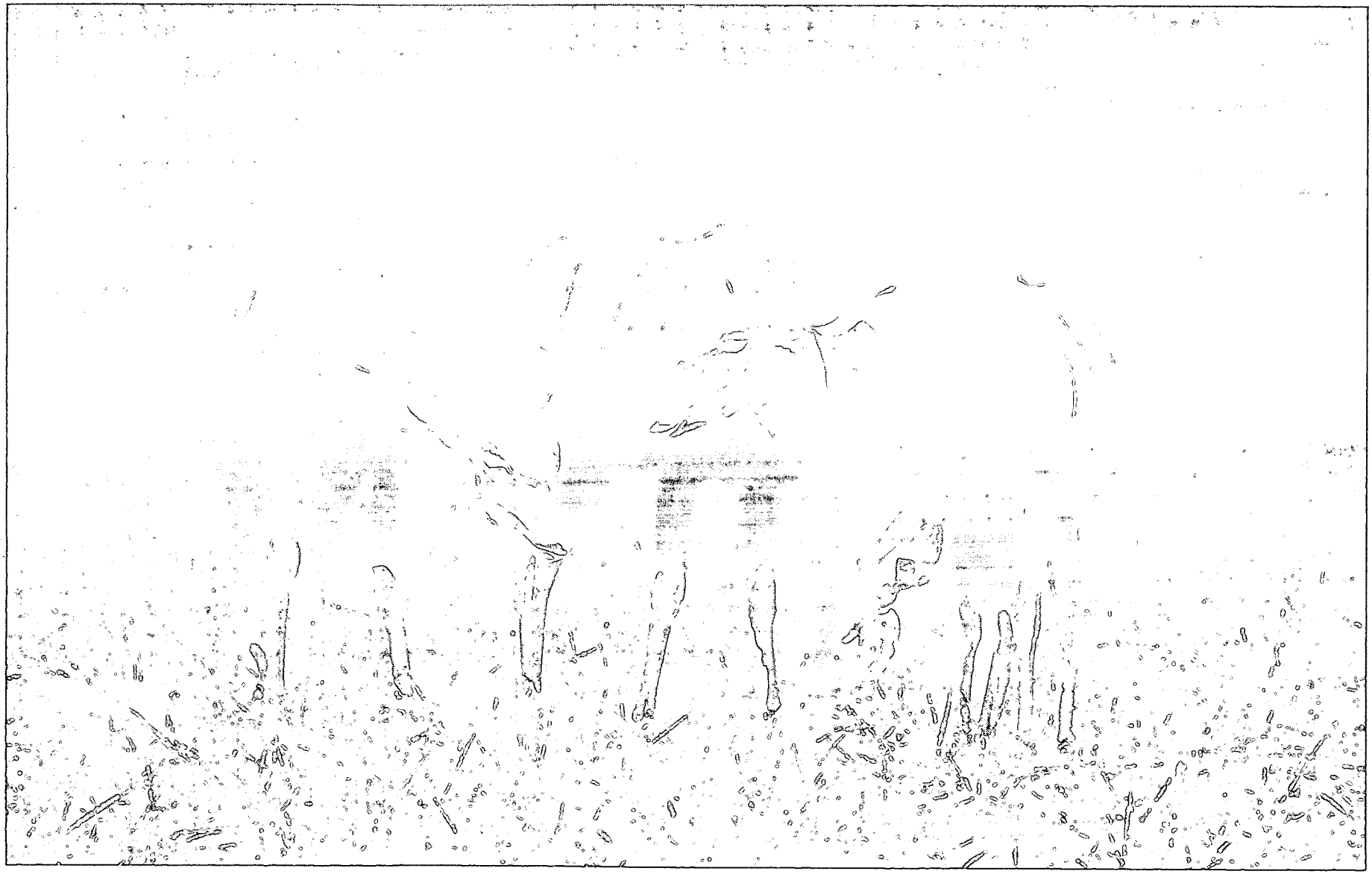


North Carolina ZOO



North Carolina ZOO

North Carolina ZOO



North Carolina ZOO

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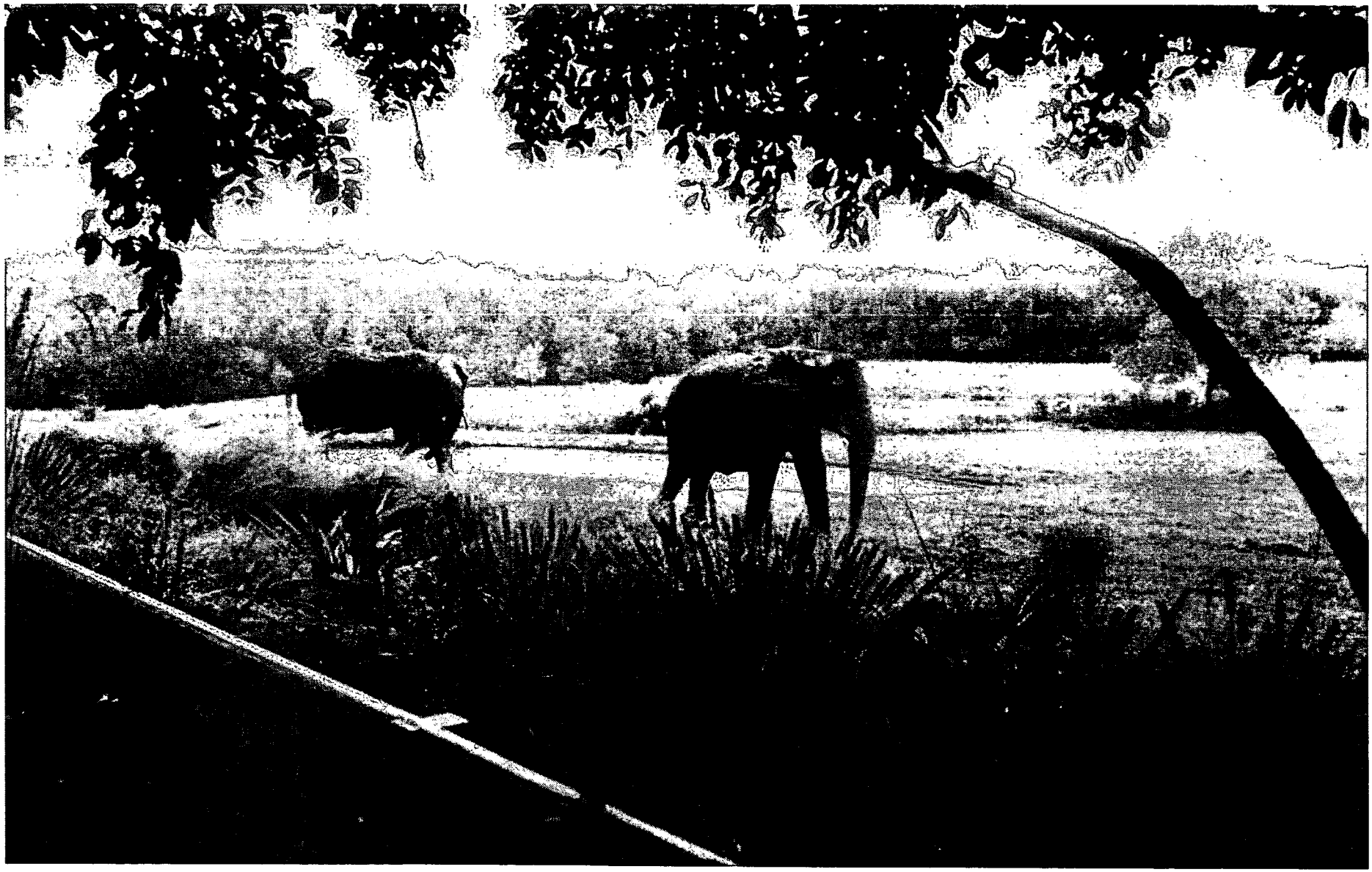
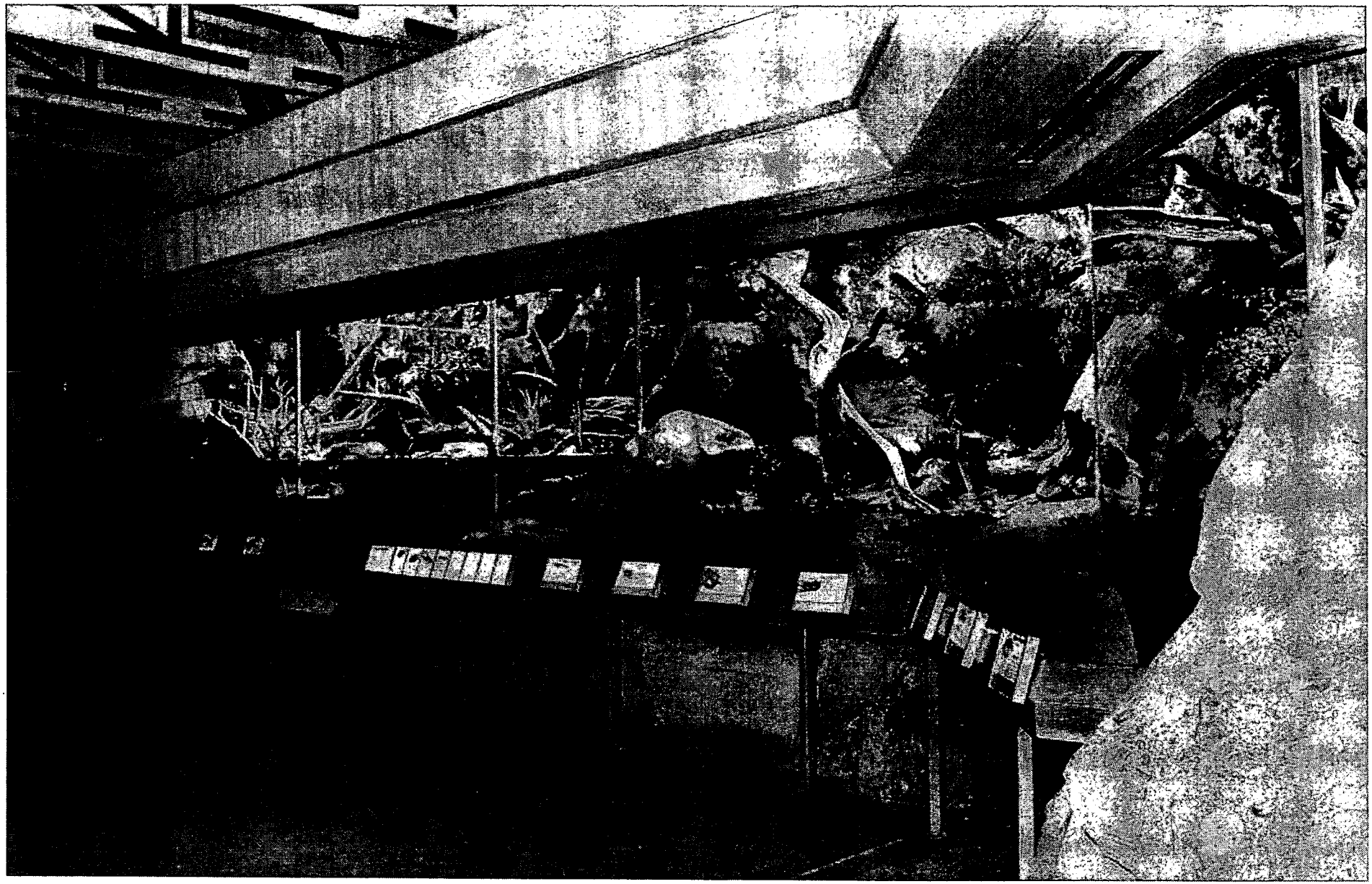
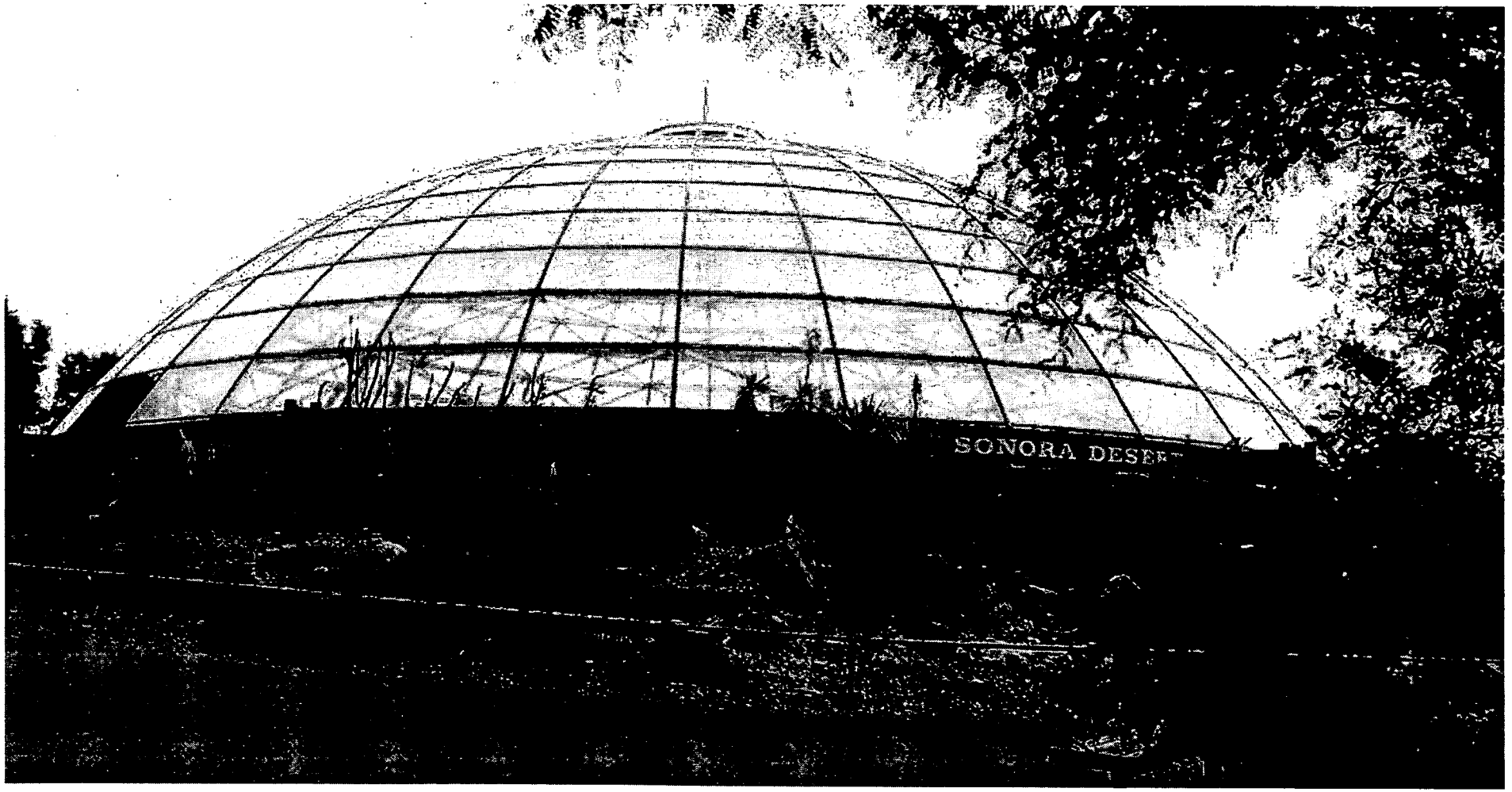


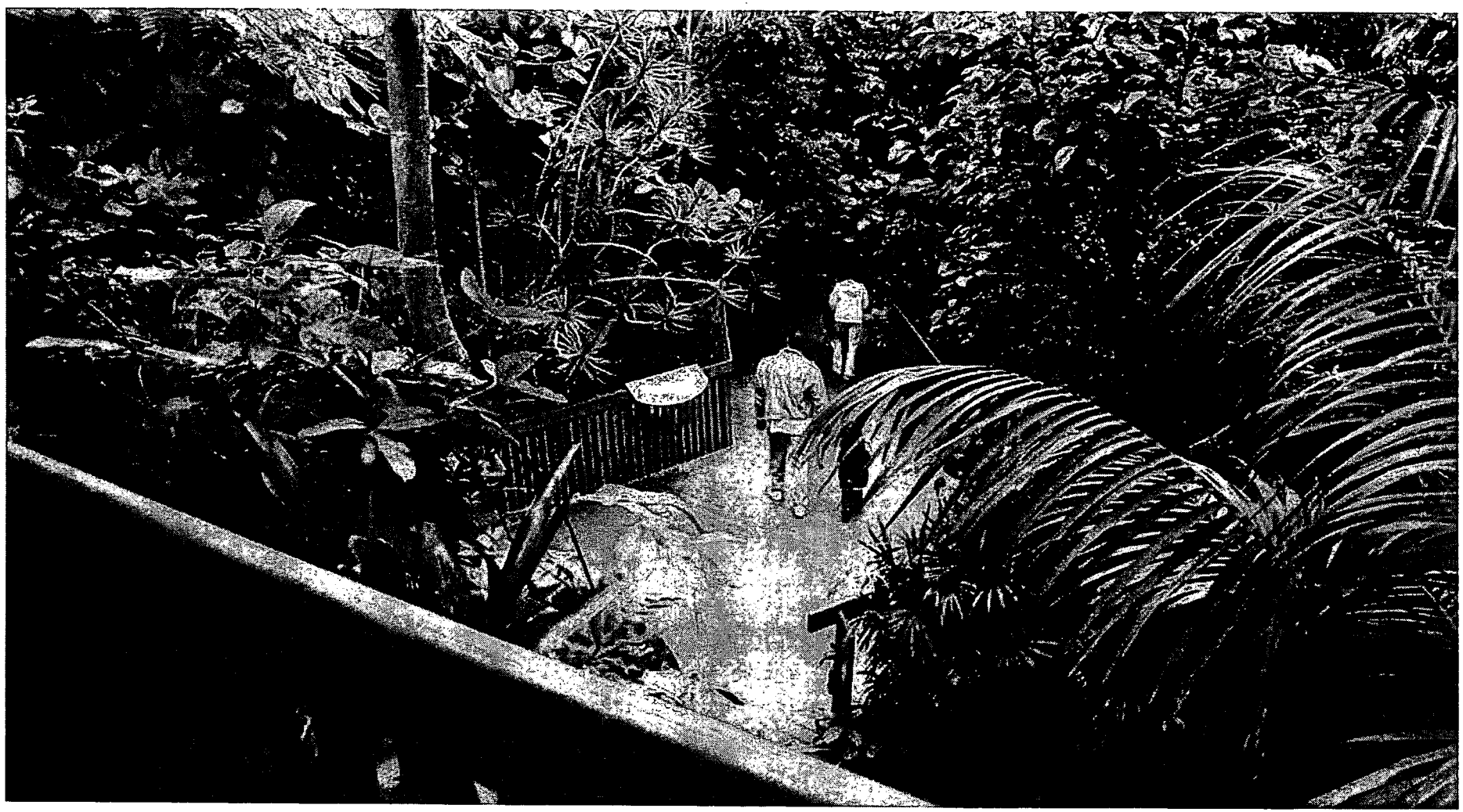
North Carolina ZOO



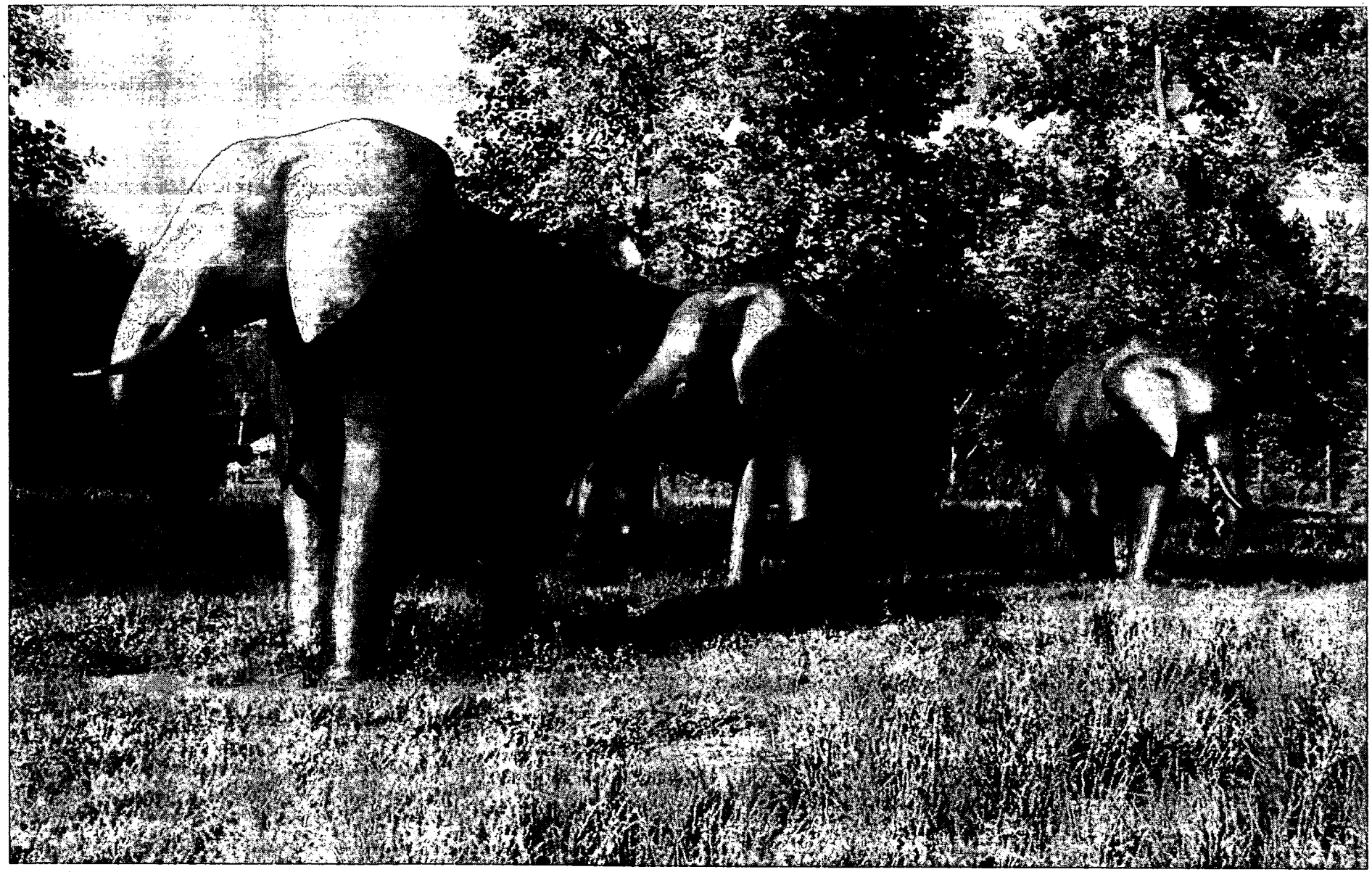
North Carolina ZOO



North Carolina ZOO

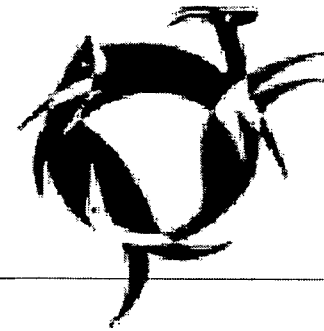


North Carolina ZOO



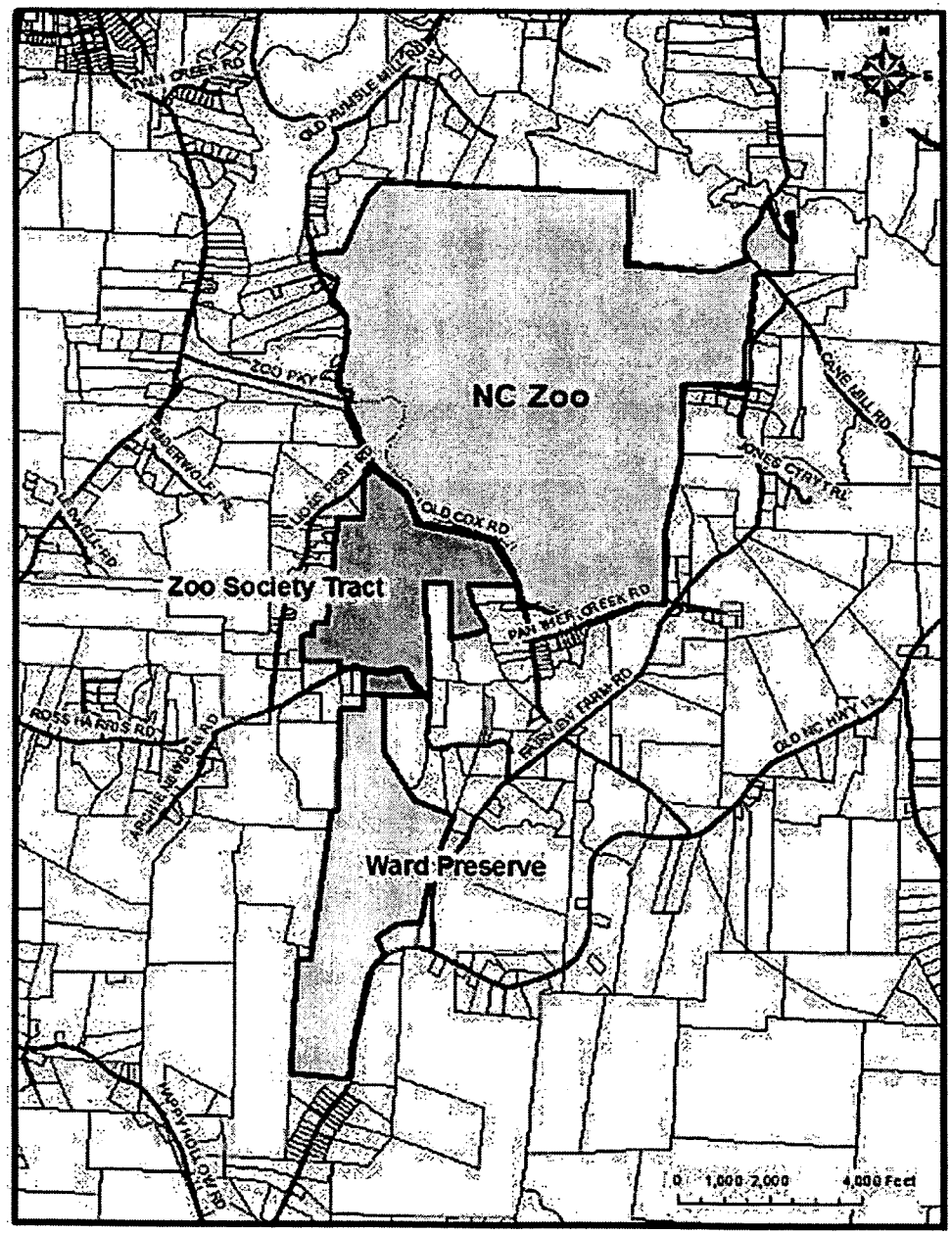
North Carolina ZOO

North Carolina ZOO



North Carolina Zoo

Expansion Plans



North Carolina ZOO

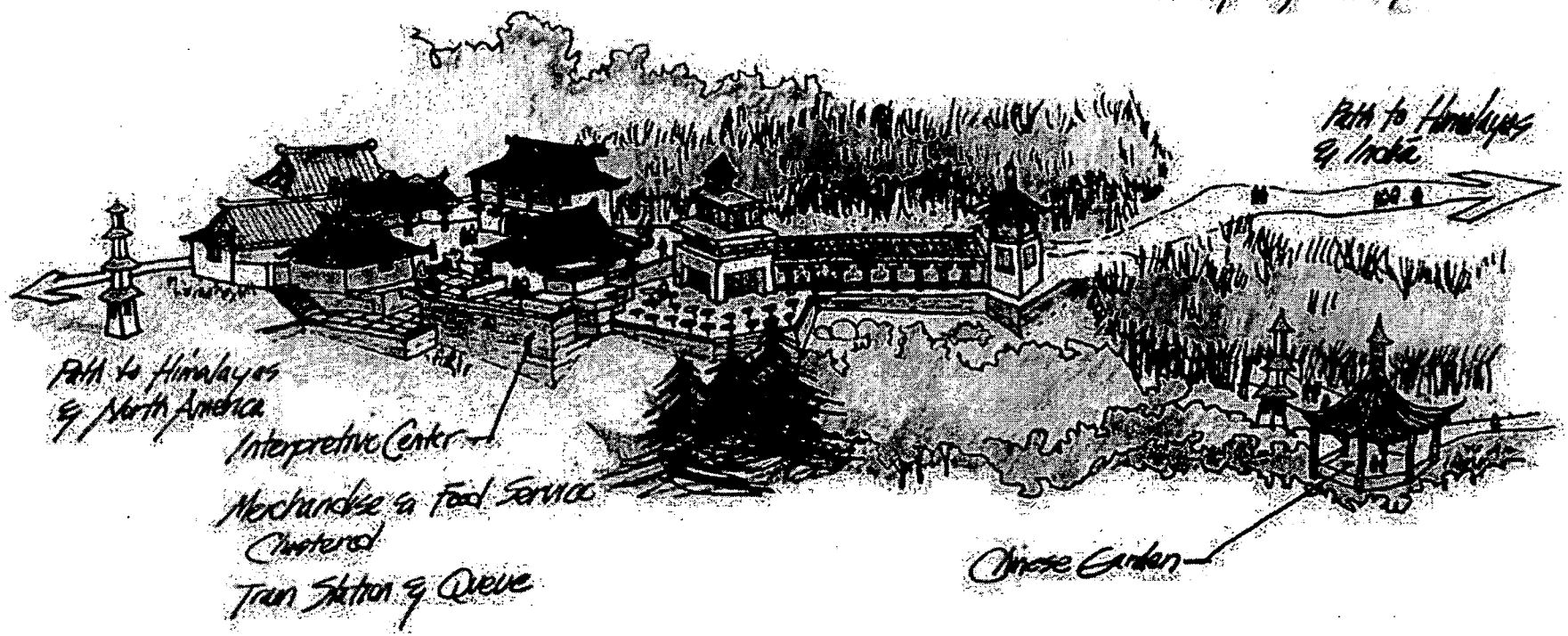
Asia

- *Asia would occupy undeveloped space between the two existing parking lots*
- *Primary focus will be on China and India with some exhibits devoted to Southeast Asia*
- *This area will have the potential for exhibiting Tiger, Orangutan, Indian Rhinoceros, Snow Leopard, Camel, Colorful Pheasant and possibly Panda*

North Carolina ZOO

China

Idea gram for Village



Not to Scale
D. Rice
8.4.2010

North Carolina ZOO

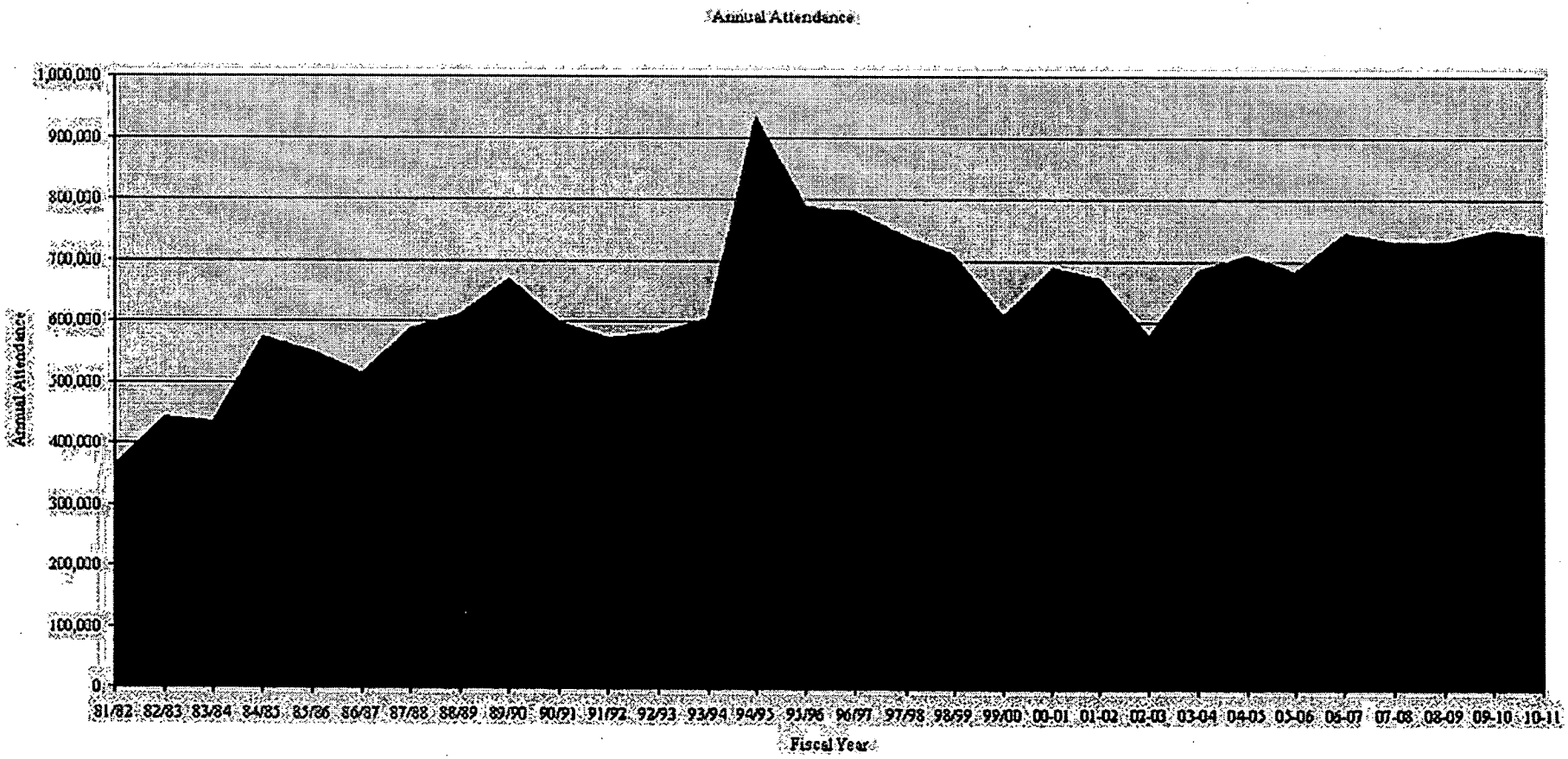
Asia

- *Estimated cost for development is approximately $110 Million*
- *This addition would add approximately 300,000 visitors each year*
- *Additional visitation would increase Zoo total income from $7 Million dollars each year to $13 Million*
- *The $6 Million difference would be sufficient to offset the costs*

North Carolina ZOO

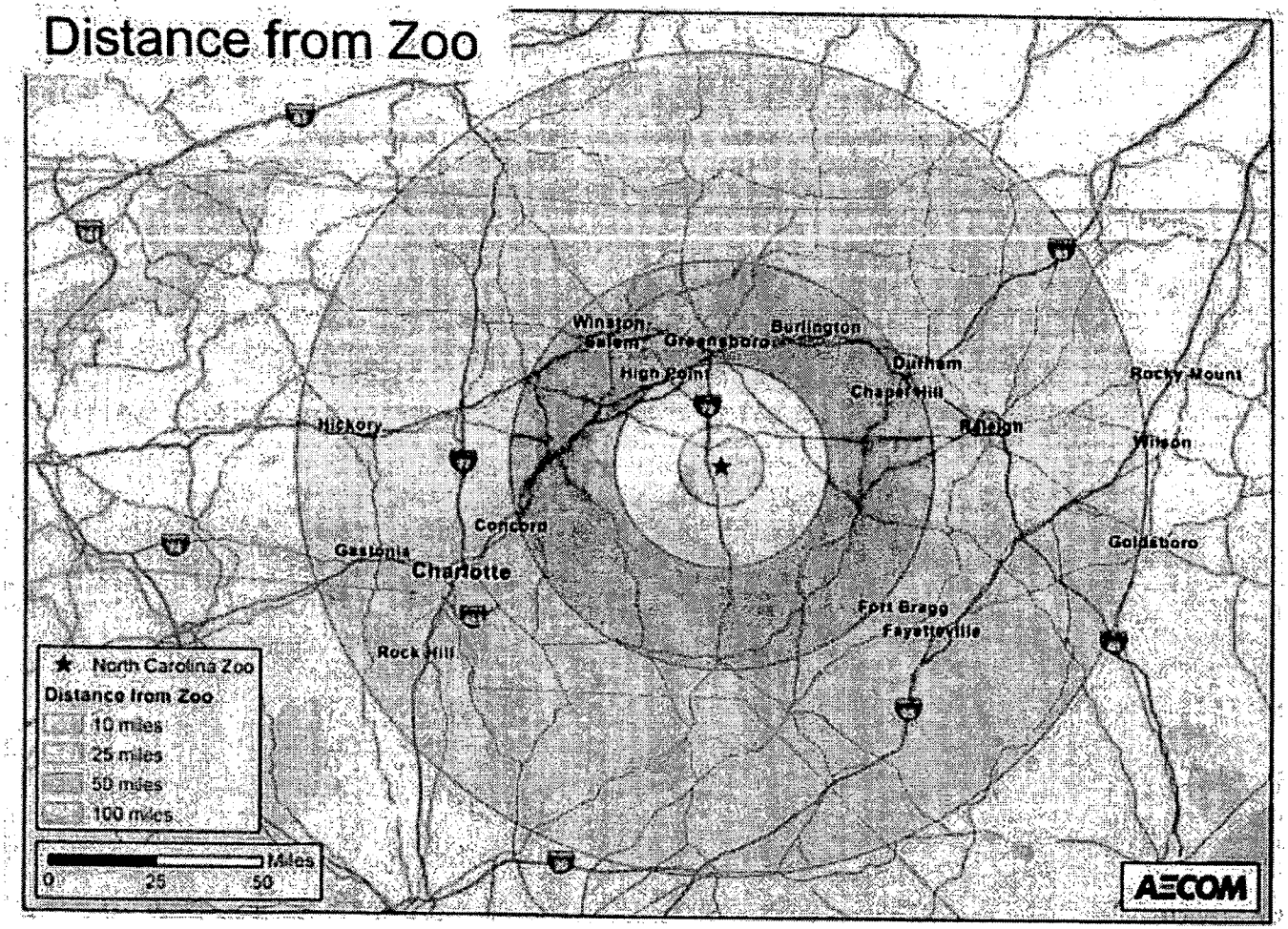
North Carolina Zoo

Annual Attendance by Fiscal Year



North Carolina ZOO

Resident Market



North Carolina ZOO

North Carolina Population

25 Mile Radius		*.27 Million*
50 Mile Radius		*1.8 Million*
100 Mile Radius	*(2011 Population Estimate)*	*7.5 Million*
100 Mile Radius	*(2014 Population Estimate)*	*8.2 Million*

North Carolina ZOO

Peripheral Land

- *Zoo must create its own "Critical Mass"*
- *Heavy regional competition for Water Parks and Family Entertainment Centers*
- *Most of competing facilities are located in Urban Areas*

North Carolina ZOO

Peripheral Land

Enhanced Option

- *250-300 Rooms. 4-Star Standard*
- *50 upscale cabins with 4-8 beds each*
- *Expanded restaurant and retail facilities*
- *Significant family oriented recreation facilities- water, adventure play, biking and horses*
- *Would support $105 Million dollar investment*
- *Operating net income $11 Million dollars (24%)*

North Carolina ZOO

Annual Economic Impact

Existing Zoo Facilities

Expenditures:	*$146 Million*
Employment:	*1,655 Jobs*
Tax Impact:	*$2.9m Randolph County*
	$5.3m State of North Carolina

North Carolina ZOO

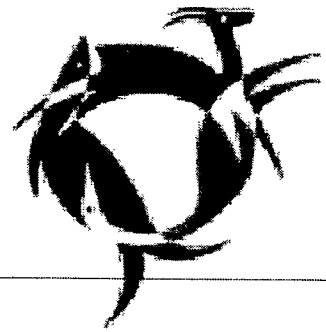
Annual Economic Impact

Peripheral Land

Enhanced Peripheral land plus existing Zoo

Expenditures:	*$264 Million*
Employment:	*2,630 Jobs*
Tax Impact:	*$5.3m Randolph County*
	$9.7m State of North Carolina

North Carolina ZOO



North Carolina Zoo

Governance Study Update

Why Zoos Consider a Shift in Governance

- ***75% of AZA** accredited zoos under private management – most with public partners – true PPP...(public/private partnership)*
- *Creates an entrepreneurial business approach*
- *Provides flexibility in response to staffing & visitors*
- *Allows for cost efficiencies by eliminating the duplication of efforts and in purchasing services*

S&W

North Carolina ZOO

Why Zoos Consider a Shift in Governance

- *Creates market-based pricing strategies*
- *Offers a re-investment strategy as "what is earned at the Zoo is invested in the Zoo"*
- *Strengthen private financial support for the Zoo*
  - *Investment in new facilities, exhibits and attractions*
  - *Provides new opportunities to engage the regional & State-wide communities*
- *Solidify the Zoo's annual funding structure*

S&W

North Carolina ZOO

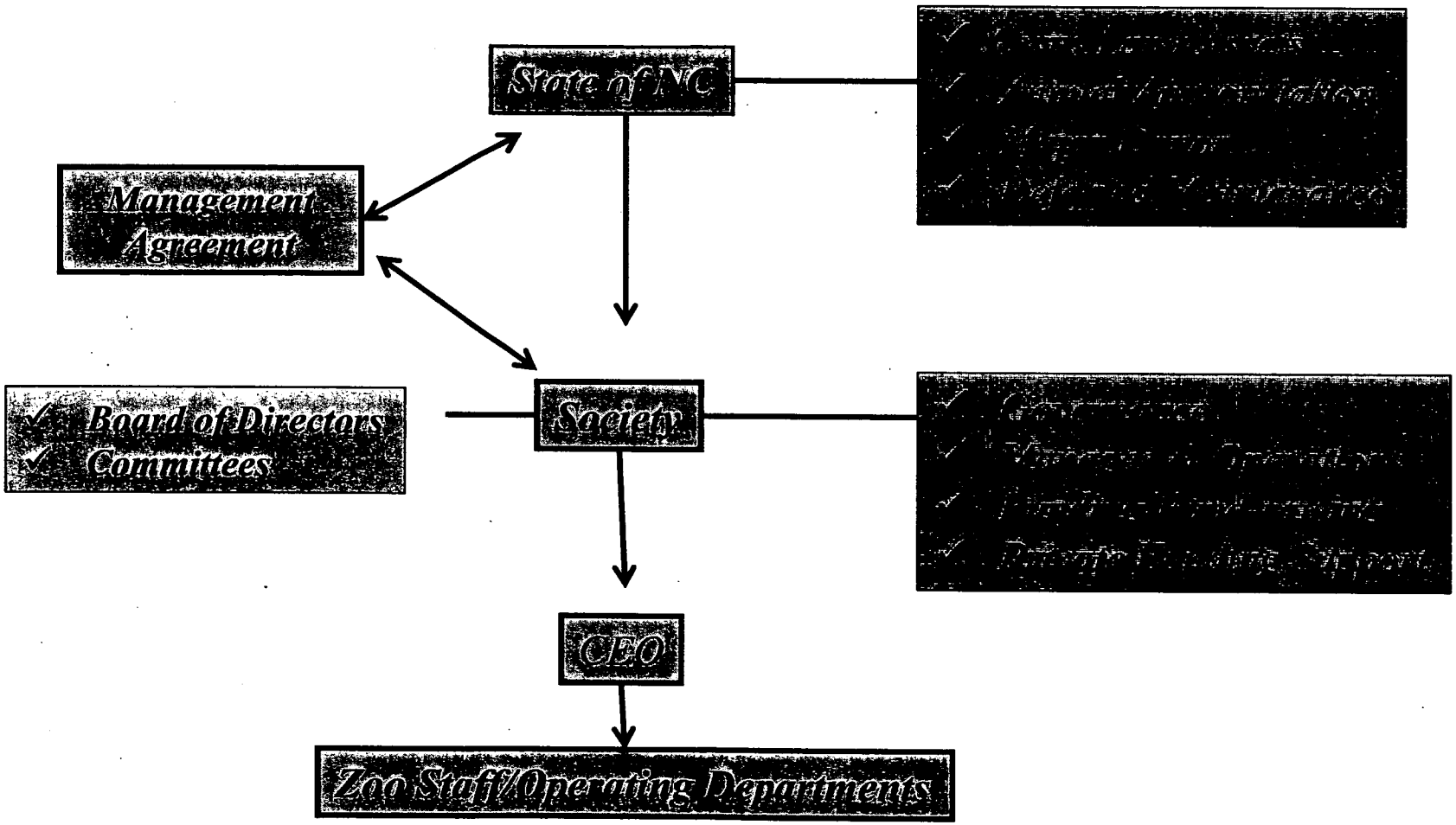
Why Zoos Consider a Shift in Governance

- *Develop strategic partnerships to increase income and investment*
- *Speed up decision making process*
- *Encourage a management culture best suited to the Zoo's Needs*
- *Enables long-term planning and resultant timely actions*

S&W

North Carolina ZOO

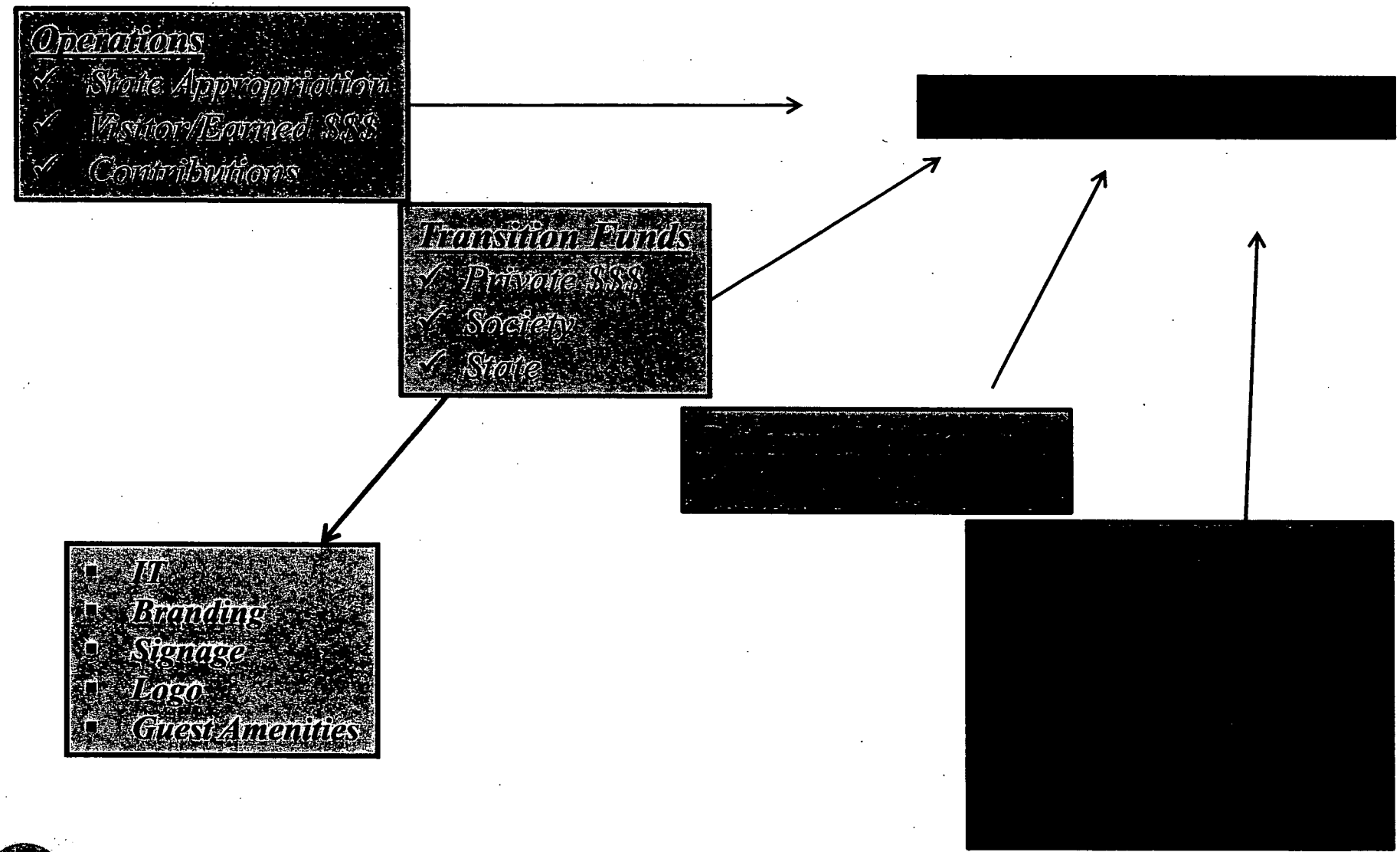
Potential Organizational Structure under PPP Structure



S&W

North Carolina ZOO

Strategic Funding Model



S&W

North Carolina ZOO

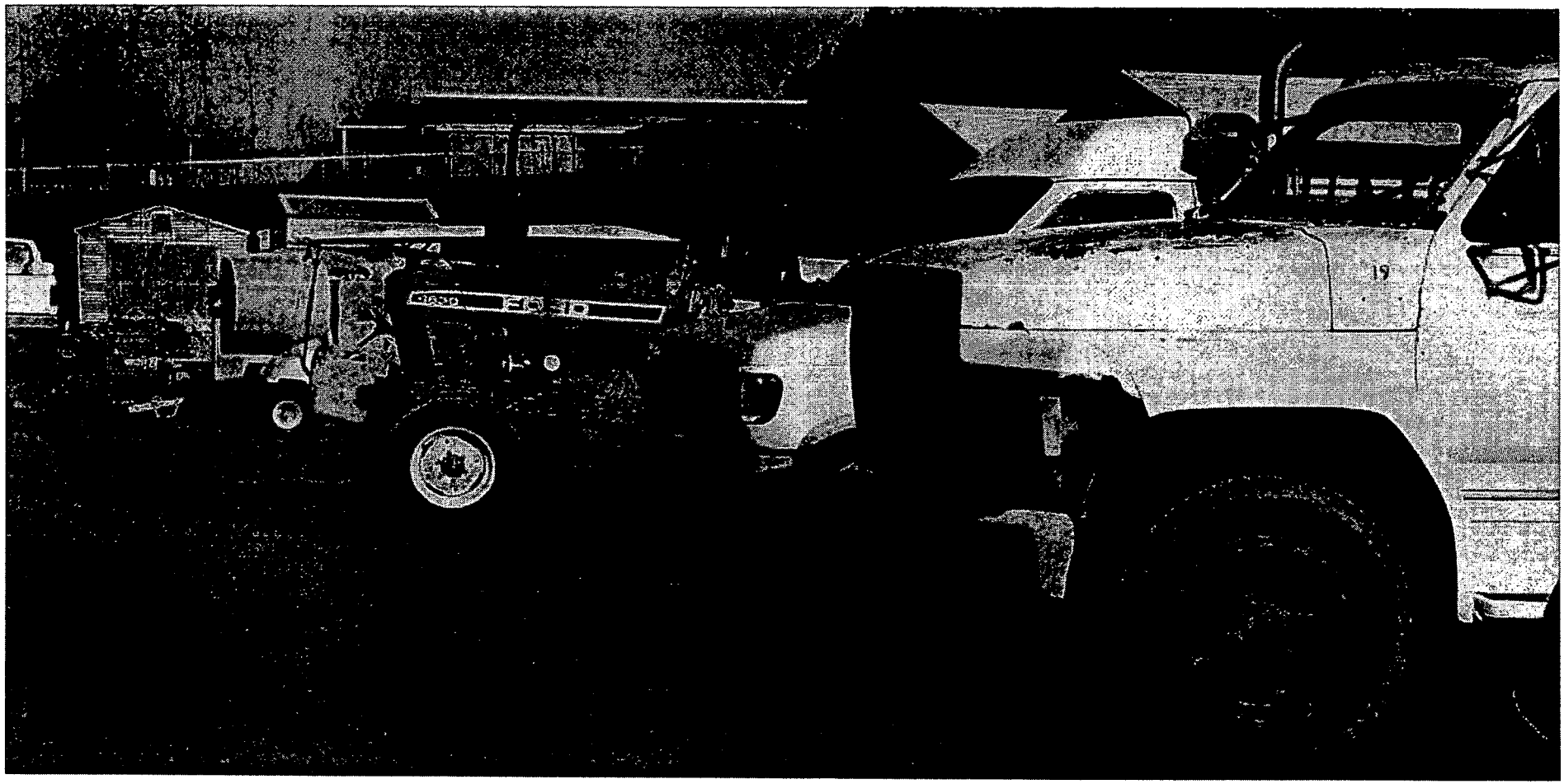
Deferred Maintenance

Building Repairs	*19.0 m*
Exhibits/Fencing/Glass	*4.0 m*
Parking/Roads/Paths	*2.5 m*
Heavy Vehicles	*2.0 m*
Water/Sewer/Irrigation	*1.5 m*
Electrical/Energy	*1.0 m*
	30.0 Million

North Carolina ZOO

North Carolina ZOO

North Carolina ZOO



North Carolina ZOO

Transition Needs

- *Technology-phones/computers/servers/software*
- *Signage-Banners/Branding/On-site Signs*
- *Equipment-Vehicle Replacements/Maintenance*
- *Training-Employees and Volunteers*
- *Master Planning-Must be updated*

North Carolina ZOO

Appropriations

FY	Actual Attendance	Actual State Appropriation
2001-02	671,619	$7,363,259
2001-03	576,093	$8,251,717
2003-04	676,956	$8,075,987
2004-05	709,030	$8,688,470
2005-06	682,977	$9,437,318
2006-07	746,650	$10,576,732
2007-08	729,500	$11,472,868
2008-09	729,615	$11,483,834
2009-10	749,627	$11,131,782
2010-11	741,119	$11,451,024

North Carolina ZOO

Key Points

- *$10 Million in appropriations*
- *$3 Million/year for 10 years to catch up on backlog maintenance (Total $30 Million)*
- *$3 Million transition*

North Carolina ZOO

Key Points

- *Maintenance of High Quality, World Class Facility*
- *Flexible, Entrepreneurial, Time Sensitive Business Approach*
- *Increased Private Support*
- *Creation of Income Generating Partnerships*

North Carolina ZOO

NC
ZOO.

NC
ZOO

NC
ZOO

NC
ZOO.

Cindy Coley (Rep. Brubaker)

[redacted]m: Cindy Coley (Rep. Brubaker)
[redacted]t: Monday, December 12, 2011 5:35 PM
To: Cindy Coley (Rep. Brubaker)
Subject: House Select Committee on State-Owned Assets

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

December 12, 2011

MEMORANDUM

TO: Members, SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM: Rep. Harold J. Brubaker, Chairman
SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Monday	January 23, 2012	10:00 am	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

REPRESENTATIVE
HAROLD BRUBAKER
CHAIR
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

Cindy Coley
Committee Clerk
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

General Assembly of North Carolina

House Select Committee on State Owned Assets

State Legislative Building
Raleigh, North Carolina

AGENDA

March 15, 2012, 10:00am
Room 643 Legislative Office Building

1. Call to order and introductory remarks
   Representative Harold Brubaker, Chair

2. UNC Health Care System

   Financial Audit of UNC-HCS Enterprise Fund
   Beth Woods
   North Carolina State Auditor

   Review of Response to Committee Request for Information
   William L. Roper, MD, MPH
   Dean, UNC School of Medicine and CEO of UNC Health Care System

3. Report of Subcommittee
   Rep. Tim Moffitt
   Subcommittee Chair

   Rep. Bill Brawley
   Subcommittee Member

4. Update on State Surplus Property
   Tim Walton, Manager, General Real Estate Section
   Department of Administration

5. Committee discussion and announcements

6. Adjourn

Persons having questions about the Committee meeting or other matters related to the Committee may contact the Committee Clerk at 919-715-4946 or Committee Staff at 919-733-4910 (Fiscal Research), 919-733-6660 (Bill Drafting) or 919-733-2578 (Research).

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	9/22/2011	10/25/2011	11/18/2011	12/12/2011	01/23/2012	02/16/2012 CANCEL	03/15/2012	
Brubaker, Harold, Senior Chair	Yes	Yes	Yes	Yes	Yes		yes	✓
Avila, Marilyn	N	Yes	Yes	Yes	Yes		No	✓
Brandon, Marcus	N	Yes	Yes	Yes	Yes		No	✓
Brawley, Bill	Yes	Yes	Yes	Yes	Yes		yes	✓
Brisson, William	Yes	N	N	N	Yes		No	
Carney, Becky	N	Yes	N	Yes	Yes		yes	✓
Crawford, James	N	Yes	Yes	Yes	Yes		yes	✓
Folwell, Dale	N	Yes	Yes	Yes	Yes		yes	✓
Hager, Mike	Yes	N	Yes	Yes	Yes		No	✓
Howard, Julia	N	Yes	Yes	Yes	Yes		yes	✓
Lewis, David	Yes	Yes	Yes	Yes	Yes		yes	N
Moffitt, Timothy	Yes	Yes	Yes	Yes	Yes		yes	✓
Owens, Bill	Yes	N	N	N	N		yes	✓
Setzer, Mitchell	N	N	N	Yes	Yes		yes	✓
Spear, Timothy	N	Yes	Yes	Yes	Yes		N	✓
Starnes, Edgar	Yes	Yes	Yes	Yes	Yes		yes	✓
West, Roger	Yes	No	Yes	Yes	N		N	✓
Wray, Michael	N	Yes	Yes	Yes	Yes		yes	✓
Pittman, Larry			Yes	Yes	Yes		yes	✓

Committee Sergeants at Arms

NAME OF COMMITTEE State Assets

DATE: 3-15-12 **Room:** 643

House Sgt-At Arms:

1. **Name:** Garland Shepherd
2. **Name:** Joe Cook
3. **Name:** Martha Farmer
4. **Name:** _____
5. **Name:** _____

Senate Sgt-At Arms:

1. **Name:** _____
2. **Name:** _____
3. **Name:** _____
4. **Name:** _____
5. **Name:** _____

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS MARCH 15, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
CHRIS DILLON	NCWRC
Kent Yelverton	NCDA+CS
Julia Adams	The Arc of NC
Chip Baggett	NCMS
Dan Warwick	Warwick Associates
Ken Melton	K.M.A.

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS MARCH 15, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Rob Schofield	NCPW
Travis Knight	PDA. INC
Dana Simpson	Smith Anderson
John Thompson	CCWC
Sarah Wolfe	MWC
WILLIAM H. MCBRIDE	HUNTON & WILLIAMS LLP (VICE CHAIR - UNRELATED) RALEIGH, NC
HUGH STEVENS	SMVT
Joyce Fitzpatrick	Fitzpatrick Comm.
DAVID RICE	MFS
Bill Leger	UNC

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS MARCH 15, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Kelly Nicholson	UNC Health Care
Karen McCall	UNC Health Care
Margaret Dardess	UNC School of Medicine
Lisa Schiller	Pae Healthcare
Laura Brewer	Capstrat
Alan Wolf	Rex HC
Suzanne Broadway	SEANC
Scott Smith	
[illegible]	
Christine Craig	WakeMed
Andi Curtis	WakeMed

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS MARCH 15, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Jessi Hayes	NC HBA
GRAHAM FIELDS	PARK RIDGE HEALTH
Chris Agan	DOA
Jim Walton	DOA
Franklin Freeman	MWC
Sara Duggan	DOA
John Bode	BCS
Dana Simpson	Smith Anderson
JERRY JENNINGS	NCDPS
Tina Shanahan	Compass NC
Charlene Thomas	Strategic Healthcare Alliance

#1

STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM ENTERPRISE AND RELATED FUNDS (SYSTEM FUND)

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM
ENTERPRISE AND RELATED FUNDS (SYSTEM FUND)

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

THOMAS W. ROSS, PRESIDENT

BOARD OF DIRECTORS

RICHARD M. KRASNO, CHAIRMAN

ADMINISTRATIVE OFFICERS

WILLIAM L. ROPER, CHIEF EXECUTIVE OFFICER

JOHN P. LEWIS, CHIEF FINANCIAL OFFICER

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Directors, University of North Carolina Health Care System

We have completed a financial statement audit of the University of North Carolina Health Care System Enterprise and Related Funds (System Fund) for the year ended June 30, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 23

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the University of North Carolina Health Care System Enterprise and Related Funds (System Fund), a part of the University of North Carolina Health Care System, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina Health Care System Enterprise and Related Funds as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2012 on our consideration of the System Fund's internal control over financial

reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

February 15, 2012

UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM ENTERPRISE AND RELATED FUNDS (SYSTEM FUND) MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis provides an overview of the financial activities of the University of North Carolina Health Care System Enterprise and Related Funds (System Fund) for the fiscal year ending June 30, 2011.

The University of North Carolina Health Care System (UNC Health Care) was established November 1, 1998, by *North Carolina General Statute 116-37.* UNC Health Care is governed by a Board of Directors as an affiliated enterprise of the University of North Carolina System. UNC Health Care and UNC Chapel Hill School of Medicine (UNC School of Medicine) are affiliated entities within the University System. The University of North Carolina Physicians & Associates (UNC P&A) is the clinical service component of the UNC School of Medicine and provides a full range of care to patients of UNC Health Care. Rex Healthcare, Inc. (Rex), Chatham Hospital, Inc. (Chatham), and Triangle Physician Network, LLC (TPN) are owned and controlled entities within UNC Health Care, an integrated health care provider.

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

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

Using the Financial Statements

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

The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the operations. The *Notes to the Financial Statements* provide information relative to the significant accounting principles applied in the financial statements and further detail concerning the organization and its operations. These disclosures provide information to better understand details, risk, and uncertainty associated with the amounts reported and are considered an integral part of the financial statements.

The *Statement of Net 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. Net assets on this Statement are categorized as unrestricted. Management estimates are necessary in some instances to determine current or noncurrent categorization. Overall, the *Statement of Net Assets* provides information relative to the financial strength of the System Fund and its ability to meet current and long-term obligations.

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

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

Comparison of Two-Year Data for 2011 to 2010

Data for 2011 (Audited) and 2010 (Unaudited) are presented in this report and discussed in the following sections. Discussion in the following sections is pertinent to fiscal year 2011 results and changes relative to ending balances in fiscal year 2010.

Analysis of Overall Financial Position and Results of Operations

Statement of Net Assets

The sub-accounts of the System Fund collectively hold assets of $73.4 million. Total assets increased by 15.1% over the prior year. Total liabilities increased by 25.0%. Pre-payments of UNC Hospitals' fiscal year 2012 commitments increased by $6 million year over year and account for 35.7% of the System Fund assets and 47.3% of the System Fund liabilities as of June 30, 2011. Cash associated with the Enterprise Fund and Shared Administrative Services Fund also increased due to mission support and the timing of the settlement of shared administrative services. While current assets increased overall, noncurrent assets and liabilities decreased due to payments made to the UNC School of Medicine from the Outreach Fund.

Statement of Revenues, Expenses, and Changes in Net Assets

Both transfers in and transfers out increased during fiscal year 2011, compared to fiscal year 2010, due to the assessment and subsequent payment of $28 million to the UNC School of Medicine that was made in an effort to help fill the gap left by recent budget cuts. This payment was the main driver of the increase in both categories but transfers out of the System Fund ultimately exceeded transfers in to the System Fund by $1.4 million. This represents the beginning of a planned contraction of fund resources. In total, net assets declined by $1.4 million.

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

UNC Health Care derives the vast majority of its operating revenues from patient care services. Because the System Fund provides no revenue-generating services, it is entirely dependent upon the financial wherewithal of the entities within UNC Health Care. In recent years, the largest entities of UNC Health Care have achieved strong operating performance. Their performance has enabled the investments made through the System Fund in support of the clinical, education, and research programs of UNC P&A and the UNC School of Medicine. These investments have, in turn, yielded positive results as measured by growth in needed services, expansion of the medical school class and increased research funding. Further, UNC Health Care has been able to support the fledgling Triangle Physicians Network during its start-up period and Chatham Hospital despite adverse economic conditions in its primary service area.

The conditions impacting the operating entities of UNC Health Care constitute the greatest risk to the System Fund. National health policy changes are changing the financial outlook for health systems. Adapting to new models requires greater coordination of patient care, major investments in information technology, and an increased focus on wellness. Successfully managing in the future requires tighter integration of administrative functions across the entities of UNC Health Care, caring for patients in lower cost delivery settings, and comprising sufficient scale to spread the cost of major investments across a broad base. UNC Health Care has begun planning for these changes through a health system-wide planning and implementation process.

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

The private health insurance market has driven important changes in patient coverage and in how/when patients seek care. As premiums have increased in a soft employment market, some employers have dropped employer-provided insurance. For others, the premiums have driven plan-design decisions that have shifted cost to employees or created disincentives for seeking care, particularly for elective procedures. UNC Health Care relies heavily on

privately insured patients as indigent and government payers generally do not cover the full cost of care. As this trend continues, UNC Health Care will face increasing pressure to reduce expenses.

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

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

Pressure on the State budget has resulted in sharp cuts to UNC Health Care and the UNC School of Medicine. Relative to the prior year, fiscal year 2012 State appropriated funds to UNC Hospitals were reduced by 50% and to the School of Medicine 20%. While State funding covers a relatively small fraction of total operating expenses, these funds have been important contributors to defraying the cost of providing indigent care and education for our medical students, residents, and sub-specialty residents. Similarly, federal budget cuts may have a significant impact on clinical revenues through cuts in Medicare payments or research revenue as a result of reductions in the National Institutes of Health (NIH) budget.

Economic conditions in the United States and internationally remain weak which, in turn, has depressed asset investment performance for several consecutive years. In fiscal year 2012, legislative changes afforded UNC Health Care additional flexibility. These changes should enable UNC Health Care to improve nonoperating income.

University of North Carolina Health Care System Enterprise and Related Funds (System Fund)
Summary of Condensed Financial Statements Totals
For the Fiscal Years Ended June 30, 2011 and 2010

Table 1

	FY11	(Unaudited) FY10	Change
STATEMENT OF NET ASSETS			
Current Assets	$ 69,425,766	$ 57,802,179	$ 11,623,587
Noncurrent Assets	4,000,000	6,000,000	(2,000,000)
TOTAL ASSETS	**73,425,766**	**63,802,179**	**9,623,587**
Current Liabilities	51,294,268	38,235,260	13,059,008
Noncurrent Liabilities	4,000,000	6,000,000	(2,000,000)
TOTAL LIABILITIES	**55,294,268**	**44,235,260**	**11,059,008**
Unrestricted Net Assets	$ **18,131,498**	$ **19,566,919**	$ **(1,435,421)**
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS			
Revenues	$ 0	$ 0	$ 0
Expenses			
Nonoperating Revenues	412,724	274,660	138,064
Transfers In	138,112,605	121,716,311	16,396,294
Transfers Out	139,960,750	111,812,055	28,148,695
INCREASE (DECREASE) IN NET ASSETS	**(1,435,421)**	**10,178,916**	**(11,614,337)**
NET ASSETS - BEGINNING OF YEAR	**19,566,919**	**9,388,003**	**10,178,916**
NET ASSETS - END OF YEAR	$ **18,131,498**	$ **19,566,919**	$ **(1,435,421)**

University of North Carolina Health Care System Enterprise and Related Funds (System Fund)
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Undesignated Funds (Note 2)	$	2,138,481
Designated for UNC Physicians & Associates Program Support (Note 2)		26,200,000
Designated for UNC Physicians & Associates Mission Support (Note 2)		13,563,071
Designated for Shared Administrative Services (Note 2)		13,002,020
Designated for UNC Faculty Recruitment (Note 2)		7,000,000
Designated for Graduate Medical Education Support (Note 2)		2,000,000
Cash and Cash Equivalents Total		63,903,572
Due from UNC Health Care Entities (Note 3)		5,522,194
Total Current Assets		69,425,766
Noncurrent Assets:		
Cash and Cash Equivalents:		
Designated for Graduate Medical Education Support (Note 2)		4,000,000
Total Assets		73,425,766
LIABILITIES		
Current Liabilities:		
Due to UNC Health Care Entities (Note 4)		25,094,268
Assessments Paid in Advance		26,200,000
Total Current Liabilities		51,294,268
Noncurrent Liabilities:		
Due to UNC Health Care Entities (Note 4)		4,000,000
Total Liabilities		55,294,268
NET ASSETS		
Unrestricted	$	18,131,498

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

University of North Carolina Health Care System Enterprise and Related Funds (System Fund)
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

Exhibit A-2

REVENUES		
Operating Revenues	$	0
EXPENSES		
Operating Expenses		
NONOPERATING REVENUES		
Interest Income		412,724
TRANSFERS IN		
Regular Assessments (Note 5)		33,713,940
Special Assessments (Note 5)		43,980,926
Mission Support Assessments (Note 5)		15,605,799
Shared Administrative Services Assessments (Note 5)		44,811,940
Total Transfers In		138,112,605
TRANSFERS OUT		
Program Support (Note 6)		82,050,561
Shared Administrative Services (Note 6)		44,066,800
Mission Support (Note 6)		13,843,389
Total Transfers Out		139,960,750
Decrease in Net Assets		(1,435,421)
NET ASSETS		
Net Assets - July 1, 2010		19,566,919
Net Assets - June 30, 2011	$	18,131,498

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

University of North Carolina Health Care System Enterprise and Related Funds (System Fund)
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In from Entities	$	161,262,139
Transfers Out to Entities		(135,101,742)
Net Cash Provided by Noncapital Financing Activities		26,160,397
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		412,724
Net Increase in Cash and Cash Equivalents		26,573,121
Cash and Cash Equivalents - July 1, 2010		41,330,451
Cash and Cash Equivalents - June 30, 2011	$	67,903,572
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	63,903,572
Noncurrent Assets:		
Cash and Cash Equivalents		4,000,000
Total Cash and Cash Equivalents - June 30, 2011	$	67,903,572

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Organization** - The University of North Carolina Health Care System (UNC Health Care) was established November 1, 1998 by *North Carolina General Statute 116-37*. UNC Health Care was established by the North Carolina General Assembly to provide patient care, facilitate the education of physicians and other health care providers, conduct research collaboratively with the health sciences schools of the University of North Carolina at Chapel Hill (UNC-CH), and render other services designed to promote the health and well-being of the citizens of North Carolina.

UNC Health Care is governed by a Board of Directors (Board) as an affiliated enterprise of the University of North Carolina (UNC) System. UNC Health Care and UNC-CH are affiliated entities within the University System. The University of North Carolina Physicians & Associates (UNC P&A) is the clinical service component of the UNC School of Medicine and provides a full range of care to patients of UNC Health Care. Rex Healthcare, Inc. (Rex), Chatham Hospital, Inc. (Chatham), and Triangle Physician Network, LLC (TPN) are owned and controlled entities within UNC Health Care, an integrated health care provider.

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

The System Fund assesses, holds, and allocates funds across the entities of UNC Health Care. Initially formed as the Enterprise Fund to facilitate investments in support of the clinical, academic and education missions of UNC Health Care and the UNC School of Medicine, the Enterprise Fund today exists as a sub-account within the System Fund.

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

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

UNC School of Medicine. It is funded by assessments against revenues of UNC Hospitals, UNC School of Medicine, UNC P&A, and Rex, made at least annually[1]. Assessments to the constituent entities are determined on an annual basis or more often as necessary. UNC Hospitals and UNC P&A make additional mission support contributions to the Enterprise Fund if they have met required organizational goals. The overwhelming majority of transfers from the Enterprise Fund are made to the clinical departments of the UNC School of Medicine and UNC P&A for their teaching, research, and clinical programs.

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

The Recruitment Fund - The Recruitment Fund was established through a special assessment at the end of fiscal year 2010 in the amount of $7,000,000, to enable critical faculty recruitments to the UNC School of Medicine. The Recruitment Fund is designed to provide salary support for recruitments deemed critical to the missions of the UNC School of Medicine. It was formed by contributions from UNC Hospitals, UNC P&A, and several UNC School of Medicine clinical departments in response to a crisis in UNC Health Care's cardiac surgery program. These funds are set aside to enable UNC Hospitals, UNC P&A, and the UNC School of Medicine to collaboratively recruit faculty physicians to better serve the people of North Carolina. No funds were expended from the Recruitment Fund in fiscal year 2011.

The Patient Safety Fund - The Patient Safety Fund (Performance Improvement and Patient Safety Innovations Fund or PIPSIF) is funded through savings realized in the Liability & Insurance Trust Fund (LITF). These savings were realized from efforts to improve clinical outcomes and patient safety. The Patient Safety Fund enables UNC Health Care to designate resources specifically intended to improve patient care and further reduce potential harm to patients.

[1] Chatham and TPN's current fiscal positions prevent an assessment. Additionally, Chatham's existing bond covenants specifically prohibit an assessment.

The Shared Administrative Services Fund - The Shared Administrative Services Fund is used to assess and allocate administrative expenses for UNC Health Care's centralized services. These services (including but not limited to information technology, human resources, finance, strategic planning, risk management, etc.) are provided more efficiently and effectively on a consolidated basis.

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

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

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System Fund does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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

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

E. **Cash and Cash Equivalents** - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

F. **Net Assets** - The System Fund's net assets are classified as unrestricted. Unrestricted net assets include resources derived from assessments, mission support, shared administrative services, and interest income.

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

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

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

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

UNC Hospitals and UNC P&A make additional payments to the System Fund if a specific set of pre-determined organizational goals are achieved. Mission Support was first established in fiscal year 2009, and has been paid in each subsequent year. To date, only UNC Hospitals has met the criteria to enable the payment to the system. While only UNC Hospitals and UNC P&A currently participate, the goal is to include all of UNC Health Care's entities in the program.

Program Support - The primary function of the System Fund is to support those programs that have been identified as being beneficial to achieving UNC Health Care's patient-care, research, and education mission but that cannot support themselves or otherwise need additional funding to achieve the desired outcome. Program Support payments fill the funding gap for these programs. For the current fiscal year, 79% of the program support payments went to UNC P&A and UNC School of Medicine.

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

NOTE 2 - DEPOSITS

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

At June 30, 2011, the amount shown on the Statement of Net Assets as current cash and cash equivalents of $63,903,572 and noncurrent cash and cash equivalents of $4,000,000, represent the System Fund's equity position in the

State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

A reconciliation of deposits and corresponding designations as of June 30, 2011 is as follows:

	Enterprise Fund	Outreach Fund	Recruitment Fund	Patient Safety Fund	Shared Administrative Services Fund	Total
Deposits						
Current:						
Undesignated Funds	$ 1,776,197	$ 0	$ 0	$ 362,284	$ 0	$ 2,138,481
Designated for UNC Physicians & Associates Program Support	26,200,000					26,200,000
Designated for UNC Physicians & Associates Mission Support	13,563,071					13,563,071
Designated for Shared Administrative Services					13,002,020	13,002,020
Designated for UNC Faculty Recruitment			7,000,000			7,000,000
Designated for Graduate Medical Education Support		2,000,000				2,000,000
Noncurrent:						
Designated for Graduate Medical Education Support		4,000,000				4,000,000
Total Deposits	$ 41,539,268	$ 6,000,000	$ 7,000,000	$ 362,284	$ 13,002,020	67,903,572

NOTE 3 - DUE FROM UNC HEALTH CARE ENTITIES

Amounts due from UNC Health Care entities at June 30, 2011 by type and entity were as follows:

	Amount
Assessments	
UNC Hospitals	$ 513,940
Rex Healthcare	175,000
Shared Administrative Services	
UNC Hospitals	3,460,374
UNC Physicians & Associates	1,156,395
Rex Healthcare	216,485
Total Due from UNC Health Care Entities	$ 5,522,194

NOTE 4 - DUE TO UNC HEALTH CARE ENTITIES

Amounts due to UNC Health Care entities at June 30, 2011 by type and entity were as follows:

	Amount
Current:	
Assessments	
UNC Physicians & Associates	$ 2,000,000
Mission Support	
UNC Hospitals	2,178,186
UNC Physicians & Associates	11,384,885
Shared Administrative Services	
UNC Hospitals	8,794,025
UNC Physicians & Associates	737,172
Total Current Due to UNC Health Care Entities	$ 25,094,268
Noncurrent:	
Assessments	
UNC Physicians & Associates	$ 4,000,000

NOTE 5 - TRANSFERS IN

Transfers in by source and entity are presented as follows:

	Amount
Regular Assessments	
UNC Hospitals	$ 26,513,940
UNC Physicians & Associates	5,500,000
UNC School of Medicine	300,000
Rex Healthcare	1,400,000
Total Regular Assessments	$ 33,713,940
Special Assessments	
UNC Hospitals	$ 38,517,876
UNC Physicians & Associates	1,254,470
Rex Healthcare	4,208,580
Total Special Assessments	$ 43,980,926
Mission Support Assessments	
UNC Hospitals	$ 15,605,799
Shared Administrative Services Assessments	
UNC Hospitals	$ 34,643,981
UNC Physicians & Associates	9,337,933
Rex Healthcare	830,026
Total Shared Administrative Services Assessments	$ 44,811,940

NOTE 6 - TRANSFERS OUT

Transfers out by purpose and entity at June 30, 2011 are as follows:

	Amount
Program Support	
UNC Physicians & Associates	
Anesthesiology	$ 12,035,000
Dermatology	645,000
Emergency Medicine	1,075,000
Gastroenterology	300,000
Heart & Vascular	1,300,000
Nephrology	250,000
Neurology	1,755,000
Obstetrics Gynecology	386,786
Oncology	5,002,000
Orthopaedics	2,157,600
Other	138,000
Otolaryngology	155,625
Pediatrics	1,348,225
Physical Medicine & Rehabilitation	118,429
Primary Care	780,000
Radiology	2,400,000
Surgery	4,072,400
Total UNC Physicians & Associates Program Support	33,919,065
UNC School of Medicine	30,511,185
Triangle Physician Network	11,370,311
Chatham Hospital	5,500,000
Piedmont Health Services	750,000
Total Program Support	$ 82,050,561
Shared Administrative Services	
UNC Hospitals	$ 43,911,130
UNC Physicians & Associates	152,062
Rex Healthcare	3,608
Total Shared Administrative Services	$ 44,066,800
Mission Support	
UNC Physicians & Associates	$ 13,843,389

NOTE 7 - RELATED PARTIES

University of North Carolina Hospitals at Chapel Hill - The UNC Hospitals at Chapel Hill (UNC Hospitals) is the only state-owned teaching hospital in North Carolina. With a licensed base of 799 beds, this facility serves as an acute care teaching hospital for the University of North Carolina at Chapel Hill. As a state agency, UNC Hospitals conforms to financial requirements established by statutory and constitutional provisions. While UNC Hospitals is exempt from both federal and state income taxes, a small portion of its revenue is subject to the unrelated business income tax.

UNC Hospitals paid $115,281,596 for assessments, mission support, and shared administrative services to the System Fund over the course of the year. Likewise, the System Fund also made $43,911,130 in payments to UNC Hospitals for shared administrative services expenses during the year ended June 30, 2011.

University of North Carolina School of Medicine - The UNC School of Medicine was assessed and paid the System Fund $300,000 during the year and received $30,511,185 in program support during the year ended June 30, 2011.

University of North Carolina Physicians & Associates - The UNC 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 1,200 faculty physicians who provide a full range of specialty and primary care services for patients of UNC Health Care. While the great majority of services are rendered at the inpatient units of UNC Hospitals and the outpatient clinics on the UNC campus, there is a growing range of services provided at clinics in the community. There are 18 clinical departments, one clinical center, two affiliated departments, and two administrative units that collectively form UNC P&A.

Clinical Departments:

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

Clinical Center:

Heart & Vascular

Affiliated Departments:

Allied Health Sciences
Carolina Institute for Developmental Disabilities

Administrative Units:

Administrative Office
Ambulatory Administration

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

UNC P&A paid $16,092,403 for assessments and shared administrative services to the System Fund over the course of the year. The System Fund also made payments to UNC P&A in the amount of $47,914,516 for program support, mission support, and shared administrative services reimbursements during the year ended June 30, 2011.

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

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

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

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

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

Rex paid $6,438,606 for assessments and shared administrative services to the System Fund and received $3,608 for shared administrative service expenses during the year ended June 30, 2011.

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

UNC Health Care acquired Chatham Hospital in 2008 and is the sole member of the corporation. UNC Health Care appoints nine of the 15 members on the Chatham Hospital, Inc. Board and reviews and approves its annual operating and capital budgets.

Due to Chatham's financial circumstances, it was not assessed by the System Fund but received $5,500,000 in program support during the year ended June 30, 2011.

Triangle Physician Network, LLC - Triangle Physician Network, LLC (TPN) is a wholly-owned subsidiary of UNC Health Care, but a private employer, that owns and operates 17 community-based practices throughout the Triangle (Raleigh, Durham, and Chapel Hill), North Carolina area.

TPN is a physician-led network structured to meet the needs of the community and community practice physicians by creating a partnership for physicians and UNC Health Care to face the challenging health care environment. TPN incorporates ten legacy UNC Health Care community-based practices as well as newly acquired practices and is actively seeking affiliation with private practices throughout the region.

UNC Health Care formed TPN in November 2009. As a relatively new entity, TPN did not have the financial capacity to pay for assessments or Shared Administrative Services to the System Fund during the fiscal year but received $11,370,311 in program support during the year ended June 30, 2011 to fund start-up expenses including substantial information technology costs, administrative functions and a central billing office.

Piedmont Health Services, Inc. - Piedmont Health Services, Inc. (PHS) is a North Carolina non-profit corporation with six locations serving fourteen counties in the Piedmont region. To further its mission of promoting the health of North Carolinians, UNC Health Care contractually agreed to fund the development of a coordinated system of clinical care intended to increase access to care for the uninsured. The System Fund contributed $750,000 to PHS for this program during the year ended June 30, 2011.

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

We have audited the basic financial statements of the University of North Carolina Health Care System Enterprise and Related Funds (System Fund), a part of the University of North Carolina Health Care System, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, and have issued our report thereon dated February 15, 2012.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the System Fund, the Board of Governors, the Board of Directors of the University of North Carolina Health Care System, the Audit and Compliance Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

February 15, 2012

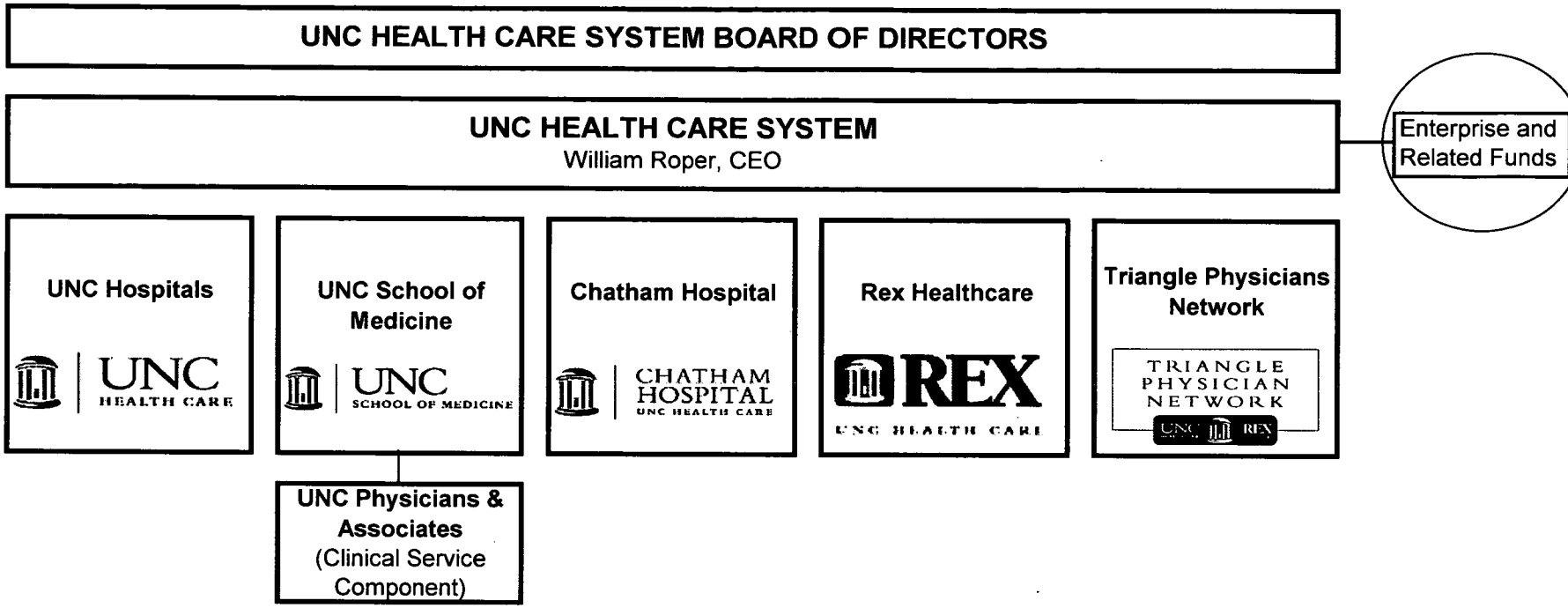
ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647


UNC HEALTH CARE SYSTEM BOARD OF DIRECTORS
UNC HEALTH CARE SYSTEM
William Roper, CEO
Enterprise and Related Funds
UNC Hospitals
UNC HEALTH CARE
UNC School of Medicine
UNC SCHOOL OF MEDICINE
Chatham Hospital
CHATHAM HOSPITAL
UNC HEALTH CARE
Rex Healthcare
REX
UNC HEALTH CARE
Triangle Physicians Network
TRIANGLE PHYSICIAN NETWORK
UNC REX
UNC Physicians & Associates
(Clinical Service Component)

#2

North Carolina General Statute

§ 116-37. University of North Carolina Health Care System.

(a) Creation of System. –

(1) There is hereby established the University of North Carolina Health Care System, effective November 1, 1998, which shall be governed and administered as an affiliated enterprise of The University of North Carolina in accordance with the provisions of this section, 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, and render other services designed to promote the health and well-being of the citizens of North Carolina.

(2) As of November 1, 1998, all of the rights, privileges, liabilities, and obligations of the board of directors of the University of North Carolina Hospitals at Chapel Hill, not inconsistent with the provisions of this section, shall be transferred to and assumed by the board of directors of the University of North Carolina Health Care System.

(3) The University of North Carolina Hospitals at Chapel Hill and the clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill shall be governed by the board of directors of the University of North Carolina Health Care System.

(4) With respect to the provisions of subsections (d), (e), (f), (h), (i), (j), and (k) of this section, the board of directors may adopt policies that make the authorities and responsibilities established by one or more of said subsections applicable to the University of North Carolina Hospitals at Chapel Hill, to the clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill, to both, or to other persons or entities affiliated with or under the control of the University of North Carolina Health Care System.

(5) To effect an orderly transition, the policies and procedures of the clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill and of the University of North Carolina Hospitals at Chapel Hill effective as of October 31, 1998, shall remain effective in accordance with their terms until changed by the Board of Directors of the University of North Carolina Health Care System.

(b) Board of Directors. – There is hereby established a board of directors of the University of North Carolina Health Care System, effective November 1, 1998.

(1) The board of directors shall be composed as follows:

a. A minimum of six members ex officio of said board shall be the President of The University of North Carolina (or the President's designee); the Chief Executive Officer of the University of North Carolina Health Care System; the Chancellor of the University of North Carolina at Chapel Hill and one additional administrative officer of the University of North Carolina at Chapel Hill designated by the Chancellor; and two members of the faculty of the School of Medicine of the University of North Carolina at Chapel Hill designated by the Dean of the School of Medicine; provided, that if not such a member ex officio by virtue of holding one or more of the offices aforementioned, additional ex officio memberships shall be held by the President of the University of North Carolina Hospitals at Chapel Hill, the faculty member responsible for leading the clinical patient care programs of the School of Medicine, and the Dean of the School of Medicine of the University of North Carolina at Chapel Hill.

b. No less than nine and no more than 21 members at large, which number shall be determined by the board of directors, shall be appointed for four-year terms, commencing on November 1 of the

year of appointment; provided, that the initial class of at-large members shall include the persons who hold the appointed memberships on the board of directors of the University of North Carolina Hospitals at Chapel Hill incumbent as of October 31, 1998, with their terms of membership on the board of directors of the University of North Carolina Health Care System to expire on the last day of October of the year in which their term as a member of the board of directors of the University of North Carolina Hospitals at Chapel Hill would have expired. Vacant at-large positions shall be filled by the appointment of persons from the business and professional public at large who have special competence in business management, hospital administration, health care delivery, or medical practice or who otherwise have demonstrated dedication to the improvement of health care in North Carolina, and who are neither members of the Board of Governors, members of the board of trustees of a constituent institution of The University of North Carolina, nor officers or employees of the State. Members shall be appointed by the President of the University, and ratified by the Board of Governors, from among a slate of nominations made by the board of directors of the University of North Carolina Health Care System. No member may be appointed to more than two full four-year terms in succession; provided, that persons holding appointed memberships on November 1, 1998, by virtue of their previous membership on the board of directors of the University of North Carolina Hospitals at Chapel Hill, shall not be eligible, for a period of one year following expiration of their term, to be reappointed to the board of directors of the University of North Carolina Health Care System. Any vacancy in an unexpired term shall be filled by an appointment made by the President, and ratified by the Board of Governors, upon the nomination of the board of directors, for the balance of the term remaining.

(2) The board of directors, with each ex officio and at-large member having a vote, shall elect a chairman only from among the at-large members, for a term of two years. Notwithstanding the foregoing limitation, the Chancellor of the University of North Carolina at Chapel Hill may serve as Chairman. No person shall be eligible to serve as chairman for more than three terms in succession.

(3) The board of directors of the University of North Carolina Health Care System shall meet at least every 60 days and may hold special meetings at any time and place within the State at the call of the chairman. Board members, other than ex officio members, shall receive the same per diem and reimbursement for travel expenses as members of the State boards and commissions generally.

(4) In meeting the patient-care, educational, research, and public-service goals of the University of North Carolina Health Care System, the board of directors is authorized to exercise such authority and responsibility and adopt such policies, rules, and regulations as it deems necessary and appropriate, not inconsistent with the provisions of this section or the policies of the Board of Governors or, to the extent the board's actions affect employees of the University of North Carolina at Chapel Hill, the policies of the University of North Carolina at Chapel Hill. The board may authorize any component of the University of North Carolina Health Care System, including the University of North Carolina Hospitals at Chapel Hill, to contract in its individual capacity, subject to such policies and procedures as the board of directors may direct. The board of directors may enter into formal agreements with the University of North Carolina at Chapel Hill with respect to the provision of

clinical experience for students and for the provision of maintenance and supporting services. The board's action on matters within its jurisdiction is final, except that appeals may be made, in writing, to the Board of Governors with a copy of the appeal to the Chancellor of the University of North Carolina at Chapel Hill. The board of directors shall keep the Board of Governors and the board of trustees of the University of North Carolina at Chapel Hill fully informed about health care policy and recommend changes necessary to maintain adequate health care delivery, education, and research for improvement of the health of the citizens of North Carolina.

(c) Officers. –

(1) The executive and administrative head of the University of North Carolina Health Care System shall have the title of "Chief Executive Officer." The board of directors, the board of trustees, and the Chancellor of the University of North Carolina at Chapel Hill, following such search process as the boards and the Chancellor deem appropriate, shall identify two or more persons as candidates for the office, who, pursuant to criteria agreed upon by the boards and the Chancellor, have the qualifications for both the positions of Chief Executive Officer of the University of North Carolina Health Care System and Vice-Chancellor for Medical Affairs of the University of North Carolina at Chapel Hill. The names of the candidates so identified, once approved by the board of directors and the board of trustees, shall be forwarded by the Chancellor to the President of The University of North Carolina, who if satisfied with the quality of one or more of the candidates, will nominate one as Chief Executive Officer, subject to selection by the Board of Governors. The individual serving as Chief Executive Officer shall have complete executive and administrative authority to formulate proposals for, recommend the adoption of, and implement policies governing the programs and activities of the University of North Carolina Health Care System, subject to all requirements of the board of directors. That same individual, when serving as Vice-Chancellor for Medical Affairs, shall have all authorities, rights, and responsibilities of a vice-chancellor of the University of North Carolina at Chapel Hill.

(2) The executive and administrative head of the University of North Carolina Hospitals at Chapel Hill shall have the title of "President of the University of North Carolina Hospitals at Chapel Hill."

(3) The board of directors shall elect, on nomination of the Chief Executive Officer, the President of the University of North Carolina Hospitals at Chapel Hill, and such additional administrative and professional staff employees of the University of North Carolina Health Care System as may be deemed necessary to assist in fulfilling the duties of the office of the Chief Executive Officer, all of whom shall serve at the pleasure of the Chief Executive Officer.

(d) Personnel. – Employees of the University of North Carolina Health Care System shall be deemed to be employees of the State and shall be subject to all provisions of State law relevant thereto; provided, however, that except as to the provisions of Articles 5, 6, 7, and 14 of Chapter 126 of the General Statutes, the provisions of Chapter 126 shall not apply to employees of the University of North Carolina Health Care System, and the policies and procedures governing the terms and conditions of employment of such employees shall be adopted by the board of directors; provided, that with respect to such employees as may be members of the faculty of the University of North Carolina at Chapel Hill, no such policies and procedures may be inconsistent with policies established by, or adopted pursuant to delegation from, the Board of Governors of The University of North Carolina.

(1) The board of directors shall fix or approve the schedules of pay, expense allowances, and other compensation and adopt position classification plans for employees of the University of North Carolina Health Care System.

(2) The board of directors may adopt or provide for rules and regulations concerning, but not limited to, annual leave, sick leave, special leave with full

pay or with partial pay supplementing workers' compensation payments for employees injured in accidents arising out of and in the course of employment, working conditions, service awards and incentive award programs, grounds for dismissal, demotion, or discipline, other personnel policies, and any other measures that promote the hiring and retention of capable, diligent, and effective career employees. However, an employee who has achieved career State employee status as defined by G.S. 126-1.1 by October 31, 1998, shall not have his or her compensation reduced as a result of this subdivision. Further, an employee who has achieved career State employee status as defined by G.S. 126-1.1 by October 31, 1998, shall be subject to the rules regarding discipline or discharge that were effective on October 31, 1998, and shall not be subject to the rules regarding discipline or discharge adopted after October 31, 1998.

(3) The board of directors may prescribe the office hours, workdays, and holidays to be observed by the various offices and departments of the University of North Carolina Health Care System.

(4) The board of directors may establish boards, committees, or councils to conduct hearings upon the appeal of employees who have been suspended, demoted, otherwise disciplined, or discharged, to hear employee grievances, or to undertake any other duties relating to personnel administration that the board of directors may direct.

The board of directors shall submit all initial classification and pay plans and other rules and regulations adopted pursuant to subdivisions (1) through (4) of this subsection to the Office of State Personnel for review upon adoption by the board. Any subsequent changes to these plans, rules, and policies adopted by the board shall be submitted to the Office of State Personnel for review. Any comments by the Office of State Personnel shall be submitted to the Chief Executive Officer and to the President of The University of North Carolina.

(e) Finances. – The University of North Carolina Health Care System shall be subject to the provisions of the State Budget Act, except for trust funds as provided in G.S. 116-36.1 and G.S. 116-37.2. The Chief Executive Officer, subject to the board of directors, shall be responsible for all aspects of budget preparation, budget execution, and expenditure reporting. All operating funds of the University of North Carolina Health Care System may be budgeted and disbursed through special fund codes, maintaining separate auditable accounts for the University of North Carolina Hospitals at Chapel Hill and the clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill. All receipts of the University of North Carolina Health Care System may be deposited directly to the special fund codes, and except for General Fund appropriations, all receipts of the University of North Carolina Hospitals at Chapel Hill may be invested pursuant to G.S. 116-37.2(h). General Fund appropriations for support of the University of North Carolina Hospitals at Chapel Hill shall be budgeted in a General Fund code under a single purpose, "Contribution to University of North Carolina Hospitals at Chapel Hill Operations" and be transferable to a special fund operating code as receipts.

(f) Finances – Patient/Health Care System Benefit. – The Chief Executive Officer of the University of North Carolina Health Care System, or the Chief Executive Officer's designee, may expend operating budget funds, including State funds, of the University of North Carolina Health Care System for the direct benefit of a patient, when, in the judgment of the Chief Executive Officer or the Chief Executive Officer's designee, the expenditure of these funds would result in a financial benefit to the University of North Carolina Health Care System. Any such expenditures are declared to result in the provision of medical services and create charges of the University of North Carolina Health Care System for which the health care system may bill and pursue recovery in the same way as allowed by law for recovery of other health care systems' charges for services that are unpaid.

These expenditures shall be restricted (i) to situations in which a patient is financially unable to afford ambulance or other transportation for discharge; (ii) to afford placement in an after-care facility; (iii) to assure availability of a bed in an after-care facility after discharge from the hospitals; (iv) to secure equipment or other medically appropriate services after discharge; or (v) to pay health insurance premiums. The Chief Executive Officer or the Chief Executive Officer's

designee shall reevaluate at least once a month the cost-effectiveness of any continuing payment on behalf of a patient.

To the extent that the University of North Carolina Health Care System advances anticipated government entitlement benefits for a patient's benefit, for which the patient later receives a lump-sum "back-pay" award from an agency of the State, whether for the current admission or subsequent admission, the State agency shall withhold from this back pay an amount equal to the sum advanced on the patient's behalf by the University of North Carolina Health Care System, if, prior to the disbursement of the back pay, the applicable State program has received notice from the University of North Carolina Health Care System of the advancement.

(g) Reports. – The Chief Executive Officer and the President of The University of North Carolina jointly shall report by September 30 of each year on the operations and financial affairs of the University of North Carolina Health Care System to the Joint Legislative Commission on Governmental Operations. The report shall include the actions taken by the board of directors under the authority granted in subsections (d), (h), (i), and (j) of this section.

(h) Purchases. – Notwithstanding the provisions of Articles 3, 3A, and 3C of Chapter 143 of the General Statutes to the contrary, the board of directors shall establish policies and regulations governing the purchasing requirements of the University of North Carolina Health Care System. These policies and regulations shall provide for requests for proposals, competitive bidding, or purchasing by means other than competitive bidding, contract negotiations, and contract awards for purchasing supplies, materials, equipment, and services which are necessary and appropriate to fulfill the clinical, educational, research, and community service missions of the University of North Carolina Health Care System. The board of directors shall submit all initial policies and regulations adopted pursuant to this subsection to the Division of Purchase and Contract for review upon adoption by the board. Any subsequent changes to these policies and regulations adopted by the board shall be submitted to the Division of Purchase and Contract for review. Any comments by the Division of Purchase and Contract shall be submitted to the Chief Executive Officer and to the President of The University of North Carolina.

(i) Property. – The board of directors shall establish rules and regulations for acquiring or disposing of any interest in real property for the use of the University of North Carolina Health Care System. These rules and regulations shall include provisions for development of specifications, advertisement, and negotiations with owners for acquisition by purchase, gift, lease, or rental, but not by condemnation or exercise of eminent domain, on behalf of the University of North Carolina Health Care System. This section does not authorize the board of directors to encumber real property. The board of directors shall submit all initial policies and regulations adopted pursuant to this subsection to the State Property Office for review upon adoption by the board. Any subsequent changes to these policies and regulations adopted by the board shall be submitted to the State Property Office for review. Any comments by the State Property Office shall be submitted to the Chief Executive Officer and to the President of The University of North Carolina. After review by the Attorney General as to form and after the consummation of any such acquisition, the University of North Carolina Health Care System shall promptly file a report concerning the acquisition or disposition with the Governor and Council of State. Acquisitions and dispositions of any interest in real property pursuant to this section shall not be subject to the provisions of Article 36 of Chapter 143 of the General Statutes or the provisions of Chapter 146 of the General Statutes.

(j) Property – Construction. – Notwithstanding G.S. 143-341(3) and G.S. 143-135.1, the board of directors shall adopt policies and procedures with respect to the design, construction, and renovation of buildings, utilities, and other property developments of the University of North Carolina Health Care System requiring the expenditure of public money for:

(1) Conducting the fee negotiations for all design contracts and supervising the letting of all construction and design contracts.

(2) Performing the duties of the Department of Administration, the Office of State Construction, and the State Building Commission under G.S. 133-1.1(d), Article 8 of Chapter 143 of the General Statutes, and G.S. 143-341(3).

(3) Using open-end design agreements.

(4) As appropriate, submitting construction documents for review and approval by the Department of Insurance and the Division of Health Service Regulation of the Department of Health and Human Services.

(5) Using the standard contracts for design and construction currently in use for State capital improvement projects by the Office of State Construction of the Department of Administration.

The board of directors shall submit all initial policies and procedures adopted under this subsection to the Office of State Construction for review upon adoption by the board. Any subsequent changes to these policies and procedures adopted by the board shall be submitted to the Office of State Construction for review. Any comments by the Office of State Construction shall be submitted to the Chief Executive Officer and to the President of The University of North Carolina.

(k) Patient Information. – The University of North Carolina Health Care System shall, at the earliest possible opportunity, specifically make a verbal and written request to each patient to disclose the patient's social security number, if any. If the patient does not disclose that number, the University of North Carolina Health Care System shall deny benefits, rights, and privileges of the University of North Carolina Health Care System to the patient as soon as practical, to the maximum extent permitted by federal law or federal regulations. The University of North Carolina Health Care System shall make the disclosure to the patient required by Section 7(b) of P.L. 93-579. This subsection is supplementary to G.S. 105A-3(c). (1971, c. 762, s. 1; c. 1244, s. 6; 1981, c. 859, s. 41.5; 1983, c. 717, s. 32; 1985 (Reg. Sess., 1986), c. 955, ss. 30, 31; 1989, c. 141, s. 1; 1991, c. 550, s. 2; c. 689, s. 206.2(d); 1993 (Reg. Sess., 1994), c. 591, s. 10(a); 1998-212, s. 11.8(a); 1999-252, s. 4(a); 2005-417, s. 3; 2006-203, s. 47.2; 2007-182, s. 1; 2007-306, s. 1; 2010-31, s. 9.11; 2011-145, s. 9.6E(b).)

North Carolina General Statutes

§ 116-37.2. Regulation of University of North Carolina Hospitals at Chapel Hill Funds.

(a) As used in this section, "funds" means:

(1) Monies, or the proceeds of other forms of property, received by the University of North Carolina Hospitals at Chapel Hill as gifts or devises.

(2) Moneys received by the University of North Carolina Hospitals at Chapel Hill pursuant to grants from, or contracts with, the United States government or any agency or instrumentality thereof.

(3) Moneys received by the University of North Carolina Hospitals at Chapel Hill pursuant to grants from, or contracts with, any State agencies, any political subdivisions of the State, any other states or nations or political subdivisions thereof, or any private entities whereby the University of North Carolina Hospitals at Chapel Hill undertakes, subject to terms and conditions specified by the entity providing the moneys, to conduct research, training, or public service programs.

(4) Moneys received from or for the operation by the University of North Carolina Hospitals at Chapel Hill of any of its self-supporting auxiliary enterprises, including the Liability Insurance Trust Fund.

(5) Moneys received by the University of North Carolina Hospitals at Chapel Hill in respect to fees and other payments for services it renders in its hospital and/or clinical operations.

(5a) Moneys received by the University of North Carolina Hospitals at Chapel Hill in respect to borrowings for capital equipment or construction projects to further services it renders in either or both of its hospital or clinical operations.

(6) The net proceeds from the disposition effected pursuant to Article 7 of Chapter 146 of the General Statutes of any interest in real property owned by or under the supervision and control of the University of North Carolina Hospitals at Chapel Hill if the interest in real property had first been acquired by gift or devise or through expenditure of monies defined in this subsection, except the net proceeds from the disposition of an interest in real property first acquired by the University of North Hospitals at Chapel Hill through expenditure of monies received as a grant from a State agency.

(b) The Board of Directors of the University of North Carolina Health Care System, as established in G.S. 116-37(b), is responsible for the custody and management of the funds of the University of North Carolina Hospitals at Chapel Hill. The Board shall adopt uniform policies and procedures applicable to the deposit, investment, and administration of these funds, which shall assure that the receipt and expenditure of such funds is properly authorized and that the funds are appropriately accounted for. The Board may delegate authority, through the Chief Executive Officer of the University of North Carolina Health Care System to the President of the University of North Carolina Hospitals at Chapel Hill, when such delegation is necessary or prudent to enable the University of North Carolina Hospitals at Chapel Hill to function in a proper and expeditious manner.

(c) Funds under this section and investment earnings thereon are available for expenditure by the University of North Carolina Hospitals at Chapel Hill without further authorization from the General Assembly.

(d) Repealed by Session Laws 2011-145, s. 9.6E(c), effective July 1, 2011.

(e) Funds under this section are subject to the oversight of the State Auditor pursuant to Article 5A of Chapter 147 of the General Statutes but are not subject to the provisions of the State Budget Act except for capital improvements projects, which shall be authorized and executed in accordance with G.S. 143C-8-8 and G.S. 143C-8-9.

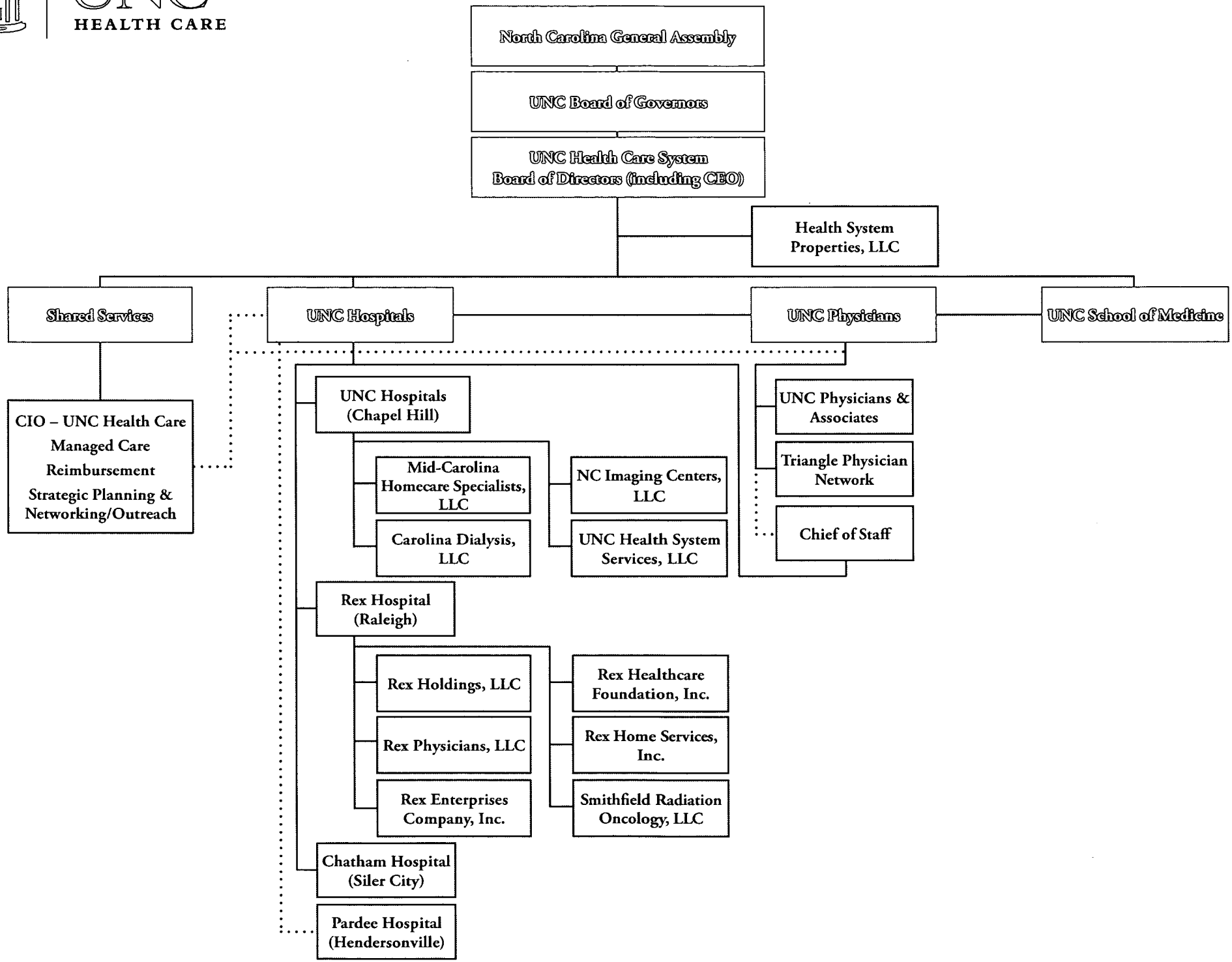
(f) The University of North Carolina Hospitals at Chapel Hill shall submit such reports or other information concerning its fund accounts under this section as may be required by the Board of Directors of the University of North Carolina Health Care System.

(g) Funds under this section, or the investment income therefrom, shall not take the place of State appropriations or any part thereof, but any portion of these funds available for general institutional purposes shall be used to supplement State appropriations to the end that the University of North Carolina Hospitals at Chapel Hill may improve and increase their functions, may enlarge their areas of service, and may become more useful to a greater number of people.

(h) The Board of Directors of the University of North Carolina Health Care System may deposit or invest the funds under this section in interest-bearing accounts and other investments in the exercise of its sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. (2005-417, s. 4; 2011-145, s. 9.6E(c); 2011-284, s. 85.)

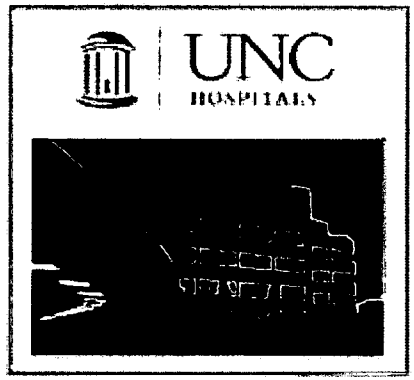
UNC HEALTH CARE

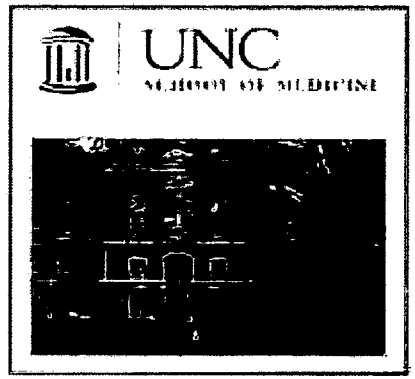
Organizational Chart

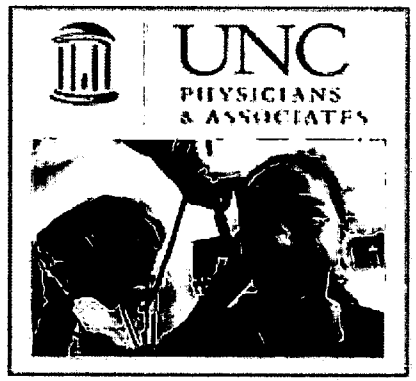


#3

Enabling leading, teaching, and caring via the System Fund







The System Fund – FY 2011 Benefit $106,361,000		
Sub-account	**Beneficiaries**	**FY 2011 benefit**
The Enterprise Fund	UNC School of Medicine, UNC School of Medicine Clinical Depts., NC AHEC program	$58.3 million
The Outreach Fund	UNC School of Medicine Clinical Depts.,	$2 million
The Recruitment Fund	UNC School of Medicine Clinical Depts., UNC Physicians & Associates	No funds expended In FY 2011
The Patient Safety Fund	UNC Hospitals UNC Physicians & Associates	$261,000
The Shared Administrative Services Fund	UNC Health Care, UNC Hospitals, UNC Physicians & Associates, Rex Healthcare, Triangle Physician Network, Chatham Hospital	$45.8 million

The need for continued growth

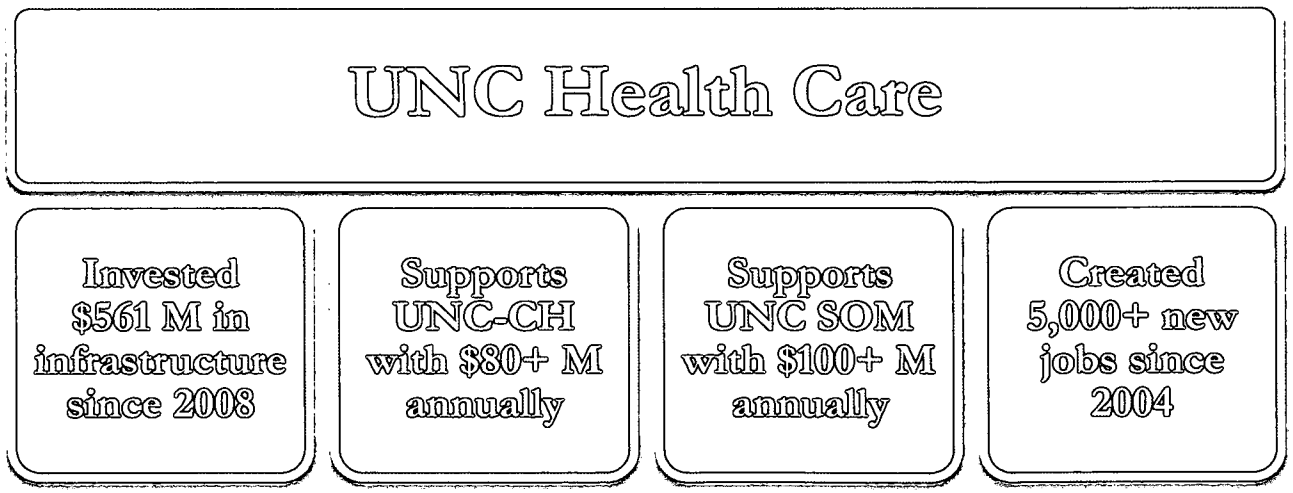
UNC Health Care is proud to be the state's flagship health care institution, but North Carolina can only realize the benefits of the System if it is financially strong and capable of providing high-quality services in care, research and teaching. Without the freedom to grow, UNC Health Care would be challenged to provide its current services and would require additional State support:

UNC Health Care would lose its ability to support the UNC School of Medicine (SOM)

- SOM would not be able to support its missions (research, teaching, clinical)
- SOM would lose its ability to provide financial contributions to UNC-Chapel Hill
- SOM would lose its ability to help fund research
- SOM would lose its ability to attract world-leading researchers and clinicians

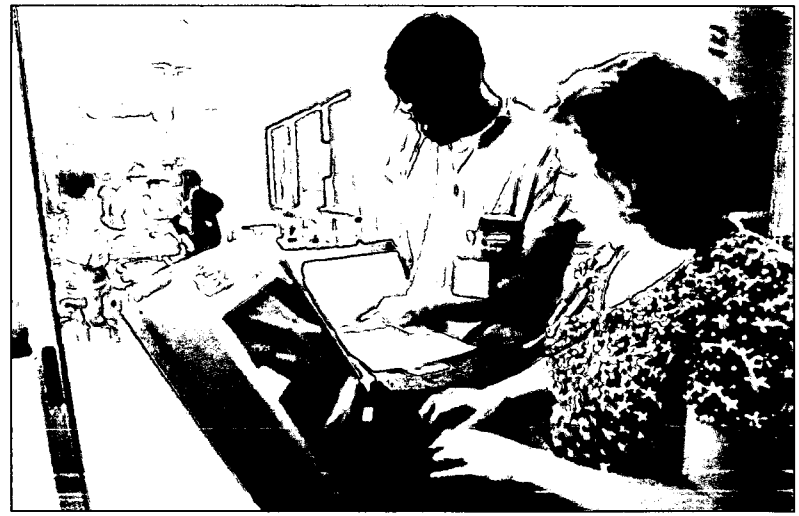
UNC Health Care would become a big hospital in a small town

- Less able to provide ground-breaking care to North Carolina
- Less able to attract paying patients (which supports uncompensated care)
- Would require additional funds from the State to maintain current service levels



UNC HEALTH CARE

Celebrating 60 years of care



#4

Response to Committee Request for Information

UNC Health Care System

FRD Request 10.20.11

1. Provide a list of all entities affiliated with UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, Pardee, and any subsidiary affiliates of these entities. Identify which entities participate in the Enterprise Fund (including subsidiary affiliates). Identify which entities were created before/after the entity became affiliated with UNCHCS (including subsidiary affiliates). Identify if each entity is audited and list the audit containing the entity (including subsidiary affiliates). Provide a statement explaining the purpose of each affiliated entity.

2. Provide complete copies of two most recent outside audit reports for UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, and Pardee. Provide complete copies of two most recent annual financial statements (not the annual reports posted on your web site) for UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, and Pardee showing the balance sheets, cash flows, income statements, and any other data appearing on the financial statement.

3. Provide a statement of the profit (or other measure of annual performance) for Rex. The statement should explain cash (or cash equivalents) earned during the fiscal year and other additional assets held. The statement should also explain where the data can be found on the audit report (provided under a prior question).

4. Provide the organizational documents such as articles of incorporation, bylaws, and other agreements creating the Enterprise Fund. Provide a listing of all transfers of cash or property into and from the Enterprise Fund for the most recent two years. Provide complete copies of two most recent annual financial statements for the Enterprise Fund. Provide a listing of the assets of the Enterprise Fund. Provide a statement explaining the governance of the Enterprise Fund including who makes decisions to distribute its assets. Identify the location of the Enterprise Fund including who has authority over its accounts.

5. Identify the resources devoted to teaching, research, patient care and other activities of each of the affiliated entities engaged in teaching, research, and patient care.

6. Identify all transfers between and among Rex and UNCHCS

Tab 1

Provide a list of all entities affiliated with UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, Pardee, and any subsidiary affiliates of these entities. Identify which entities participate in the Enterprise Fund (including subsidiary affiliates). Identify which entities were created before/after the entity became affiliated with UNCHCS (including subsidiary affiliates). Identify if each entity is audited and list the audit containing the entity (including subsidiary affiliates). Provide a statement explaining the purpose of each affiliated entity.

1 UNC Health Care System

1A Health System Properties, LLC

Organized 6/8/2000
Created as a vehicle of the UNC Health Care System to acquire property and pay appropriate property taxes when warranted. The UNC Wellness Center, and the UNC Spine Center are held in the LLC.
Entity does not provide assessment to Enterprise Fund.
Entity does not receive Enterprise Fund support.
Audited by the office of the NC State Auditor, as part of UNC Hospitals' annual audit.

1B First Health UNCHCS, LLC

Organized 5/6/2008
UNC Health Care operates a joint-venture medical oncology clinic with FirstHealth of the Carolinas in Sanford, North Carolina.
Entity does not provide assessment to Enterprise Fund.
Entity does not receive Enterprise Fund support.
Audited separately by independent auditor.

1C UNC Hospitals (UNCH)

Operates NC Memorial Hospital, NC Women's Hospital, NC Children's Hospital, NC Neurosciences Hospital, and NC Cancer Hospital (collectively UNC Hospitals). With UNC P&A, operated Community Based Practices with UNC P&A until TPN was formed.
Entity provides assessment to Enterprise Fund.
Entity does receive Enterprise Fund support.
Audited by the office of the NC State Auditor.

UNC Health System Services, LLC

Organized 1/13/2006
Subsidiary organized to employ retired state employees, per 2006 North Carolina Attorney General opinion affirming UNC Health Care's flexibility from state employment rules.
Subsidiary affiliate does not receive Enterprise Fund support.

NC Imaging Centers, LLC

Organized 8/26/2005
Entity organized but has had no activity.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited by the office of the NC State Auditor, as part of UNC Hospitals' annual audit.

Provide a list of all entities affiliated with UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, Pardee, and any subsidiary affiliates of these entities. Identify which entities participate in the Enterprise Fund (including subsidiary affiliates). Identify which entities were created before/after the entity became affiliated with UNCHCS (including subsidiary affiliates). Identify if each entity is audited and list the audit containing the entity (including subsidiary affiliates). Provide a statement explaining the purpose of each affiliated entity.

1 UNC Health Care System

Carolina Dialysis, LLC

Organized 6/17/2002
UNC Hospitals operates joint-venture dialysis clinics with Renal Research Institute, LLC.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited by the office of the NC State Auditor, as part of UNC Hospitals' annual audit.

NC Healthcare Innovations, LLC

Organized 4/29/2011
UNC Hospitals is creating a joint venture clinic with Blue Cross Blue Shield of North Carolina. The Clinic will open in December 2011.
Subsidiary affiliate does not receive Enterprise Fund support.
Subsidiary affiliate will be audited by an independent auditor.

1D UNC Physicians & Associates

18 Clinical Departments of the UNC School of Medicine operating clinical practices throughout the Triangle region. With UNCH, operated Community Based Practices (CBPs) with UNC Hospitals until TPN was formed.
Entity provides assessment to Enterprise Fund.
Entity receives Enterprise Fund support.
Audited annually by the office of the NC State Auditor, as a part of the University of North Carolina - Chapel Hill audit.

1E Rex Healthcare, Inc

Incorporated as a Non-Profit corporation 3/17/1986
Holding company for Rex Healthcare system.
Entity provides assessment to Enterprise Fund.
Entity does not receive Enterprise Fund support.
Audited separately by independent auditor.

Rex Hospital, Inc.

Incorporated as a Non-Profit corporation 3/17/1986
Rex Hospital is a 433-bed hospital. The hospital provides inpatient, outpatient, and emergency hospital services primarily in Wake County, NC. The hospital operates on its main campus Rex Cancer Center, Rex Women's Center and Rex Rehabilitation and Nursing Care Center of Raleigh, a 120-bed nursing facility. The hospital provides urgent care and diagnostics at its Cary, NC campus. The hospital provides outpatient surgery, oncology, and wellness services, urgent care, family medicine and diagnostics at its Wakefield campus. Rex's Knightdale campus provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. Rex also operates Rex Rehabilitation and Nursing Care Center of Apex, a 1-7-bed nursing facility in Apex, NC.
Subsidiary affiliate provides assessment to Enterprise Fund.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Provide a list of all entities affiliated with UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, Pardee, and any subsidiary affiliates of these entities. Identify which entities participate in the Enterprise Fund (including subsidiary affiliates). Identify which entities were created before/after the entity became affiliated with UNCHCS (including subsidiary affiliates). Identify if each entity is audited and list the audit containing the entity (including subsidiary affiliates). Provide a statement explaining the purpose of each affiliated entity.

1 **UNC Health Care System**

Rex Home Services, Inc
Organized 10/24/1998
Rex Home Services provides homecare services across the Triangle region of North Carolina.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Rex Surgery Center of Cary, LLC
Organized 4/20/07
Operates an outpatient surgery center in Cary, NC with community physicians. The surgery center was formed and began operations on February 28, 2011. The hospital owns 79.5% of the membership interests. The remaining membership interests are owned by an unrelated third party.

Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Smithfield Radiation Oncology, LLC
Acquired 2/28/2008
Rex operates a Radiation Oncology Clinic in Smithfield, NC.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

JRH Ventures, LLC
Organized 6/4/10
Joint venture with Johnston Memorial Hospital Authority to provide Radiation Oncology services in Johnston County, NC.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Rex Holdings, LLC
Organized 4/20/2008
Subsidiary affiliate created to hold Rex Healthcare Inc's membership interests in joint ventures and other
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Rex Orthopedic Ventures, LLC
Organized 4/20/07
Organized to hold Rex's 50% investment in a joint venture with an unrelated third party.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Provide a list of all entities affiliated with UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, Pardee, and any subsidiary affiliates of these entities. Identify which entities participate in the Enterprise Fund (including subsidiary affiliates). Identify which entities were created before/after the entity became affiliated with UNCHCS (including subsidiary affiliates). Identify if each entity is audited and list the audit containing the entity (including subsidiary affiliates). Provide a statement explaining the purpose of each affiliated entity.

1 **UNC Health Care System**

Rex Physicians, LLC
Organized 5/17/2007
Subsidiary affiliate formed to operate specialty physician practices serving the residents of Wake County and surrounding area. Subsidiary affiliate currently operates physician practices in the areas of general surgery, heart and vascular services, and thoracic surgery.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Rex IV, LLC
Organized 5/17/2007
Organized to meet future needs of Rex Healthcare. It has no activity.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Rex V, LLC
Organized 5/17/2007
Organized to meet future needs of Rex Healthcare. It has no activity.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Rex Enterprises Company, Inc
Organized 1/7/1987
A for-profit corporation formed to engage in activities that would otherwise generate non-tax-exempt income for the non-profit entities. Prior to June 15, 2010, Enterprises owned a 50% interest in ventures. On June 15, 2010 Enterprises bought the remaining 50% interest in Ventures from Wakefield Rex Investors, LLC.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Rex CDP Ventures, LLC
Organized 5/26/06
Subsidiary affiliate organized to own and develop real estate in the Wakefield community of northern Wake County.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit

Provide a list of all entities affiliated with UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, Pardee, and any subsidiary affiliates of these entities. Identify which entities participate in the Enterprise Fund (including subsidiary affiliates). Identify which entities were created before/after the entity became affiliated with UNCHCS (including subsidiary affiliates). Identify if each entity is audited and list the audit containing the entity (including subsidiary affiliates). Provide a statement explaining the purpose of each affiliated entity.

1 UNC Health Care System

Rex Wakefield Wellness, LLC
Organized 7/25/07
Subsidiary affiliate organized to develop a wellness center building on the Wakefield campus of the Hospital. Rex Hospital leases the building from Wellness.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit

Rex CDP Ventures-Retail, LLC
Organized 10/27/09
Subsidiary affiliate organized to develop a retail unit of the Wakefield campus of the Hospital.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit

Rex CDP Ventures-HT, LLC
Organized 6/15/07
Subsidiary affiliate organized to develop a retail unit of the Wakefield campus of the Hospital.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

Wakefield Rex Investors MOB, LLC
Organized 7/30/07
Subsidiary affiliate organized to develop a medical office building on the Wakefield campus of the Hospital.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited as part of Rex Healthcare, Inc audit.

1F Chatham Hospital, Inc
Acquired 7/22/2008
Provides Inpatient, outpatient, and emergency hospital services in Siler City, NC.
Entity does not provide assessment to Enterprise Fund.
Entity does not receive Enterprise Fund support.
Audited separately by independent auditor.

1G Triangle Physician Network
Organized 2/12/2009. Community Based Clinics transitioned in during FY 2010. Rex primary clinics transitioned into TPN during FY2011.
Primary and specialty medical practice with locations across the triangle region of North Carolina.
Subsidiary affiliate does not provide assessment to Enterprise Fund.
Subsidiary affiliate does not receive Enterprise Fund support.
Audited separately by independent auditor.

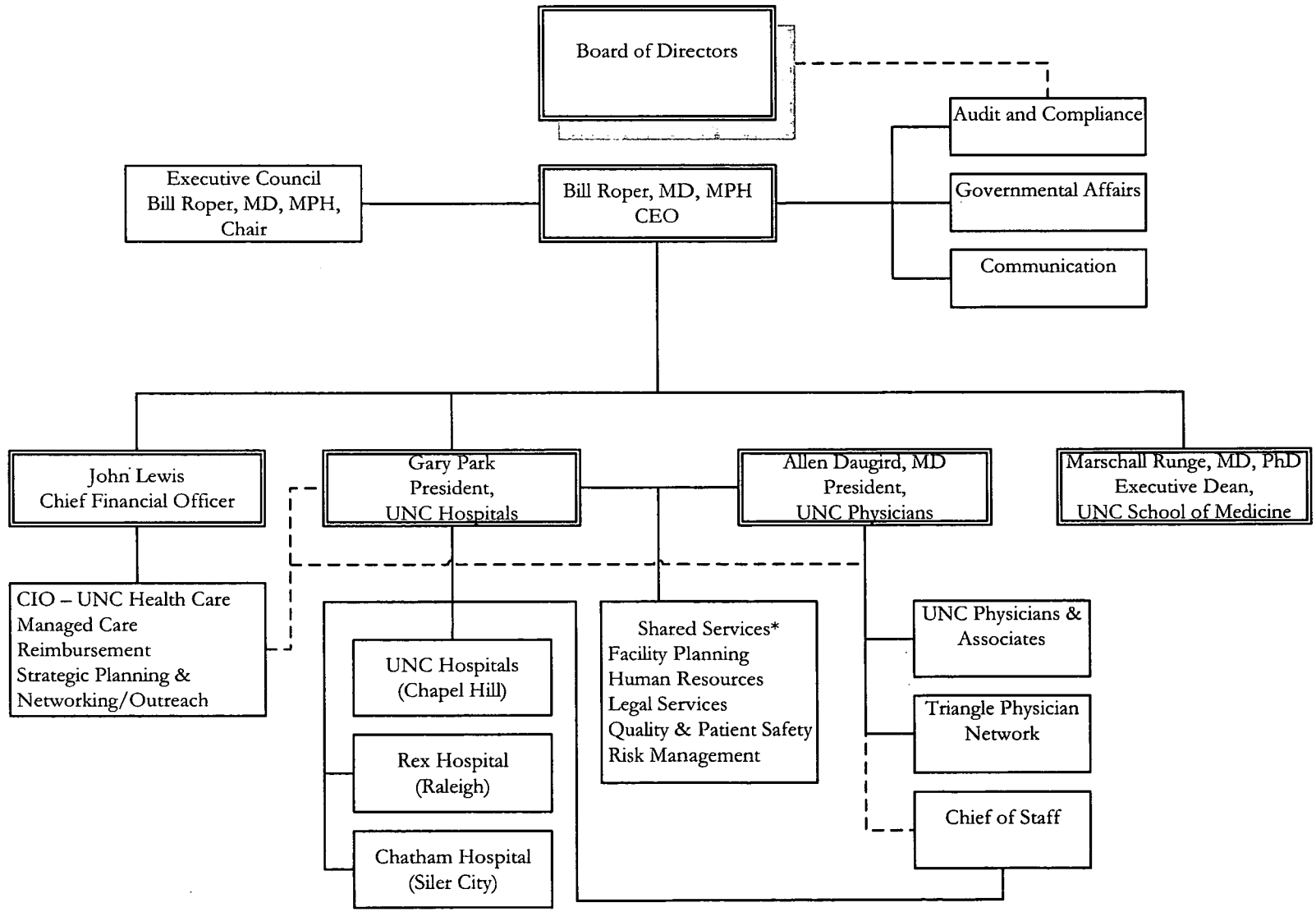
We request: (1) the 9 org charts be part of UNCHCS' public response; (2) UNCHCS add the entities listed on the org charts to the narrative response; and (3) the narrative response explain the purpose of each entity including any health care facilities run by the entity. For example, the explanation should identify the Rex subsidiary operating Rex's satellite campus locations, and the explanation should identify the community based practices.

Org charts are attached in the order listed below. Narrative responses were updatd to include the requested explanations.

1	**UNC Health Care System**	
1A	**Health System Properties, LLC**	UNCHCS Org Chart
1B	**First Health UNCHCS, LLC**	Sanford Hematology Oncology
1C	**UNC Hospitals (UNCH)**	UNCH Org Chart
	UNC Health System Services, LLC	
	NC Imaging Centers, LLC	
	Carolina Dialysis, LLC	Carolina Dialysis
	NC Healthcare Innovations, LLC	
	Mid Carolina Homecare Specialists no longer exists.	
1D	**UNC Physicians & Associates**	P&A Org Chart
1E	**Rex Healthcare, Inc**	Rex Healthcare Organizational Chart
	Rex Hospital, Inc.	
	Rex Home Services, Inc	
	Rex Surgery Center of Cary, LLC	
	Smithfield Radiation Oncology, LLC	
	JRH Ventures, LLC	
	Rex Holdings, LLC	
	Rex Orthopedic Ventures, LLC	
	Rex Physicians, LLC	
	Rex IV, LLC	
	Rex V, LLC	
	Rex Enterprises Company, Inc	
	Rex CDP Ventures, LLC	
	Rex Wakefield Wellness, LLC	
	Rex CDP Ventures-Retail, LLC	
	Rex CDP Ventures-HT, LLC	
	Wakefield Rex Investors MOB, LLC	
1F	**Chatham Hospital, Inc**	Chatham Org Chart
1G	**Triangle Physician Network**	TPN Org Chart

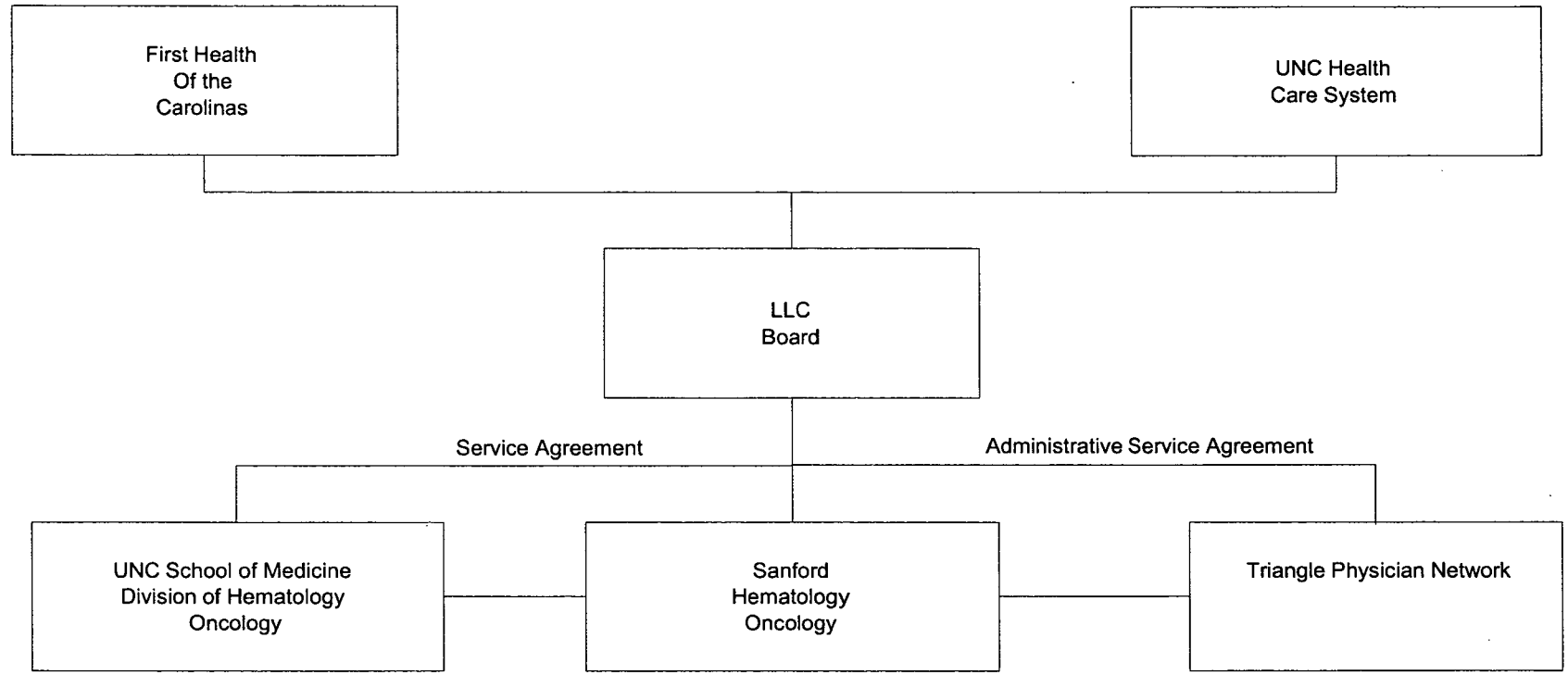
UNC HEALTH CARE

Organizational Chart
July 1, 2010



* The shared services components work collaboratively across the UNC HCS, and Mr. Park and Dr. Daugird will work in partnership in these areas.

FIRSTHEALTH OF THE CAROLINAS AND UNC HEALTH CARE SYSTEM , LLC
Organizational Chart
March 1, 2011

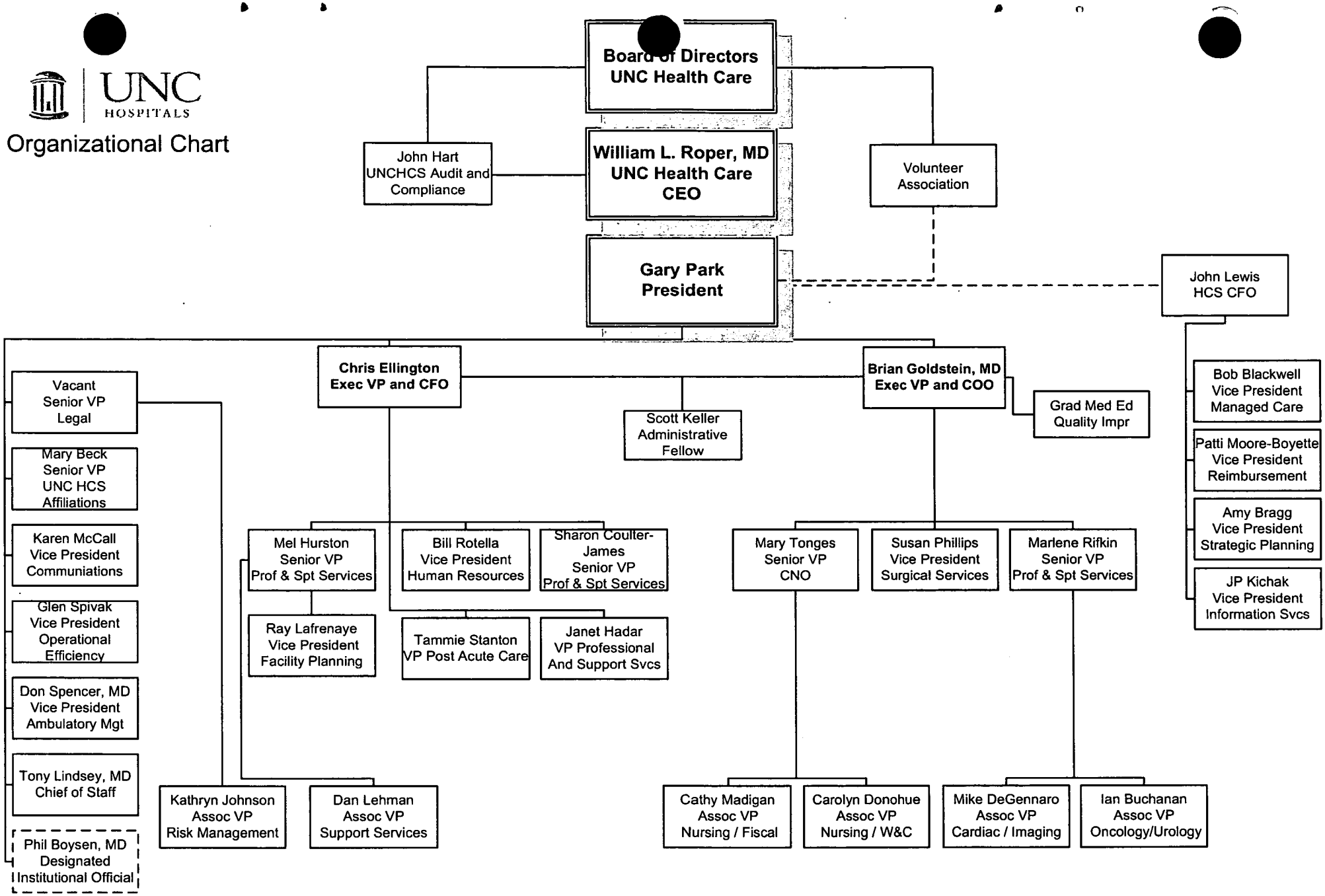


- QA
- Back-up Call Coverage
- Clinical Program Oversight
- Recruitment Assistance
- Consultative Advice

- Competencies
- Safety & Security
- JCAHO
- Billing Oversight
- Management Oversight
- Staffing
- Med 3000
- Pharmacy
- Lab/CLIA
- Reference Lab

UNC HOSPITALS

Organizational Chart

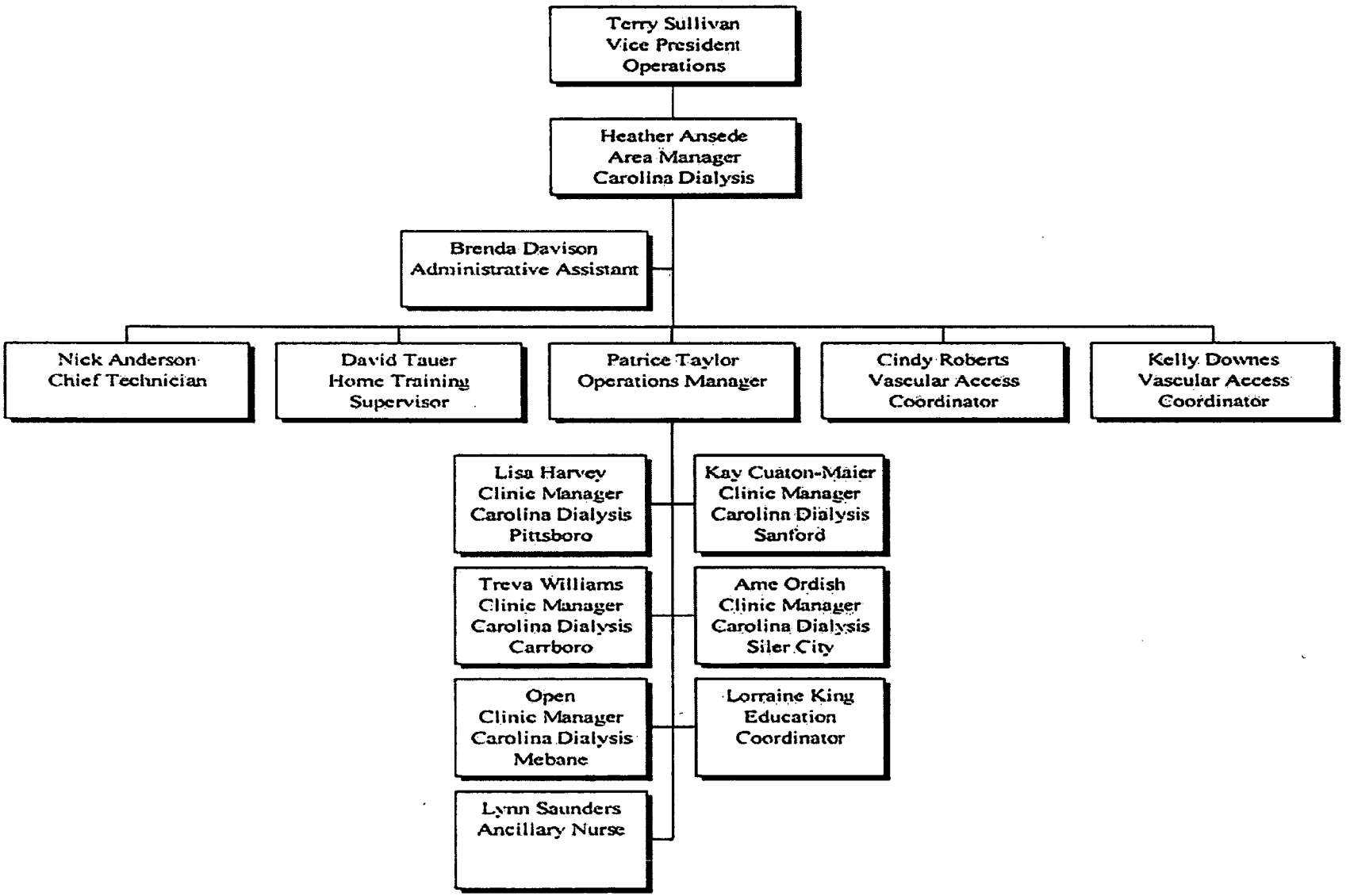


March, 2011

Gary L. Park, President

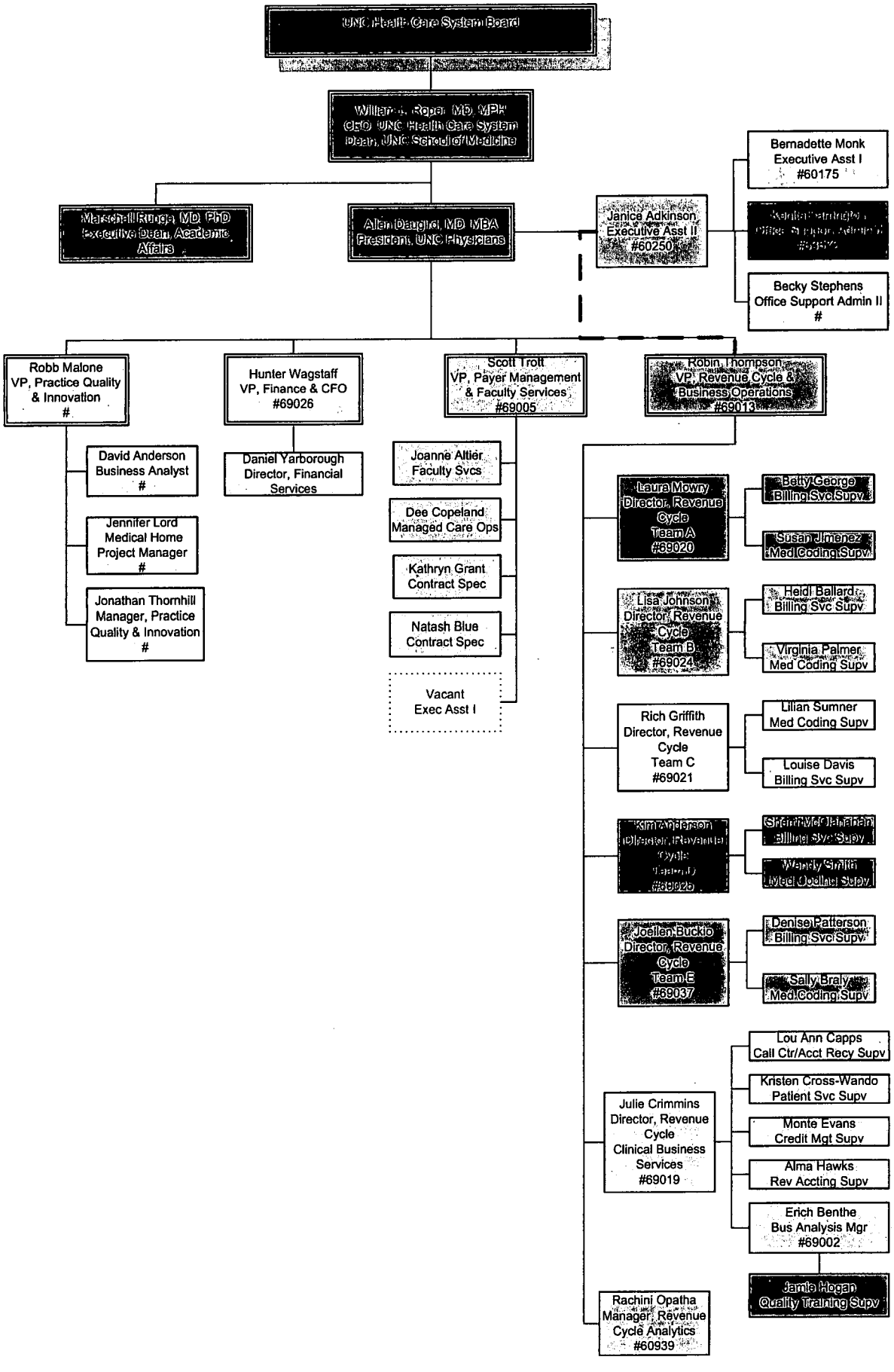
Carolina Dialysis, LLC

A 50/50 Joint Venture of
UNC Hospitals and
Renal Research Institute, LLC

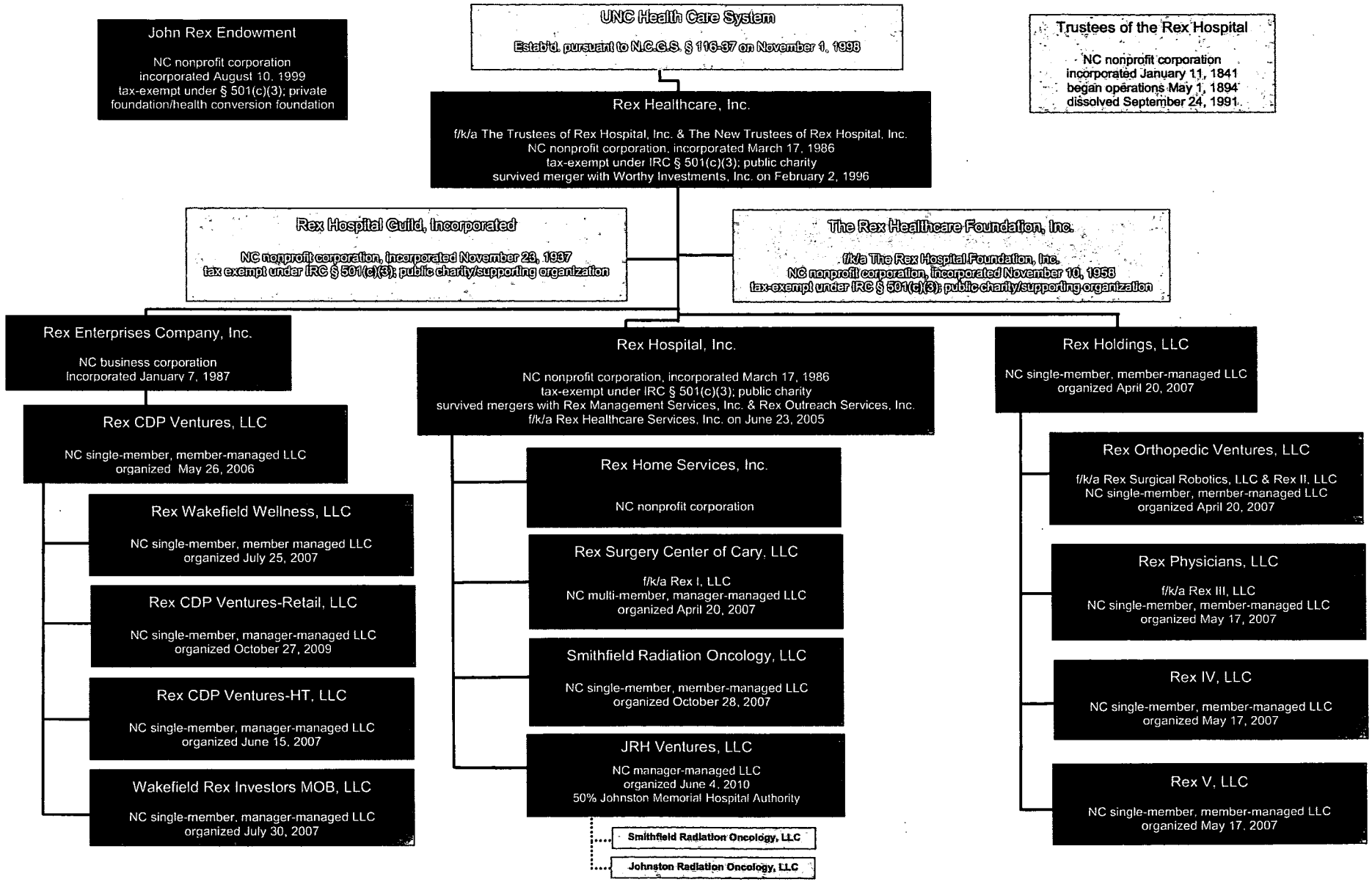


UNC Physicians & Associates

February 18, 2011



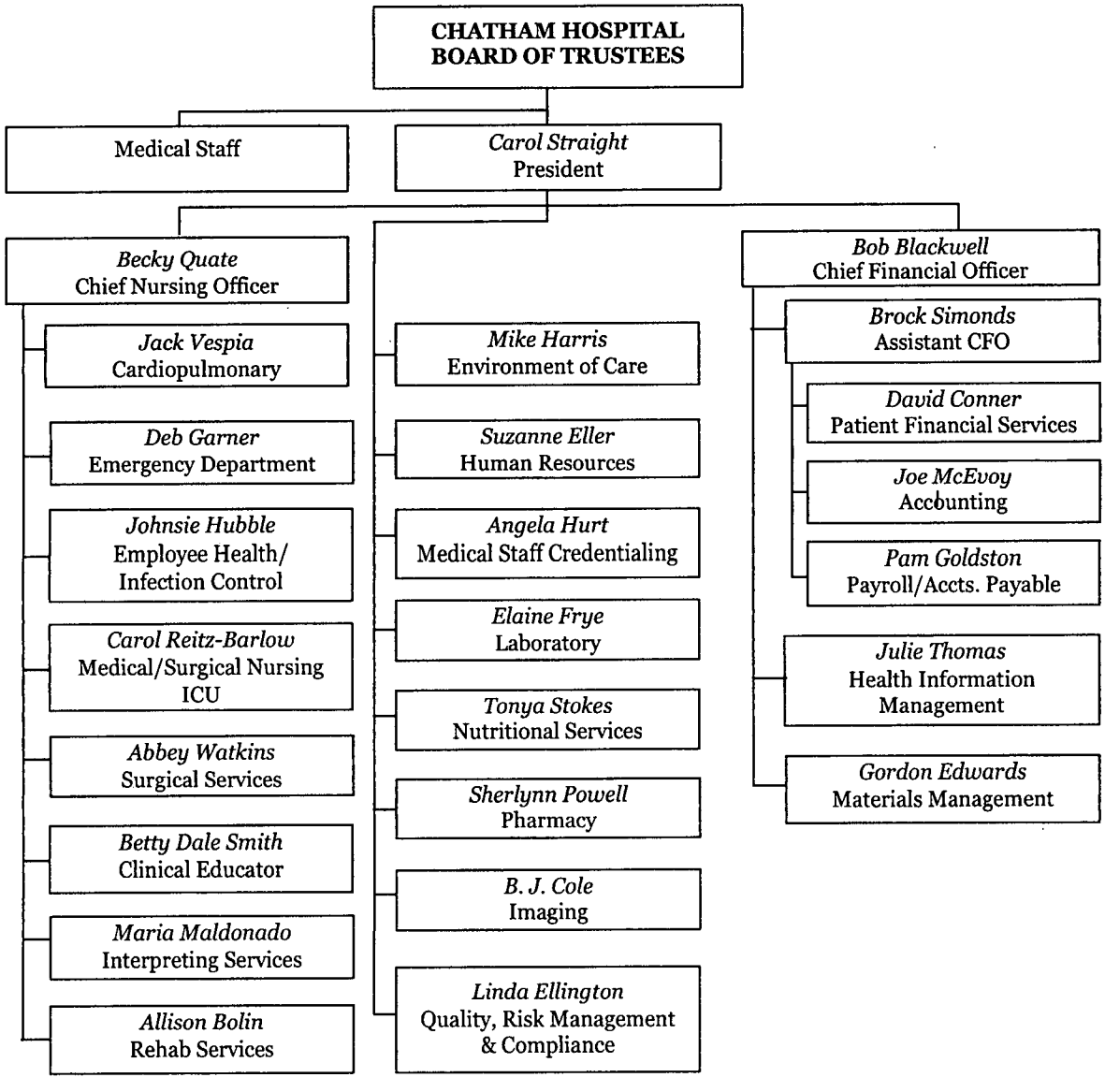
REX HEALTHCARE ORGANIZATIONAL CHART



Rev: 3-29-11

CHATHAM HOSPITAL
UNC HEALTH CARE

Organizational Chart



Carol Straight
President
4/2011

UNC HEALTH CARE

TRIANGLE PHYSICIAN NETWORK

UNC HEALTH CARE REX

TPN Board
Allen Daugird, MD
President

Operations Management Team

Bob Ricker
Executive Administrative Director

Robert Gianforcaro, DO
Exec Medical Director

Physician Council

Sandlin Davenport
Director - Operations
Eastern Region

4 - 6 Practices Each

RPA

RPA

Practice Acquisition & Integration

MSA Coordination
- Marketing
- HR
- WC/Occ Health
- PMS Project Mgmt

Peter Michels
Director - Operations
Western Region

4 - 6 Practices Each

RPA

RPA

RPA

RPA

Practice Acquisition & Integration

MSA Coordination
- IS/Telecom
- Legal
- Risk Management
- Reg Compliance
- Laboratory

Derek Wildman
Director of Finance & Business Ops

Finance/Reimb Analyst (NEW) **

Acquisition Analyst (NEW) **

Coding/Audit Manager

Coding Analysts (1 New)

CBO Manager (NEW)

MSA Coordination
Accounting
Financial Reporting
Purchasing
Mgd. Care Contr.

Physician Relations

Assoc Med Dir - QA

QI Manager

Assoc Med Dir - IT

Credentialing/ Enrollment Coordinator (NEW)

MSA Coordination
Quality Improvement
MD Credentialing
Pay 4 Performance

Med Dirs Practices

Physicians & Non-Physician Providers (NPP's)

Tab 2

Provide complete copies of two most recent outside audit reports for UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, and Pardee.

Index	Entity	Description
2.01	UNC HCS	An annual audit for UNC Health Care System (UNC HCS) does not exist due to the overlapping authority between the UNC P&A (with UNC-Chapel Hill) and UNC Health Care. Since FY05, UNC Health Care has produced consolidated financial statements in an Annual Report.
2.02	UNCH	The annual audit is performed by the Office of the NC State Auditor. The most recent audit was FY10, as FY11 is still underway. The FY09 and FY10 audits are attached herein.
2.03	UNC P&A	UNC Physicians & Associates consists of the clinical departments of the School of Medicine, and is thus a part of the University of North Carolina - Chapel Hill. It is managed by the UNC HCS Board of Directors, and most of UNC P&A's non-physician staff are employed by UNC HCS. UNC-CH's audit reports for FY09 and FY10 are attached herein.
2.04	Rex	Rex Healthcare is audited annually by an independent auditing firm. The FY10 and FY11 audits are attached herein. Because Rex issued bonds through the North Carolina Medical Care Commission, consolidated financial statements and audit reports are available at emma.msrb.org
2.05	Chatham	Chatham Hospital is audited annually by an independent auditing firm. The FY10 and FY11 audits are attached herein. Because Chatham issued bonds through the North Carolina Medical Care Commission, consolidated financial statements and audit reports are available at emma.msrb.org
2.06	Pardee	UNC HCS does not own Pardee: we cannot provide Pardee's financial information.

Provide complete copies of two most recent annual financial statements (not the annual reports posted on your web site) for UNCHCS, UNC Hospitals, UNC Physicians & Associates, Rex, Chatham, and Pardee showing the balance sheets, cash flows, income statements, and any other data appearing on the financial statement.

Index	Entity	Description
2.07	UNC HCS	The Annual Report provided on our website is the most recent annual financial statement for the system. The income statement, balance sheet, cash flow statement, and notes are provided in that report. We have provided copies of FY09 and FY10 herein.
2.08	UNCH	The annual audit referenced above contains all financial statements requested.
2.09	UNC P&A	As a part of the Annual Report, pro-forma financial statements are produced for the annual report. The represent UNC P&A's portion of UNC-CH's financial statements. We have included those pro-forma statements for FY09 and FY10.
2.10	Rex	The annual audit referenced above contains all financial statements requested.
2.11	Chatham	The annual audit referenced above contains all financial statements requested.
2.12	Pardee	UNC HCS does not own Pardee: we cannot provide Pardee's financial information.

STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA HOSPITALS

AT CHAPEL HILL

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

UNIVERSITY OF NORTH CAROLINA HOSPITALS

AT CHAPEL HILL

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

THOMAS W. ROSS, PRESIDENT

BOARD OF DIRECTORS

DR. RICHARD M. KRASNO, CHAIRMAN

ADMINISTRATIVE OFFICERS

GARY PARK, PRESIDENT

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Directors, University of North Carolina Health Care System

We have completed a financial statement audit of the University of North Carolina Hospitals at Chapel Hill for the year ended June 30, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the University of North Carolina Hospitals at Chapel Hill, which is a part of the University of North Carolina Health Care System, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Hospitals' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina Hospitals at Chapel Hill as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the Hospitals implemented Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus*, during the year ended June 30, 2011.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011 on our consideration of the Hospitals' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

October 3, 2011

UNIVERSITY OF NORTH CAROLINA HOSPITALS AT CHAPEL HILL
MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis is provided by the University of North Carolina Hospitals at Chapel Hill (Hospitals) fiscal management team as an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes between fiscal years 2011 and 2010, as well as pertinent facts, decisions, and conditions.

Using the Financial Statements

The financial statements of the Hospitals provide information regarding its financial position and results of operations as of the report date. The *Statement of Net Assets*; the *Statement of Revenues, Expenses, and Changes in Net Assets*; and the *Statement of Cash Flows* comprise the basic financial statements required by the Governmental Accounting Standards Board (GASB). In accordance with the GASB, the financial statements are presented and follow reporting concepts consistent with those required of a private business enterprise. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balance. *Notes to the Financial Statements* are an integral part of the information presented and should be read in conjunction with the financial statements.

The *Statement of Net Assets* provides information relative to the Hospitals' 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 are anticipated to be used to pay for current liabilities. Current liabilities are those payable in the next fiscal year. Net assets on this Statement are categorized as invested in capital assets (net of related debt), restricted, or unrestricted. Restricted net assets are categorized as expendable for the purposes noted. Management estimates are necessary in some instances to determine current or noncurrent categorization. Overall, the *Statement of Net Assets* provides information relative to the financial strength of the Hospitals and its ability to meet current and long-term obligations.

The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the results of the Hospitals' operations, nonoperating activities, and other activities affecting net assets, which occurred during the fiscal year. Nonoperating activities include funding from the State in the form of appropriations, noncapital gifts and grants, as well as interest expense on financing activities, gain or loss on investments (net of investment expenses), gain or loss on affiliate activity and gain or loss realized on the disposition of capital assets. Other activities include donated capital equipment and Health Care System assessments. Overall, the Statement *of Revenues, Expenses, and Changes in Net Assets* provides information relative to the Hospitals' management of its operations and its ability to maintain its financial strength.

The *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 cash balance changes throughout the year and is representative of the activity reported on the *Statement of Revenues, Expenses, and Changes in Net Assets* as adjusted for changes in the beginning and ending balances of noncash accounts on the *Statement of Net Assets*.

The *Notes to the Financial Statements* provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, accounting changes, and a discussion of adjustments to prior periods and events subsequent to the Hospitals' financial statement period when appropriate. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with the amounts reported and are considered an integral part of the financial statements.

Comparison of Two-Year Data for 2011 to 2010

Comparative financial data of 2011 to 2010 is summarized in Table 1. Discussion of comparative data is included in the following section.

Analysis of Overall Financial Position and Results of Operations

Statement of Net Assets

Assets increased overall by $175 million or 12% from fiscal year 2010 to 2011 due primarily to the growth in investment value, cash, and capital assets. Depreciable capital assets continued to increase due to routine capital equipment purchases and multiple capital projects including the expansion and renovation of the Ambulatory Care Center (ACC) which added four operating rooms, twelve 23 hour rooms and pre and post operative space, as well as the completion and opening of the 31,000 square foot Imaging & Spine Center. Both the ACC and the Imaging & Spine Center were funded by the issuance of revenue bonds during the fiscal year. Investment income returns fluctuated during the year and finished with a combined overall return of 15% for the year on cash and equity investments.

Liabilities increased $42 million or 9% compared to a net assets increase of $133 million or 13% from fiscal year 2010. The largest increase in liabilities was in the noncurrent section as a result of issuing $49 million in revenue bonds for capital projects and described in more detail in Note 6 within the *Notes to the Financial Statements*.

Statement of Revenues, Expenses, and Changes in Net Assets

Operating income and net assets continued to grow at the Hospitals during fiscal year 2011. Fiscal year 2011 performance resulted in an operating margin of 9% using the GASB financial statement format compared to 7% in fiscal year 2010.

Total operating revenue grew year-over-year by 10%, showing demand for the Hospitals' full array of services. This growth is attributed to a slight increase in inpatient volume, in a facility that consistently operates at greater than 80% of licensed inpatient capacity, full year impact of continued Cancer Hospital revenues, as well as an increase in inpatient and outpatient rates which offset a lower collection percentage as compared to fiscal year 2010. The Hospitals again recognized some improvement in revenue due to the settlement of Medicare and Medicaid Cost Report activities, but many years' audits are still not complete by Federal or State agencies; however, management continued to maintain reserves for potential unknowns that may result from the Medicare and Medicaid claims audit programs. See Note 4 in the *Notes to the Financial Statements* for more information on estimated third party settlements.

Total operating expenses increased by 7% year-over-year but were actively managed within budgeted expectations. Regularly scheduled meetings continue to be held by the Chief Financial Officer with the Hospitals' vice presidents and directors to review results by area and to identify the corrective measures needed early in order to ensure operations are managed within budget successfully. The largest categorical dollar increases in expense occurred in salaries and benefits, medical and surgical supplies, and contracted services, while medical malpractice costs again represented the largest percentage change. Salaries and benefits expense increased $41 million or 8% over the prior year and includes market rate adjustments, staffing to cover volume growth, and the expense of a nondiscretionary incentive compensation payment that was again made to qualifying employees in October 2011 as a result of attaining specific clinical quality, patient satisfaction, employee, and financial goals at an organizational level. The increases in medical and surgical supplies and contracted services are attributed significantly to volume, and to a lesser extent, inflation. Medical malpractice costs decreased 21% year-over-year. Increases/decreases in medical malpractice expense are a function of assessments made of the participants by the Liability Insurance Trust Fund (the Fund) of the UNC Health Care System. The assessment made by the Fund and the resulting expense is an estimate of the funds needed to ensure the solvency of the Fund. Changes in reserves and net assets of the Fund are impacted by multiple components such as investment return, claims payments and defense costs as well as favorable/unfavorable developments from previous year estimates. The Fund is managed rigorously by the Hospitals' Risk Management department to ensure patient safety and minimize overall exposure. See Note 12 in the *Notes to the Financial Statements* for more information on the Fund. Depreciation and amortization expense increased $3 million or 6% year-over-year and is due to the acquisition of routine capital equipment and placing the ACC and Imaging & Spine Center projects and the associated equipment into service along with other renovation projects completed during the year.

Net nonoperating revenues increased $53 million in total year-over-year in spite of an $8 million, or 19%, decrease in state appropriations. An increase in investment income of $92 million in the current year compared to $31 million in the prior year was primarily due to favorable market conditions.

In the other revenues (expenses) section, capital gifts and grants decreased significantly year-over-year due to the completion of the North Carolina Cancer Hospital during fiscal

year 2010 which was funded primarily by a capital grant. The Hospitals, as in prior years, agreed to fund the UNC Health Care System Enterprise Fund that supports initiatives the Chief Executive Officer of the University of North Carolina Health Care System deems appropriate and are based on recommendations made from the senior leadership team to further the patient care mission of the UNC Health Care System. These expenses increased $18 million from the prior year and totaled $81 million for fiscal year 2011. Health Care System Assessments are described in more detail in Note 14 within the *Notes to the Financial Statements.*

Analysis of Net Asset Balances

At June 30, 2011, net assets invested in capital assets, net of related debt, totaled $383 million. This represents the gross value of plant assets of $1,029 million plus bond issuance costs of $1 million less accumulated depreciation $445 million and related debt of $202 million.

Restricted expendable net assets totaled $163 million representing amounts subject to externally imposed restrictions including the Maintenance Reserve Fund, Liability Insurance Trust Fund, Trust Fund Donations and Minority Interest in Carolina Dialysis, LLC. Unrestricted net assets increased $131 million year-over-year due to a combination of increased revenues that exceeded closely managed expenses as well as favorable market conditions increasing investment returns. These positive results enabled and offset an increase in Health Care System Assessments.

Discussion of Capital Asset and Long-Term Debt Activity

Capital Assets

The Hospitals expended $42 million during the year for capital equipment throughout the facilities including $6 million on computer software and an additional $36 million on the construction of buildings, infrastructure and renovations. See Note 5 within the *Notes to the Financial Statements* for more information on capital assets.

At June 30, 2011, outstanding commitments on construction contracts were $29 million.

The annualized average age of plant and equipment is approximately 8 years.

Long-Term Debt Activities

On November 9, 2010, the Hospitals issued $49 million in revenue bonds to fund the expansion of the ACC and the construction of the Imaging & Spine Center. At June 30, 2011, the Hospitals had outstanding bond indebtedness in the amount of $283 million of which $10 million is due within the next year. Standard and Poor's and Moody's Ratings Services classify these bonds as AA- and Aa3 respectively. The outstanding long-term debt of the Hospitals is described in Note 6 within the *Notes to the Financial Statements.*

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

Health policy changes at the federal and state level have been enacted but the ultimate impact of these policy changes on the finances of the Hospitals is largely unknown as of the date of this report. The Hospitals continue to assimilate and assess the known impacts, but models to accurately predict any impact are still being developed industry-wide.

The state of the national and regional economy will continue to pressure revenues and collections whether or not additional health policy changes are made at the federal and state level. The Hospitals remains concerned about the rising expense incurred as a result of carrying out its mission.

The Hospitals receives some state funding through general appropriation to carry out its mission. This appropriation is not specifically tied to any particular program. Given the general state of North Carolina's economy and its budget, the annual appropriation is subject to available funds as directed by the legislature and may increase or decrease during the year based on the fiscal strength of the State of North Carolina. The Hospitals reliance on state appropriated funding is less than 2% of its annual budget.

The Medicare and Medicaid programs have implemented additional audits to recoup errant payments to hospitals. These Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) audits have been recently instituted and potentially create additional revenue risk. The Hospitals was contacted during fiscal year 2011, and repayments were insignificant. Reserves have been set aside as a contingency toward potential future audits of prior year results.

The Hospitals' management realizes that investment risk will be ongoing. Additional flexibility with investment alternatives from the North Carolina State Treasurer was granted in the most recent legislative session. The Hospitals, in consultation with the Board of Trustees, will seek changes in its investment policy to minimize risk and improve investment returns. At this time, management is not advocating additional investments over current levels.

University of North Carolina Hospitals at Chapel Hill
Summary of Condensed Financial Statements Totals
For the Fiscal Years Ended June 30, 2011 and 2010

Table 1

	FY11	FY10 (as restated)	Change
STATEMENTS OF NET ASSETS			
Current Assets	$ 380,179,500	$ 344,855,173	$ 35,324,327
Capital Assets, Net	584,390,895	562,424,230	21,966,665
Other Noncurrent Assets	663,194,802	545,141,526	118,053,276
TOTAL ASSETS	1,627,765,197	1,452,420,929	175,344,268
Current Liabilities	133,796,812	135,130,597	(1,333,785)
Noncurrent Liabilities	367,237,009	324,125,616	43,111,393
TOTAL LIABILITIES	501,033,821	459,256,213	41,777,608
Invested in Capital Assets, Net of Related Debt	382,881,572	390,509,594	(7,628,022)
Restricted for Expendable Uses	163,467,426	153,979,977	9,487,449
Unrestricted	580,382,378	448,675,145	131,707,233
TOTAL NET ASSETS	$ 1,126,731,376	$ 993,164,716	$ 133,566,660
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
Net Patient Service Revenue	$ 1,027,785,502	$ 930,592,973	$ 97,192,529
Other Operating Revenues	20,137,412	23,514,569	(3,377,157)
TOTAL OPERATING REVENUES	1,047,922,914	954,107,542	93,815,372
Salaries and Benefits	538,913,056	497,762,304	41,150,752
Medical and Surgical Supplies	173,857,402	161,315,247	12,542,155
Contracted Services	100,829,076	94,193,202	6,635,874
Other Supplies and Materials	55,953,893	56,525,000	(571,107)
Communication, Utilities, and Travel	21,521,784	20,794,282	727,502
Medical Malpractice Costs	3,461,541	4,356,494	(894,953)
Depreciation and Amortization	55,741,256	52,639,101	3,102,155
TOTAL OPERATING EXPENSES	950,278,008	887,585,630	62,692,378
OPERATING INCOME	97,644,906	66,521,912	31,122,994
State Appropriations	33,743,133	41,811,381	(8,068,248)
Investment Activity	91,574,248	30,826,245	60,748,003
Noncapital Gifts and Grants	968,879	244,443	724,436
Nonoperating Expenses	(9,781,841)	(9,429,186)	(352,655)
NET NONOPERATING REVENUES (EXPENSES)	116,504,419	63,452,883	53,051,536
Capital Gifts and Grants	54,950	14,773,941	(14,718,991)
Health Care System Assessments	(80,637,615)	(62,388,618)	(18,248,997)
INCREASE IN NET ASSETS	133,566,660	82,360,118	51,206,542
NET ASSETS - BEGINNING OF YEAR	993,164,716	910,804,598	82,360,118
NET ASSETS - END OF YEAR	$ 1,126,731,376	$ 993,164,716	$ 133,566,660

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University of North Carolina Hospitals at Chapel Hill
Statement of Net Assets
June 30, 2011

ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	$	119,165,388
Restricted Cash and Cash Equivalents (Note 2)		9,263,723
Receivables:		
Patient Accounts Receivable, Net (Note 3)		124,524,800
Accrued Interest Receivable		386,107
Other Accounts Receivable		11,602,834
Due from Primary Government		4,389,863
Due from State of North Carolina Component Units		16,593,975
Estimated Third Party Settlements (Note 4)		45,265,208
Inventories		18,220,188
Prepaid Expense		30,767,414
Total Current Assets		380,179,500
Noncurrent Assets:		
Restricted Cash and Cash Equivalents (Note 2)		166,963,987
Investments (Note 2)		53,788,463
Cash and Investments Designated for Capital Projects (Note 2)		410,015,410
Advanced Deposits with Liability Insurance Trust Fund (Note 12)		3,319,009
Patient Accounts Receivable, Net (Note 3)		10,127,811
Bond Issuance Costs, Net		1,606,530
Deferred Outflow of Resources (Note 7)		15,821,518
Start-Up Cost, Net		494,732
Investments in Affiliates (Note 15)		1,057,342
Capital Assets - Nondepreciable (Note 5)		58,061,579
Capital Assets - Depreciable, Net (Note 5)		526,329,316
Total Noncurrent Assets		1,247,585,697
Total Assets		1,627,765,197
LIABILITIES		
Current Liabilities:		
Accounts Payable		36,408,052
Accrued Salaries and Benefits		41,469,804
Estimated Third Party Settlements (Note 4)		23,230,416
Due to Patients or Third Parties		3,740,876
Due to Primary Government		5,282,784
Due to State of North Carolina Component Units		6,578,758
Bond Interest Payable		1,371,253
Funds Held for Others		1,124,885
Long-Term Liabilities - Current Portion (Note 6)		14,589,984
Total Current Liabilities		133,796,812
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		300,684,259
Hedging Derivative Liability (Note 7)		15,821,518
Estimated Third Party Settlements (Note 4)		50,731,232
Total Noncurrent Liabilities		367,237,009
Total Liabilities		501,033,821

University of North Carolina Hospitals at Chapel Hill
Statement of Net Assets
June 30, 2011

Exhibit A-1
Page 2 of 2

NET ASSETS	
Invested in Capital Assets, Net of Related Debt	382,881,572
Restricted for Expendable Uses for:	
Maintenance Reserve Fund	152,473,432
Liability Insurance Trust Fund	3,319,009
Trust Fund Donations	273,386
Minority Interest in Carolina Dialysis, LLC	7,401,599
Unrestricted	580,382,378
Total Net Assets	$ 1,126,731,376

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

University of North Carolina Hospitals at Chapel Hill
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

Exhibit A-2

REVENUES	
Operating Revenues:	
Net Patient Service Revenue (Note 9)	$ 1,027,785,502
Other Operating Revenues	20,137,412
Total Operating Revenues	1,047,922,914
EXPENSES	
Operating Expenses:	
Salaries and Benefits	538,913,056
Medical and Surgical Supplies	173,857,402
Contracted Services	100,829,076
Other Supplies and Services	55,953,893
Communications, Utilities, and Travel	21,521,784
Medical Malpractice Costs	3,461,541
Depreciation and Amortization	55,741,256
Total Operating Expenses	950,278,008
Operating Income	97,644,906
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	33,743,133
Noncapital Gifts and Grants	968,879
Investment Income (Net of Investment Expense of $1,003,237.37)	90,949,697
Gain on Investments in Affiliates (Note 15)	624,551
Interest and Fees on Debt	(9,473,027)
Loss on Disposal of Capital Assets	(308,814)
Net Nonoperating Revenues	116,504,419
Income Before Other Revenues and Expenses	214,149,325
Capital Gifts	54,950
Health Care System Assessments (Note 14)	(80,637,615)
Increase in Net Assets	133,566,660
NET ASSETS	
Net Assets - July 1, 2010, as Restated (Note 17)	993,164,716
Net Assets - June 30, 2011	$ 1,126,731,376

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

University of North Carolina Hospitals at Chapel Hill
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Patients or Third Parties	$	1,012,964,607
Payments to Employees and Fringe Benefits		(530,930,620)
Payments to Vendors and Suppliers		(371,559,779)
Payments for Medical Malpractice		(518,881)
Other Receipts		24,276,688
Net Cash Provided by Operating Activities		134,232,015
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		33,743,133
Health Care System Assessments		(80,637,615)
Interest and Fees Paid on Revenue Bonds		(372,302)
Principal Paid on Revenue Bonds		(952,000)
Noncapital Gifts and Grants		968,879
Net Cash Used by Noncapital Financing Activities		(47,249,905)
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		51,922,818
Principal Paid on Capital Revenue Bonds		(6,663,000)
Principal Paid on Notes Payable		(4,062,320)
Interest and Fees Paid on Capital Debt		(7,310,443)
Acquisition and Construction of Capital Assets		(79,069,770)
Issuance Costs		(540,096)
Proceeds from Sale of Capital Assets		75,022
Net Cash Used by Capital Financing and Related Financing Activities		(45,647,789)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		3,946,764
Investments In and Loans to Affiliated Enterprises:		
Cash Receipts		2,000,978
Cash Provided by Investing Activities		5,947,742
Net Increase in Cash and Cash Equivalents		47,282,063
Cash and Cash Equivalents - July 1, 2010, As Restated (Note 17)		362,761,502
Cash and Cash Equivalents - June 30, 2011	$	410,043,565

University of North Carolina Hospitals at Chapel Hill
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$	97,644,906
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization Expense		55,741,256
Changes in Assets and Liabilities:		
Patient Accounts Receivable		(10,610,287)
Other Accounts Receivable		3,874,140
Estimated Third Party Settlements		(5,151,788)
Inventories		(3,580,908)
Prepaid Expenses		(6,154,268)
Advance Deposits with Liability Insurance Trust Fund		2,942,660
Accrued Salaries and Benefits		4,581,038
Accounts and Other Payables		(9,662,448)
Due to Patients or Third Parties		1,024,982
Funds Held for Others		(83,802)
Compensated Absences		3,666,534
Net Cash Provided by Operating Activities	$	134,232,015
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	119,165,388
Restricted Cash and Cash Equivalents		9,263,723
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		166,963,987
Cash Designated for Capital Projects		114,650,467
Total Cash and Cash Equivalents - June 30, 2011	$	410,043,565
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Investments in Affiliated Enterprises:		
Current Gain from Equity Method Adjustments	$	624,551
Change in Fair Value of Investments		87,044,617
Loss on Disposal of Capital Assets		(308,814)
Donated Capital Equipment		54,950

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

UNIVERSITY OF NORTH CAROLINA HOSPITALS AT CHAPEL HILL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Organization** - The University of North Carolina Hospitals at Chapel Hill (the Hospitals) is the only state-owned teaching hospital in North Carolina. With a licensed base of 799 beds, this facility serves as an acute care teaching hospital for The University of North Carolina at Chapel Hill. The Hospitals consists of North Carolina Memorial Hospital, North Carolina Children's Hospital, North Carolina Neurosciences Hospital, North Carolina Women's Hospital, and North Carolina Cancer Hospital. As a state agency, the Hospitals is required to conform to financial requirements established by various statutory and constitutional provisions. While the Hospitals is exempt from both federal and State income taxes, a small portion of its revenue is subject to the unrelated business income tax.

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

The accompanying financial statements present all funds belonging to the Hospitals and its component units for which the UNC Health Care System Board of Directors is responsible. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Board of Directors of the UNC Health Care System has delegated responsibility for financial accountability of the Hospitals' funds. The Hospitals' component units are blended in the Hospitals' financial statements. The blended component units, although legally separate, are, in substance, part of the Hospitals' operations and therefore, are reported as if they were part of the Hospitals.

Blended Component Units - Although legally separate, Health System Properties, LLC (the LLC) and Carolina Dialysis, LLC (the CDLLC), component units of the Hospitals, are reported as if they were part of the Hospitals.

The LLC was established to purchase, develop, and/or lease real property. The LLC is reported as part of the Hospitals because the UNC Health Care System is the sole member manager and the LLC is governed by the same Board that directs the Hospitals' operations. Additionally, the only properties owned to date by the LLC are for the sole use and benefit of the Hospitals.

The Hospitals 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 the Hospitals through the Chief Executive Officer and two appointed by Renal Research Institute. The CDLLC was formed for the purposes 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. The CDLLC is included as part of the Hospitals because of the nature and significance of the relationship of the CDLLC with the Hospitals. Because the CDLLC provides services almost entirely to the Hospitals' patients, its financial statements have been blended with those of the Hospitals.

Separate financial statements for the LLC and CDLLC may be obtained from the Executive Vice President & Chief Financial Officer, University of North Carolina Hospitals at Chapel Hill, 101 Manning Drive, Med Wing E - Room 310, Chapel Hill, North Carolina, 27514, or by calling (919) 966-5112. Other related foundations and similar nonprofit corporations for which the Hospitals is not financially accountable are not part of the accompanying financial statements.

C. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the Hospitals' activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospitals does not apply Financial Accounting Standards Board (FASB) pronouncements issued after

November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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

Nonexchange transactions, in which the Hospitals receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, Health Care System assessments, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

E. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, security deposits, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

F. **Investments** - This classification represents the participation in an equity investment fund through the University of North Carolina Hospitals at Chapel Hill Trust. Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

G. **Patient Accounts Receivable** - The Hospitals' patient accounts receivable consists of unbilled (in house patients, inpatients discharged but not final billed, and outpatients not final billed) and billed amounts. Payment of these charges comes primarily from Managed Care payers, Medicare, Medicaid, and, to a lesser extent, the patient. These amounts are recorded in the financial statements net of charity care, contractual allowances, and allowances for bad debt to determine the net realizable value of the accounts receivable balance. See the section Net Patient Service Revenue later in the Significant Accounting Policies for a further discussion of these reductions.

The reserves recorded for these deductions are used to determine net patient accounts receivable and are calculated based on the historical

collection percentage realized for each payer. The collection rates are updated monthly in order to reflect the most up to date information available.

The Hospitals has established flexible payment arrangements for patient balances up to a maximum of 36 months depending on the outstanding balance due. Amounts due beyond one year under these arrangements are classified as noncurrent assets.

H. **Other Receivables** - In addition to patient accounts receivable, the Hospitals recognizes other receivables related to its operations. These items include the sales tax refund due from the North Carolina Department of Revenue, education loan receivables, amounts due from affiliates and other state agencies, and billings to outside companies for ancillary testing, critical care transportation, and pharmacy supplies. Receivables are recorded net of estimated uncollectible amounts.

I. **Inventories** - Inventories consist of medical and surgical supplies, pharmaceuticals, prosthetics, and other supplies used to provide patient care or by service departments within the Hospitals. Inventories are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

J. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The Hospitals capitalizes assets, including intangible assets, that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater. Useful life estimates are assigned based on the American Hospital Association publication *Estimated Useful Lives of Depreciable Hospital Assets*.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 25 years for general infrastructure, 10 to 40 years for buildings, 3 to 20 years for machinery and equipment, and 3 years for computer software.

K. **Restricted/Designated Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets, funds equal to 7.5% of gross patient revenue as limited by applicable revenue bond covenants, and resources designated for liability

insurance claims. Current restricted resources include certain trust funds restricted because external parties or statute limits their use, resources legally segregated for the payment of principal and interest as required by debt covenants, funds held for workers compensation, and unexpended capital funds.

L. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable, arbitrage rebate payable, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The Hospitals amortizes bond premiums/discounts over the life of the bonds using the effective interest method. The deferred losses on refunds are amortized over the life of the new debt using the straight-line method. Issuance costs are also amortized over the life of the bonds using the straight-line method.

M. **Compensated Absences** - The Hospitals' policy is to record the cost of annual leave when earned. Employees earn annual leave at varying rates depending upon years of service and the leave plan in which they participate.

Traditional Plan - The policy provides for a maximum accumulation of unused annual leave of 30 days that can be carried forward beyond the pay period that includes December 31 or for which an employee can be paid upon termination of employment. Also, any accumulated annual leave in excess of 30 days, during the pay period that includes December 31, is converted to sick leave. Employees earn holiday leave at the rate of 11 or 12 days per year with an unlimited accumulation. The Hospitals' policy requires that employees use holiday hours in excess of 40 prior to using earned annual leave. At termination, employees are paid for any accumulated holiday leave. Employees earn sick leave at the rate of one day per month with an unlimited accumulation.

Paid Time Off (PTO) Plan - The PTO program combines the various leave types that employees may earn into one earning rate that varies depending upon years of service. This program is mandatory for all new employees. The policy provides for a maximum accumulation of 280 hours of unused PTO at the last day of the last pay period of the calendar year that includes December 31. At that time, the excess accumulation over 280 hours is converted to long-term sick leave, which is treated similar to sick leave in the Traditional Plan. Upon termination of employment, employees are paid for their current balance in PTO based upon their years of service. Once an employee has more than five years of service, the entire accumulated balance is paid up to 280 hours. The PTO program has a semi-annual sell back feature with payouts in June and December. This sell back feature allows employees to sell back

from eight to 120 hours of their PTO balance if they have a balance of at least 140 hours at the time of sell back. There is a 10% forfeiture of the cash value to comply with IRS regulations regarding taxability.

Liability Calculation - The liability for accumulated annual leave, holiday leave, and PTO leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30. The liability is equal to the accumulated hours multiplied by the employee's current hourly rate plus benefits for social security and state retirement.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

There is no liability for unpaid accumulated sick leave because the Hospitals has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

N. **Net Assets** - The Hospitals' net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the Hospitals' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the Hospitals is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from patient care and ancillary services, unrestricted gifts, and investment income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the Hospitals. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

O. **Revenue and Expense Recognition** - The Hospitals classifies its revenues and expenses as operating or nonoperating in the accompanying Statement 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 Hospitals' 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. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the Hospitals, as well as investment income and gain (loss) on disposal of capital assets, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Health Care System assessments are presented separately after nonoperating revenues and expenses.

P. **Net Patient Service Revenue** - Patient service revenue is recorded at the Hospitals' established rates and includes all charges for inpatient accounts discharged after June 30, 2010, (less amounts previously recorded at June 30, 2010, for in house patients) and all charges on in house accounts and all charges for outpatient accounts registered after June 30, 2010. The difference between established rates and the estimated amount collectible is recognized as revenue deductions on an accrual basis and deducted from gross patient service revenue to report service revenue at net realizable value. Revenue deductions consist of charges for charity care, contractual allowances, and bad debt.

Charity care provided represents health care services that were provided free of charge to individuals who meet the criteria of the Hospitals' charity care policy. Charity care provided is not considered to be revenue to the Hospitals and is deducted in determining gross patient service revenue.

Differences between the amounts paid for services under third party reimbursement programs and established rates are accounted for as contractual adjustments.

Net patient service revenue also includes estimated retroactive adjustments under reimbursement agreements with third party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. **Medical Malpractice Cost** - Medical malpractice costs represent the actuarially determined contribution to the Liability Insurance Trust Fund. See Note 12 for further discussion of the Liability Insurance Trust Fund.

R. **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 Hospitals' operations.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. **Deposits** - Pursuant to *North Carolina General Statute* 116-37.2, the Hospitals is required to deposit its funds as defined in this statute, including moneys received from fees and other payments for services rendered in its hospitals and/or clinical operations, gifts, grants, and moneys received from or for the operation of any of the Hospitals' self-supporting auxiliary enterprises, with the State Treasurer. The Hospitals may voluntarily deposit special funds, revenue bond proceeds, and debt service funds. Special funds consist of moneys for agency funds held directly by the Hospitals. Bond proceeds and debt service funds are invested in accordance with bond resolutions. These funds are currently on deposit with the State Treasurer and therefore, available on demand to comply with applicable bond covenants.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $390,554,926 which represents the Hospitals' equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2011 was $31,180. The carrying amount of the Hospitals' deposits not with the State Treasurer was $19,457,459 and the bank balance was $20,146,485. Custodial credit risk is the risk that in the event of a bank failure, the Hospitals' deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not

deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The Hospitals does not have a deposit policy for custodial credit risk. As of June 30, 2011, $18,501,959 of the Hospitals' bank balance was uninsured and uncollateralized.

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

University of North Carolina Hospitals at Chapel Hill Investment Fund with The Treasurer of the State of North Carolina - At June 30, 2011, the amount shown on the Statement of Net Assets which represents funds deposited with and invested by the State Treasurer is $349,153,406. The State Treasurer contracted with an external party (Trustee) to create the University of North Carolina Hospitals at Chapel Hill Trust (Trust). The Hospitals is the only depositor in the Trust; however, the Trust is a participant of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value. Deposit and investment risks associated with the Trust are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the Hospitals as of June 30, 2011 is as follows:

Cash on Hand	$ 31,180
Carrying Amount of Deposits with Private Financial Institutions	19,457,459
Deposits in the Short-Term Investment Fund	390,554,926
Investments with the State Treasurer	349,153,406
Total Deposits and Investments	$ 759,196,971
Deposits	
Current:	
Cash and Cash Equivalents	$ 119,165,388
Restricted Cash and Cash Equivalents	9,263,723
Noncurrent:	
Restricted Cash and Cash Equivalents	166,963,987
Cash Designated for Capital Projects	114,650,467
Total Deposits	410,043,565
Noncurrent Investments:	
Investments	53,788,463
Investments Designated for Capital Projects	295,364,943
Total Investments	349,153,406
Total Deposits and Investments	$ 759,196,971

NOTE 3 - PATIENT ACCOUNTS RECEIVABLE, NET

A. **Current** - Net patient accounts receivable consisted of amounts due from patients and third parties at estimated realizable value. Included in gross receivables are amounts receivable at established billing rates less payments received through June 30, 2011. Allowances for uncollectible accounts and contractual adjustments are estimated using historical collection statistics. The components of current net patient accounts receivable reflected in the accompanying Statement of Net Assets are as follows at June 30, 2011:

	Amount
In House Patients	$ 40,892,507
Discharged (Not Final Billed) Patients	65,040,633
Total Unbilled	105,933,140
Discharged (Billed) Patients	270,587,611
Payment Arrangements	583,203
Charity Care Provided	(56,679,785)
Current Gross	320,424,169
Allowance for Bad Debts	(25,397,546)
Contractual Allowances	(170,501,823)
Total Allowances	(195,899,369)
Current - Net	$ 124,524,800

B. Noncurrent - Net patient accounts receivable consisted of $10,127,811 (net of $9,398,842 estimated uncollectible) and represents the value of patient payment arrangements that are initiated at the request of the patient. These payment arrangements are based on signed contractual agreements for specific monthly amounts that extend beyond one year but are capped at three years.

NOTE 4 - ESTIMATED THIRD PARTY SETTLEMENTS

The Hospitals renders care to patients covered by the Medicare, Medicaid, and Tricare/Champus programs. Inpatient acute care services rendered to Medicare patients are paid at prospectively determined rates per discharge. Medicare outpatient services are reimbursed at prospectively determined rates. Additionally, the Hospitals receives interim pass-through payments from Medicare for costs such as organs, graduate medical education, bad debts, etc., that are ultimately settled through the annual Medicare cost report. On an interim basis, Medicaid inpatient services are reimbursed on a prospectively determined rate per discharge and Medicaid outpatient services are reimbursed on an interim basis at an agreed upon rate. Ultimately, most of Medicaid inpatient and outpatient services are settled at allowable cost through the filing of an annual cost report. In addition to Tricare/Champus payments for services on an interim basis, the Tricare/Champus program reimburses the Hospitals for a portion of capital and direct medical education costs based on the Medicare cost report.

The Hospitals has calculated the estimated third party settlements for the outstanding Medicare, Medicaid, and Tricare/Champus cost reports during the fiscal year ended 2011. It is estimated that the Hospitals owes Medicare $23,230,416 within the next twelve months and that $25,957,083 and $24,774,149 are owed to Medicare and Medicaid respectively on a noncurrent basis. Medicaid and Tricare/Champus currently owe the Hospitals $41,265,208 and $4,000,000 respectively. Included in the estimated liability amounts above, management reserved $67,827,251 for all outstanding Medicare and Medicaid cost reports. The reserve for Medicare is calculated based on at-risk items for all outstanding Medicare cost reports while the reserve for Medicaid equals a percentage of allowable Medicaid costs deemed appropriate by management. An estimate is made for the current year's Medicare, Tricare/Champus, and Medicaid settlement by using the most current available statistics, costs, settlement data, and charges. The Hospitals also included in its estimated liability for both Medicare and Medicaid a reserve for the claims audit programs. The Centers for Medicare and Medicaid Services audit recovery programs are to identify improper underpayments or overpayments made to health care providers.

Once a cost report is filed, it is subject to an initial tentative settlement and a subsequent audit. Each report is audited by the programs for compliance with

the applicable regulations established for the Medicaid, Medicare, and Tricare/Champus programs. Each cost report can also be re-opened or appealed for issues that the Hospitals or the Medicare or Medicaid programs feel are warranted. There are several such requests currently under consideration, as well as audits that are incomplete at this time. Any of the above can result in a change to the reimbursement requiring a refund from the program or payment to the program.

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 41,377,850	$ 0	$ 0	$ 41,377,850
Construction in Progress	31,790,620	35,471,723	50,578,614	16,683,729
Total Capital Assets, Nondepreciable	73,168,470	35,471,723	50,578,614	58,061,579
Capital Assets, Depreciable:				
Buildings	510,866,784	50,578,614		561,445,398
Machinery and Equipment	346,015,428	35,876,761	12,204,780	369,687,409
General Infrastructure	5,197,281	10,639		5,207,920
Computer Software	28,978,004	6,567,165	816,957	34,728,212
Total Capital Assets, Depreciable	891,057,497	93,033,179	13,021,737	971,068,939
Less Accumulated Depreciation/Amortization for:				
Buildings	138,389,530	22,393,664		160,783,194
Machinery and Equipment	238,688,058	27,761,509	11,996,809	254,452,758
General Infrastructure	4,313,084	192,558		4,505,642
Computer Software	20,411,065	5,385,772	798,808	24,998,029
Total Accumulated Depreciation	401,801,737	55,733,503	12,795,617	444,739,623
Total Capital Assets, Depreciable, Net	489,255,760	37,299,676	226,120	526,329,316
Capital Assets, Net	$ 562,424,230	$ 72,771,399	$ 50,804,734	$ 584,390,895

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	$ 254,760,000	$ 48,875,000	$ 7,615,000	$ 296,020,000	$ 9,700,000
Add Premium	579,121	313,255	222,515	669,861	
Deduct Deferred Charge on Refunding	(14,597,439)		(963,932)	(13,633,507)	
Total Revenue Bonds Payable	240,741,682	49,188,255	6,873,583	283,056,354	9,700,000
Notes Payable	2,708,204	2,734,563	4,062,320	1,380,447	1,380,447
Arbitrage Rebate Payable	268,892	25,002	268,892	25,002	
Compensated Absences	27,145,906	44,751,079	41,084,545	30,812,440	3,509,537
Total Long-Term Liabilities	$ 270,864,684	$ 96,698,899	$ 52,289,340	$ 315,274,243	$ 14,589,984

B. Revenue Bonds Payable - The Hospitals was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
Rex Acquisition and Hospital Renovations	2001A	0.20%*				
	2001B	0.21%*	02/15/2031	$ 110,000,000	$ 11,800,000	$ 98,200,000
Refund Portion of 1996 Revenue Bonds	2003A	3.42%**				
	2003B	3.43%**	02/01/2029	98,015,000	3,960,000	94,055,000
Refund Portion of 1996 Revenue Bonds	2005A	3.00% to 5.00%	02/01/2015	30,540,000	15,355,000	15,185,000
Refund 1999 Revenue Bonds	2009A	3.54%**	02/01/2024	44,290,000	4,585,000	39,705,000
General Revenue Bonds	2010A	3.00% to 4.00%	02/01/2014	5,585,000		5,585,000
	2010B	2.45% to 6.33%	02/01/2031	43,290,000		43,290,000
Total Revenue Bonds Payable (principal only)				$ 331,720,000	$ 35,700,000	296,020,000
Less: Unamortized Loss on Refunding						(13,633,507)
Plus: Unamortized Premium						669,861
Total Revenue Bonds Payable						$ 283,056,354

*For variable rate debt, interest rates in effect at June 30, 2011 are shown.
**For variable rate debt with interest rate swaps, the synthetic fixed rates in effect at June 30, 2011 are shown.

C. Demand Bonds - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the Hospitals' Remarketing Agents.

With regards to the following demand bonds, the Hospitals has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt, with the exception of Series 2009A Revenue Refunding bonds, for which the Hospitals acts as its own liquidity facility.

University of North Carolina Hospitals at Chapel Hill Revenue Bonds - Series 2001A and Series 2001B: On January 31, 2001, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $55,000,000 (2001A) and $55,000,000 (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. A portion of the proceeds was used to reimburse the Hospitals for $75,000,000 spent allowing the UNC Health Care System to acquire controlling interest in Rex Healthcare, Inc. The remaining proceeds were used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate, or a fixed rate.

While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, Wells Fargo Bank, National Association. The Hospitals' Remarketing Agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Series 2001A) and Banc of America Securities LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% of the outstanding principal amount of the bonds assigned to each agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thuringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January, and April thereafter until the expiration date or the termination date of the Agreements. For the fiscal year, the percentage was 0.25% with the long-term agreement that became effective on July 11, 2005. This agreement has been extended to October 11, 2014.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Formula Rate (Base Rate equal to the higher of the Prime Rate for such day or the sum of 0.50% plus the Federal Funds Rate) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July, and October) for each period in which Bank Bonds are outstanding. At June 30, 2011, there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Agreements allow the Hospitals to redeem Bank Bonds in equal quarterly installments, on the first business day of January, April, July, and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable Purchase Date of the Bank Bond and end no later than the fifth anniversary of such Purchase Date. If they take out agreement were to be exercised because the entire

outstanding $98,200,000 of demand bonds was "put" and not resold, the Hospitals would be required to pay $21,358,456 a year for five years under the installment loan agreement assuming a 3.25% prime interest rate.

The current expiration date of the Agreements is December 31, 2015. The Liquidity Provider has the option to terminate its commitment on October 11, 2014 by providing adequate notice of its intention. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of the Liquidity Provider.

University of North Carolina Hospitals at Chapel Hill Revenue Refunding Bonds - Series 2003A and Series 2003B: On February 13, 2003, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $63,770,000 (2003A) and $34,245,000 (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund of $88,325,000 of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate, or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand with seven days notice to the Remarketing Agent and delivery to the bond Tender Agent, Wells Fargo Bank, National Association. The Hospitals' Remarketing Agents, Banc of America Securities LLC (Series 2003A) and Wells Fargo Bank, N.A. (Series 2003B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.08% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003A and is equal to 0.07% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between the Hospitals and Bank of America, N.A. (Series 2003A) and Wells Fargo Bank, National Association (Series 2003B) Liquidity Facilities have been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available.

The 2003A Agreement with Bank of America, National Association was amended on June 9, 2010, and requires a facility fee equal to 0.58% of the available commitment for Series 2003A payable quarterly in arrears, beginning on August 1, 2010, and on each November 1, February 1,

May 1, and August 1. On May 31, 2011, the facility fee was amended to be 0.51% per annum effective July 1, 2011 until July 1, 2013. The facility fee remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt by Moody's and S&P is A1/A+ or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the Commitment Rate assigned as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.71%
A- or lower	A3 or lower	0.91%

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime Rate plus 1.50% or the Federal Funds Rate plus 3.00%, the Base Rate, for the first 90 days and then the Base Rate plus 0.50% from the 91st day to the 367th day following the date of purchase and the Base Rate plus 1.00% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. At June 30, 2011, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows the Hospitals to redeem bank bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take out agreement were to be exercised because the entire outstanding $61,175,000 of demand bonds was "put" and not resold, the Hospitals would be required to pay $23,259,247, $22,443,577, and $21,271,057 in years one, two, and three respectively following the termination date under the installment loan agreement assuming a Base Rate of 4.75% (Prime plus 1.50%).

The 2003B Agreement with Wells Fargo Bank, National Association required a facility fee of 0.60% for fiscal year 2011. This agreement was amended on June 30, 2011 and the facility fee was set to 0.50% of the

available commitment payable quarterly in arrears, beginning on November 1, 2011, and on each February 1, May 1, August 1, and November 1 thereafter until July 31, 2013. The facility fee remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt by S&P and Moody's is A+/A1 or higher. If the rating assigned to Parity Debt by their S&P or Moody's is downgraded below A+ or A1, respectively, the Hospitals' adjusted Commitment Rate (lowest rating to be used) assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.65%
A-	A3	0.80%
BBB+	Baa1	1.00%
BBB+	Baa2	1.25%
BBB-	Baa3	1.55%
Below Investment Grade	Below Investment Grade	2.55%

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime rate plus 1.00%, the Federal Funds Rate plus 2.00% or 7.00%, the Base Rate, plus 2.00% subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. At June 30, 2011, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" by the termination date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows the Hospitals to redeem bank bonds in 11 equal quarterly installments of principal, on the first business day of each February, May, August, and November, beginning on the first of such dates that occurs at least 90 days after the Purchase Date of such Bank Bonds. The Hospitals shall pay interest in arrears on each date that would be an Interest Payment Date for the Series 2003B Bonds, beginning on the first Interest Payment Date that occurs after the Loan Date. If the take out agreement were to be exercised because the entire outstanding $32,880,000 of demand bonds was "put" and not resold, the Hospitals would be required to pay $11,029,747, $13,861,908, and $12,718,583 in years one, two, and three respectively following the Purchase Date of the Bank Bonds assuming a Base Rate of 7.00%.

University of North Carolina Hospitals at Chapel Hill Revenue Refunding Bonds - Series 2009A: On February 12, 2009, the Hospitals

issued Series 2009A tax-exempt variable rate demand bonds in the amount of $44,290,000 that have a final maturity date of February 1, 2024. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2010. The proceeds were used to advance refund $43,505,000 of the Series 1999 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate, or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand upon delivering irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent not later than 4:00 p.m. on a Business Day not less than seven (7) days before the Purchase Date and upon delivering such Series 2009A bonds to the bond Tender Agent, U.S. Bank, National Association, no later than noon on such Purchase Date. The Hospitals' Remarketing Agents, Banc of America Securities LLC has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.09% of the weighted average daily principal amount of Series 2009A Bonds outstanding during such periods in which the Series 2009A bonds are Variable Rate Bonds.

Under a separate Liquidity Agreement with the Trustee, the Hospitals has established itself as Liquidity Facility for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. Upon receipt of any notice from the Remarketing Agent that there is a Projected Funding Amount on the Business Day prior to each Purchase Date or Mandatory Purchase Date, and upon receipt of written demand for payment from the Tender Agent by noon on each Purchase Date or Mandatory Purchase Date, the Hospitals shall wire to the Tender Agent, in immediately available funds, an amount equal to the Actual Funding Amount, which shall be equal to the Purchase Price of all Series 2009A bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds received by the Remarketing Agent, by not later than 2:00 p.m. on the Purchase Date or Mandatory Purchase Date.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2011 are as follows:

	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2012	$ 9,700,000	$ 4,065,090	$ 4,278,225	$ 1,380,447	$ 14,467
2013	10,235,000	3,798,138	4,165,808		
2014	10,625,000	3,508,348	4,067,414		
2015	11,010,000	3,203,219	3,960,130		
2016	11,735,000	3,019,441	3,798,137		
2017-2021	65,170,000	13,618,979	14,865,105		
2022-2026	79,230,000	10,348,536	7,275,626		
2027-2031	98,315,000	4,667,946	1,224,756		
Total Requirements	$ 296,020,000	$ 46,229,697	$ 43,635,201	$ 1,380,447	$ 14,467

Interest on the variable rate 2001 A&B, 2003 A&B, and 2009A revenue bonds is calculated at 0.20%, 0.21%, 0.25%, 0.24%, and 0.22% effective June 30, 2011.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. Synthetic interest on the variable rate 2003A, 2003B, and 2009A revenue bonds is calculated based upon the synthetic rate at June 30, 2011, of 3.42%, 3.43%, and 3.54%, respectively. More detailed information about interest rate swaps is presented in Note 7 Derivative Instruments.

E. Notes Payable - The Hospitals was indebted for notes payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate Range	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
Medical Equipment	IBM	1.64% to 2.79%	06/01/2012	$ 2,734,563	$ 1,354,116	$ 1,380,447

NOTE 7 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2011 are as follows:

		Change in Fair Value		Fair Value at June 30, 2011	
Type	Notional Amount	Classification	Increase	Classification	Liability
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed Interest Rate Swap 2003 A & B Bonds	$ 94,055,000	Deferred Outflow of Resources	$ 2,214,727	Hedging Derivative Liability	$ (11,359,372)
Pay-Fixed Interest Rate Swap 2009A Bonds	$ 39,705,000	Deferred Outflow of Resources	773,401	Hedging Derivative Liability	(4,462,146)
			$ 2,988,128		$ (15,821,518)

Hedging derivative instruments held at June 30, 2011 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge of Changes in Cash on 2003 A&B Series Bonds	$ 94,055,000	02/13/2003	02/01/2029	Pay 3.48% Receive 67% LIBOR
Pay-Fixed Interest Rate Swap	Hedge of Changes in Cash on the 2009A Series Bonds	$ 39,705,000	02/12/2009	02/01/2024	Pay 3.61% Receive 67% LIBOR

The fair value of the pay-fixed interest rate swaps was estimated by Bank of America, National Association (BOA) using the zero coupon method. This method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for London Inter-Bank Offered Rate (LIBOR) due on the date of each future net settlement on the swap.

The Hospitals' interest rate swap hedging derivatives have been determined to be effective using the synthetic instrument method.

Hedging Derivative Risks

Credit Risk: As of June 30, 2011, the Hospitals is not exposed to credit risk because the swaps have a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Hospitals would be exposed to credit risk in the amount of the derivatives' fair value. The Hospitals has a policy of requiring collateral to support hedging derivative instruments subject to credit risk. This policy states that at such time that BOA's ratings fall below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury Obligations, U.S. Government Agency Fixed Rate Fixed Maturity Securities, U.S. Government Agency Single Class Mortgage-Backed Securities, U.S. Treasury STRIPS, and other U.S. Government Agency Mortgage-Backed Securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company, or financial institution organized under the laws of the United States (or any state or political subdivision thereof). As of June 30, 2011, the credit rating for Bank of America, N.A. is Aa3 by Moody's and A+ by S&P.

The Hospitals entered into a master agreement with the International Swap Dealers Association, Inc. (ISDA) in January 2003. In this agreement, master netting arrangements were established between the contractual parties. All derivative instruments held by the Hospitals are subject to this agreement.

Interest Rate Risk: The Hospitals is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2011. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the Hospitals' variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps will decrease. The fair values reported are the market values as of June 30, 2011.

Basis Risk: The Hospitals receives 67% of 1-month LIBOR-BBA Index from BOA and pays a floating rate to its bondholders set by the Remarketing Agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of 1-month LIBOR-BBA Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

Termination Risk: The Hospitals is exposed to termination risk because the derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Hospitals or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Hospitals would be liable to the counterparty for that amount. Termination could result in the Hospitals being required to make an unanticipated termination payment.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The Hospitals entered into operating leases for space rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	$ 2,550,852
2013	2,394,048
2014	2,053,144
2015	1,474,086
2016	1,097,168
2017-2021	1,534,138
Total Minimum Lease Payments	$ 11,103,436

Rental expense for all operating leases during the year was $3,364,523.

NOTE 9 - NET PATIENT SERVICE REVENUE

Medicare: The Hospitals is reimbursed 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 Medicare Severity Diagnosis-Related Groups (MSDRGs) applicable to each patient discharge, rather than on the basis of the Hospitals' allowable charges. The difference in the standard hospital charge and the prospective payment for such services is reflected as an adjustment from patient service revenue. The claims payments are MSDRG payments, including capital related costs and add-on payments for indirect medical education and disproportionate share.

Medicare makes payments for Direct Graduate Medical Education (DGME) in support of the direct costs of residency training. Medicare also pays a portion of Medicare bad debts and organ acquisition costs for the Medicare beneficiaries. These pass-through payments are discussed further in Note 4, Estimated Third Party Settlements.

Medicare reimburses the Hospitals for inpatient hospital services furnished in the inpatient rehabilitation unit, referred to as an inpatient rehabilitation facility (IRF), under the provisions of the Inpatient Rehabilitation Facility Prospective Payment System (IRF PPS).

Medicare reimburses the Hospitals for services furnished in the inpatient psychiatric unit under the provisions of the Inpatient Psychiatric Facility Prospective Payment System (IPF PPS).

With the Balanced Budget Act of 1997, most outpatient services are paid on a prospective payment system. The system became effective August 1, 2000, and is based on ambulatory payment classifications (APC). It applies to most hospital outpatient services other than ambulance, rehabilitation services, clinical diagnostic laboratory services, non-implantable durable medical equipment, prosthetic devices, and orthotics which are paid based on fee schedules.

Medicaid: Medicaid reimburses inpatient services on an interim basis under a prospective payment system using diagnostic related groups as its basis. Medicaid reimburses most outpatient services on an interim basis at an agreed-upon rate based on documented costs. Medicaid also reimburses the Hospitals for graduate medical education (GME) costs. A final settlement is made at year end to adjust from the interim reimbursement to a cost-based reimbursement based on the filed cost reports. Several services such as hearing aids, durable medical equipment (DME), outpatient pharmaceuticals, home health, and diagnostic laboratory services are paid on fee schedules and not cost settled.

Medicaid reimburses the Hospitals for providing services to a disproportionate share (DSH) of uninsured and low income patients. An amount equal to these funds, $52,394,857 (excluding Basic DSH), is returned to the North Carolina Department of Medical Assistance from appropriations, nonfederal revenue, fund balances or other resources.

Commercial/Managed Care Payer Agreements: The Hospitals has entered into reimbursement agreements with certain commercial insurance carriers and managed care organizations to accept patients on a discounted fee for service basis. The basis for reimbursement under these agreements includes case rates per discharge, discounts from established charges, fee schedules, global payments, and per diem rates. Global rate reimbursements include the hospital and physician component for solid organ transplant, bone marrow transplant, and some cancer services.

In general, most payments for inpatient and outpatient services are subject to deductibles and co-payments that are the patient's responsibility. Additionally, insurance plans may reimburse their subscribers or make direct payment to the Hospitals on an assignment of benefits basis.

A summary of net patient service revenue for the year ended June 30, 2011 follows:

	2011
Inpatient Routine	$ 441,634,503
Inpatient Ancillary	828,532,614
Outpatient	990,751,171
Charity Care Provided	(133,844,195)
Prior Year Third Party Settlements	16,107,563
Gross Patient Service Revenue	2,143,181,656
Medicare Contractual Allowance	(422,696,144)
Medicaid Contractual Allowance	(276,223,692)
Managed Care Contractual Allowance	(318,996,736)
Other Contractual Allowances	(31,420,682)
Bad Debt	(66,058,900)
Contractual Adjustments	(1,115,396,154)
Net Patient Service Revenue	$ 1,027,785,502

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement 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.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Hospitals had a total payroll of $419,040,595, of which $352,650,324 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $17,385,661 and $21,159,019, respectively.

Required employer contribution rates for the years ended June 30, 2010 and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The Hospitals made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $17,385,661, $11,821,316, and $10,453,508, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund.* The Board also contracts with an external third party to perform certain administrative requirements and to manage

the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the Hospitals. The voluntary contributions by employees amounted to $752,594 for the year ended June 30, 2011.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the Hospitals except for a 5% employer contribution for the Hospitals' law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of Hospitals' law enforcement officers for the year ended June 30, 2011, were $59,765. The voluntary contributions by employees amounted to $2,741,220 for the year ended June 30, 2011.

IRC Section 403(b) and 403(b)(7) Plans - Eligible Hospitals employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Hospitals. The voluntary contributions by employees amounted to $3,693,226 for the year ended June 30, 2011.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Benefits** - The Hospitals participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the Hospitals contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The Hospitals made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $17,279,866, $14,900,818, and $12,755,768, respectively. The Hospitals assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Disability Income** - The Hospitals participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2011, the Hospitals made a statutory contribution of 0.52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2010 and 2009 were 0.52% and 0.52%, respectively. The Hospitals made 100% of its annual required contributions to the

DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $1,833,782, $1,721,872, and $1,617,805, respectively. The Hospitals assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report.*

NOTE 12 - RISK MANAGEMENT

The Hospitals is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via 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 and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $1,000,000 are retained under the authority of the State Tort Claims Act.

The Hospitals is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Premiums are paid based on square footage and the value of building contents. The Hospitals purchased through the Fund "all risks" replacement cost basis insurance for buildings and contents subject to a $25,000 per occurrence deductible.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The Hospitals pays premiums to the North Carolina Department of Insurance for the coverage. The Hospitals also has an insurance policy from a private insurance company through the North Carolina Department of Insurance for Auto Physical Damage (for vehicles costing greater than $75,000). Coverage limit is $5,000,000 per accident with a deductible of $500 per occurrence.

The Hospitals is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Hospitals is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible.

The Hospitals purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The coverage includes:

- Boiler and Machinery insurance up to $25,000,000 with a deductible of $5,000;
- Directors and Officers Liability insurance up to $25,000,000 with a deductible of $350,000 per occurrence for anti-trust claims and $200,000 per occurrence for all other claims;
- Master Crime insurance up to $500,000 with a deductible of $1,000;
- Comprehensive General Liability insurance up to $2,000,000 with a deductible of $10,000 per occurrence and Umbrella Excess insurance with limits of $5,000,000 per occurrence and aggregate;
- General Liability for Helipad on Premises insurance up to $20,000,000 with a deductible of $10,000 per aircraft;
- General Liability for Non-owned Aircraft insurance up to $20,000,000 per occurrence with no deductible;
- Computerized Business Equipment replacement cost insurance up to $761,108 with a deductible up to $10,000 per occurrence;
- Fine Arts Floater insurance up to $5,000 per item and $100,000 policy aggregate, with a deductible of $1,000 per occurrence;
- Surety Bond of $150,000 for Suppliers of Durable Medical Equipment, Prosthetics, Orthotics, and Supplies Medicare Program (DMEPOS).

Hospitals employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Hospitals' primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Hospitals is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Hospitals retains the risk for workers' compensation.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

Liability Insurance Trust Fund - The Hospitals participates in the Liability Insurance Trust Fund (Trust Fund), a claims-servicing public entity risk pool for healthcare professional liability protection. The Trust Fund services 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 Trust Fund.

The Trust Fund is an unincorporated entity created by Chapter 116, Article 26, of the *North Carolina General Statutes* and The University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the Hospitals and The University of North Carolina at Chapel Hill Physicians and Associates (UNC P&A), the program participants. The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance.

Participation in the Trust Fund is open to the University of North Carolina, any constituent institution of the University of North Carolina, the Hospitals, and any health care institution, agency or entity that has an affiliation agreement with the University of North Carolina, with a constituent institution of the University of North Carolina, or with the Hospitals. Only the UNC P&A and the Hospitals have participated in the Trust Fund to date. Participants provide management and administrative services to the Trust Fund at no cost.

The Trust Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of 13 members as follows: one member each appointed by the State Attorney General, the State Insurance Commissioner, the Director of the Office of State Budget and Management, and the State Treasurer, (each serving at the pleasure of the appointer); and nine members appointed by the UNC System's Board of Governors.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. Claim liabilities are recomputed annually based on an independent actuary's study to produce current estimates that reflect recent settlements, claims frequency, inflation and other factors. Participant assessments are determined at a level to fund claim liabilities, discounted for future investment earnings. Each participant is required by statute to maintain a fund balance of $100,000

at all times. Participants are subject to additional premium assessments in the event of deficiencies.

For the period July 1, 2010, through June 30, 2011, the Trust Fund provided coverage on an occurrence basis of $3,000,000 per individual and $7,000,000 in the aggregate per claim. The Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer in prior years. However, excess reinsurance coverage has not been purchased for any policy year since June 30, 2006, as the Trust Fund chose to retain 100% of the liability. In lieu of reinsurance, the participants contributed $10,000,000 in the aggregate toward the Reimbursement Fund for future losses during fiscal year 2007. In addition, during fiscal year 2010, the participants contributed an additional $1,006,106 to replenish the Reimbursement Fund to its original $10,000,000 level. For the fiscal year ending June 30, 2011, the Trust Fund purchased a direct insurance policy to cover the first $1,000,000 per occurrence and $3,000,000 in the aggregate for dental residents. *North Carolina General Statutes* Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to $30,000,000, in the event that the Trust Fund may have insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund has purchased annuity contracts to settle claims for which the claimant has signed an agreement releasing the Trust Fund from further obligation. The related claim liabilities have been removed from estimated malpractice costs.

The Council may choose to terminate the Trust Fund, or the respective participants may choose to terminate their participation. In the event of such termination by either the Council or a participant, an updated actuarial study will be performed to determine amounts due to or from the participants based on loss experience up to the date of termination.

At June 30, 2011, the Hospitals' assets in the Trust Fund totaled $28,597,397 while Hospitals' liabilities totaled $25,278,388 resulting in net assets of $3,319,009.

Additional disclosures relative to the funding status and obligations of the Trust Fund are set forth in the audited financial statements of the Liability Insurance Trust Fund. Copies of this report may be obtained from The University of North Carolina Liability Insurance Trust Fund, University of North Carolina Health Care System, 211 Friday Center Drive, Hedrick Building, Room 2029, Chapel Hill, North Carolina 27517.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The Hospitals has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $29,299,140 and on other purchases were $30,613,458 at June 30, 2011.

B. **Pending Litigation and Claims** - The Hospitals is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. Hospitals management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the Hospitals.

NOTE 14 - RELATED PARTIES

University of North Carolina Health Care System Enterprise Fund - The Board of Directors of UNC Health Care System (System) authorized and approved the creation of an Enterprise Fund to support the System's mission and vision to be the nation's leading public academic health care system. The key components of the System contributing to the Enterprise Fund during fiscal year 2011 are the University of North Carolina Hospitals at Chapel Hill, the clinical patient care programs established or maintained by the University of North Carolina at Chapel Hill School of Medicine, UNC Physicians & Associates, and Rex Healthcare, Inc. Recognizing the ongoing need for funding this mission, the key components agreed to finance the Enterprise Fund pursuant to a memorandum of understanding effective July 1, 2005. The Hospitals was assessed $42,119,739 to fund initiatives supported by the Enterprise Fund for the year ended June 30, 2011.

Periodically, the Enterprise Fund has made payments to support the missions of the UNC School of Medicine (SOM) and to further enhance the reputation of the System. These funds help the SOM achieve its missions in education, research, clinical care and recruitment as well as support for administrative expenses. The Hospitals was initially issued a special assessment of $8,000,000 during fiscal year 2011 to assist in the support of the SOM, as has occurred in previous years, and was subsequently assessed another $20,000,000 after the severity of budget cuts to the SOM and the System were fully realized.

The System is the sole member (owner) of Chatham Hospital, Inc. and Triangle Physician Network, LLC. The Hospitals was assessed a total of $10,517,876 to support the operations of these entities, $5,500,000 and $5,017,876 respectively, during the course of the fiscal year.

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

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

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

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

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

The Hospitals provides certain management, legal, and contracting services to Rex. Likewise, Rex also provides certain employee contracting services to the Hospitals. These transactions resulted in the Hospitals receiving $2,170,401 from Rex and the Hospitals paying $743,723 to Rex during the year ended June 30, 2011.

The Medical Foundation of North Carolina, Inc. - The Hospitals is a participant in The Medical Foundation of North Carolina, Inc. (Foundation), a

nonprofit Foundation for the University of North Carolina at Chapel Hill and the Hospitals, which solicits gifts and grants for both entities. The Board of Directors of the Medical Foundation administers the funds of the Foundation.

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

The Hospitals entered into a five year management agreement with Chatham Hospital, Inc. on August 1, 2006, which includes executive staffing and assistance with operations and planning. Additionally, the Hospitals entered into various other administrative and clinical services agreements with Chatham Hospital, Inc. and was paid $1,778,228 during the fiscal year ending June 30, 2011 for those services.

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

The Hospitals had previously established a $1,999,000 escrow account to serve as collateral for some of the financial covenants related to Chatham Hospital, Inc. debt. On February 10, 2010, the Department of Housing and Urban Development's Office of Insured Health Care Facilities approved the release of the escrow funds for deposit into the Chatham Hospital, Inc. MOB (medical office building) Construction Fund. According to the terms of the escrow agreement, the $1,999,000 balance converted into a note payable to the Hospitals effective upon the release of the escrow funds. The escrow funds were released in December 2010 and Chatham Hospital, Inc. early retired the entire outstanding note payable balance in March 2011.

Triangle Physician Network, LLC - Triangle Physician Network, LLC (TPN) is a wholly owned subsidiary of the System, but a private employer, that owns and operates 17 community based practices throughout the Triangle (Raleigh, Durham, and Chapel Hill), North Carolina area.

TPN is a physician-led network structured to meet the needs of the community and community practice physicians by creating a partnership for physicians and the System to face the challenging health care environment. TPN incorporates legacy System community-based practices as well as newly acquired practices and is actively seeking affiliation with private practices throughout the region.

The Hospitals provides purchasing, accounts payable, and accounting services to TPN as well as supplies and bio-medical equipment services. TPN paid the Hospitals $3,982,725 for supplies and services during fiscal year 2011.

First Health-UNC HCS, LLC - First Health-UNC HCS, LLC is a joint venture between the System and First Health of the Carolinas, Inc., which was created to purchase and operate Sanford Hematology & Oncology (SHO), a clinic located in Sanford, North Carolina. Each entity has a 50% ownership interest in SHO.

First Health-UNC HCS, LLC paid the Hospitals $2,294,912 for supplies and bio-medical equipment services received during fiscal year 2011.

Henderson County Hospital Corporation d/b/a Margaret R. Pardee Memorial Hospital (HCHC) - Henderson County is the sole member of HCHC, a North Carolina not-for-profit corporation, which is in turn the sole member of Henderson County Urgent Care Centers, Inc. and Western Carolina Medical Associates, Inc. HCHC was created by Henderson County to provide for the operation of a community hospital in Henderson County, North Carolina that is dedicated to serving the health care needs of Henderson County citizenry. These facilities include 201 licensed acute care beds, 21 licensed psychiatric beds, a physicians' services group, a home health agency, and an urgent care center which provide a variety of community-based services.

On June 22, 2011, HCHC signed a management service agreement engaging the Hospitals to conduct and effectively manage the day to day operations of Margaret R. Pardee Memorial Hospital and HCHC's affiliated operations over a term of 10 years. Additionally, the Chief Executive Officer of HCHC is an employee of the System.

NOTE 15 - INVESTMENTS IN AFFILIATES

The Hospitals has investments in affiliates and joint ventures accounted for on the equity method. Investments in affiliates were $1,057,342 at June 30, 2011. The Hospitals' share of these affiliates and joint ventures is not significant individually. The summarized financial information below represents an aggregation of the ongoing affiliates and joint ventures:

	2011 (Unaudited)
TOTAL AFFILIATE ACTIVITY	
Current Assets	$ 1,019,482
Noncurrent Assets	599,094
Current Liabilities	13,566
Shareholders Equity	1,605,010
Revenue	7,342,467
Net Gain	766,445
HOSPITALS' SHARE OF ACTIVITY	
Realized Affiliate Gain - Ongoing Operations	$ 624,551

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2011, the Hospitals implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 59 updates the disclosure and reporting requirements for certain financial instruments and external investment pools.

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2010, net assets as previously reported was restated as follows:

	Amount
July 1, 2010 Net Assets as Previously Reported	$ 995,662,216
Restatement: Correction of Distribution to Minority Interest in Carolina Dialysis, LLC	(2,497,500)
July 1, 2010 Net Assets as Restated	$ 993,164,716

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

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

We have audited the financial statements of the University of North Carolina Hospitals at Chapel Hill, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 3, 2011.

As discussed in Note 16 to the financial statements, the Hospitals implemented Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus*, during the year ended June 30, 2011.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospitals' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospitals' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospitals' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospitals' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the Hospitals, the Board of Governors, the Board of Directors of the University of North Carolina Health Care System, the Audit and Compliance Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

October 3, 2011

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Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

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STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA HOSPITALS

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

UNIVERSITY OF NORTH CAROLINA HOSPITALS

CHAPEL HILL, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

ERSKINE B. BOWLES, PRESIDENT

BOARD OF DIRECTORS

DR. RICHARD M. KRASNO, CHAIRMAN

ADMINISTRATIVE OFFICERS

GARY PARK, PRESIDENT

CHRISTOPHER S. ELLINGTON, EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Directors, University of North Carolina Health Care System

We have completed a financial statement audit of the University of North Carolina Hospitals at Chapel Hill for the year ended June 30, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the University of North Carolina Hospitals, which is a part of the University of North Carolina Health Care System, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Hospitals' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina Hospitals as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the Hospitals implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2010 on our consideration of the Hospitals' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood, CPA
State Auditor

October 19, 2010

Introduction

The following discussion and analysis is provided by the University of North Carolina Hospitals at Chapel Hill (Hospitals) fiscal management as an overview to assist the reader in interpreting and understanding the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes between fiscal years 2010 and 2009, as well as pertinent facts, decisions, and conditions.

Using the Financial Statements

The financial statements of the Hospitals provide information regarding its financial position and results of operations as of the report date. The *Statement of Net Assets*; the *Statement of Revenues, Expenses, and Changes in Net Assets*; and the *Statement of Cash Flows* comprise the basic financial statements required by the Governmental Accounting Standards Board (GASB). In accordance with the GASB, the financial statements are presented and follow reporting concepts consistent with those required of a private business enterprise. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balance. *Notes to the Financial Statements* are an integral part of the information presented and should be read in conjunction with the financial statements.

The *Statement of Net Assets* provides information relative to the Hospitals' 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 are anticipated to be used to pay for current liabilities. Current liabilities are those payable in the next fiscal year. Net assets on this Statement are categorized as invested in capital assets (net of related debt), restricted, or unrestricted. Restricted net assets are categorized as expendable for the purposes noted. Management estimates are necessary in some instances to determine current or noncurrent categorization. Overall, the *Statement of Net Assets* provides information relative to the financial strength of the Hospitals and its ability to meet current and long-term obligations.

The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the results of the Hospitals' operations, nonoperating activities, and other activities affecting net assets, which occurred during the fiscal year. Nonoperating activities include funding from the State in the form of appropriations, noncapital gifts and grants, as well as interest expense on financing activities, gain or loss on investments (net of investment expenses), gain or loss on affiliate activity and gain or loss realized on the disposition of capital assets. Other activities include the capital grant awarded by the State for the construction of the NC Cancer Hospital and Health Care System assessments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Assets* provides information relative to the Hospitals' management of its operations and its ability to maintain its financial strength.

The *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 cash balance changes throughout the year and is representative of the activity reported on the *Statement of Revenues, Expenses, and Changes in Net Assets* as adjusted for changes in the beginning and ending balances of noncash accounts on the *Statement of Net Assets*.

The *Notes to the Financial Statements* provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, accounting changes, and a discussion of adjustments to prior periods and events subsequent to the Hospitals' financial statement period when appropriate. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with the amounts reported and are considered an integral part of the financial statements.

Comparison of Two-Year Data for 2010 to 2009

Comparative financial data of 2010 to 2009 is summarized in Table 1. Discussion of comparative data is included in the following section.

Analysis of Overall Financial Position and Results of Operations

Statement of Net Assets

Assets increased overall by $108.5 million or 8.1% from fiscal year 2009 to 2010 due primarily to positive investment returns, increases in prepaid expenses, and recording a new account category, deferred outflow of resources. Depreciable capital assets continued to increase due to routine capital equipment purchases and multiple capital projects, the largest by far being the North Carolina Cancer Hospital which opened during the fiscal year. Investment returns fluctuated but increased by $26.7 million overall and was a welcome change compared to the $97.1 million loss in the previous year. The fiscal year 2011 Health Care System Assessment was paid, in part, during the current year due to positive economic position and accounts for $20 million of the increase in prepaid expenses. Deferred outflow of resources was recorded in compliance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and is the offset to the hedging derivative liabilities that are recorded in the Liabilities section and described more fully in Note 3 in the *Notes to the Financial Statements*.

Liabilities increased overall by $23.6 million or 5.4% while net assets increased $84.9 million or 9.3% from fiscal year 2009 to 2010. The largest change in liabilities was in the noncurrent section as a result of recording the hedging derivative liability of $18.8 million which is the offset to the deferred outflow of resources reported in the Noncurrent Assets section.

Statement of Revenues, Expenses, and Changes in Net Assets

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects positive operating income of $66.5 million and an overall increase in net assets of $84.9 million.

Total operating revenue grew year-over-year as a result of growth in net patient service revenue. Net patient service revenue, excluding third party settlements, increased $82.1 million or 9.8% due to volume increase and a slightly higher collection percentage that offset a decrease in prior year third party settlements recognized during the current fiscal year. The Hospitals recognized some improvement in revenue due to the settlement of Medicare and Medicaid Cost Report activities; however, management increased reserves for potential unknowns that may result from the Medicare and Medicaid claims audit programs. See Note 5 in the *Notes to the Financial Statements* for more information on estimated third party settlements.

Total operating expenses increased by only $34.1 million or 4.0% due to an organization-wide effort to actively manage operating expenses within budget and also from decreased spending on marketing and consulting services. Regularly scheduled meetings are held by the Chief Financial Officer with divisional vice presidents and applicable departmental managers to review actual to budget results by area and identify corrective measures needed to ensure operations are managed within budget successfully. The largest categorical dollar increase occurred in salaries and benefits, and medical malpractice costs again represented the largest percentage change. Salary and benefit expense increased $25.9 million or 5.5% over the prior year and includes the accrued expense of a nondiscretionary incentive compensation payment that was made to qualifying employees in October 2010 as a result of attaining specific clinical quality, patient satisfaction, employee, and financial goals at an organizational level. Medical malpractice costs increased 153.0% this year. Increases/Decreases in medical malpractice expense are a function of assessments made of the participants by the Liability Insurance Trust Fund (the Fund) of the UNC Health Care System. The assessment made by the Fund and the resulting expense is an estimate of the funds needed to ensure the solvency of the Fund. Changes in reserves and net assets of the Fund are impacted by multiple components such as investment return, claims payments and defense costs as well as favorable/unfavorable developments from previous year estimates. The Fund is managed rigorously by the Hospitals' Risk Management department to ensure patient safety and minimize overall risk. See Note 12 in the *Notes to the Financial Statements* for more information on the Fund. Depreciation expense increased $7.2 million or 16.1% year-over-year and is largely the result of completing the North Carolina Cancer Hospital and placing the building and associated equipment into service.

Nonoperating revenues increased $122 million comparatively due to investment gains of $26.7 million in the current year compared to losses of $97.1 million in the prior year. State appropriations remained flat while interest expense decreased due to historically low variable interest rates.

In the other revenues (expenses) section, capital grants decreased again from $35.9 million to $16.1 million from fiscal year 2009 to 2010. The decrease in capital grants recognized is

indicative of the North Carolina Cancer Hospital project nearing conclusion and opening during the fiscal year. Effective July 1, 2005, the Hospitals agreed to fund the UNC Health Care System Enterprise Fund that supports initiatives as the Chief Executive Officer of the University of North Carolina Health Care System deems appropriate with the recommendations from the senior leadership team. These expenses totaled $62.4 million during fiscal year 2010 and are reported separately in this section as Health Care System Assessments and are described in more detail in Note 14 in the *Notes to the Financial Statements*.

Analysis of Net Asset Balances

At June 30, 2010, net assets invested in capital assets, net of related debt, totaled $390.5 million representing the gross value of plant assets $964.2 million plus bond issuance costs of approximately $0.9 million less accumulated depreciation $401.8 million and related debt of $172.8 million.

Restricted expendable net assets totaled $156.5 million representing amounts subject to externally imposed restrictions.

Unrestricted net assets totaled $448.7 million representing amounts not subject to externally imposed stipulations but internally designated for various activities and initiatives, including future construction projects.

Discussion of Capital Asset and Long-Term Debt Activity

Capital Assets

The Hospitals expended $37.7 million during the year for capital equipment throughout the facilities, $35.8 million for the construction of buildings, infrastructure and renovations and $18 million for land in Hillsborough, NC that will eventually be used for a satellite campus.

On August 5, 2004, House Bill 1264 of the 2004 North Carolina Legislative Session was ratified and authorized the State to issue special indebtedness of up to $180 million in principal for acquiring, constructing, and equipping a cancer rehabilitation and treatment center, a nearby physicians' office building, and a walkway between the two. These facilities are located at the University of North Carolina Hospitals at Chapel Hill. The $28.6 million physicians' office building was completed in May 2008 and transferred to the University of North Carolina at Chapel Hill for occupancy in September 2008, while the North Carolina Cancer Hospital was completed and occupied in September 2009.

At June 30, 2010, outstanding commitments on construction contracts were $18.9 million while outstanding commitments related to capital purchase orders for fixed and movable equipment totaled $28.3 million.

The annualized average age of plant and equipment is 7.6 years.

Long-Term Debt Activities

At June 30, 2010, the Hospitals had outstanding bond indebtedness in the amount of $240.7 million of which $7.6 million is due within the next year. Standard and Poor's and Moody's Ratings Services classify these bonds as AA- and Aa3 respectively. The Hospitals anticipate issuing $50 million in new debt in the next fiscal year as described in Note 17 in the *Notes to the Financial Statements.*

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

Health policy changes at the Federal and State level have been enacted but the ultimate impact of these policy changes on the finances of the Hospitals is largely unknown as of the date of this report. The Hospitals has begun to assimilate and assess the known impacts, but models to accurately predict any impact are still being developed.

The state of the national and regional economy will continue to pressure revenues and collections whether or not additional health policy changes are made at the Federal and State level. The Hospitals remains concerned about the rising expense incurred as a result of carrying out its mission.

The Hospitals receives some state funding through general appropriation to carry out its mission. This appropriation is not specifically tied to any particular program. Given the general state of North Carolina's economy and its budget, the annual appropriation is subject to available funds as directed by the legislature and may increase or decrease.

The Medicare and Medicaid programs have implemented additional audits to recoup errant payments to hospitals. These Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) audits have been recently instituted and potentially create additional revenue risk. The Hospitals was not contacted during fiscal year 2010, yet reserves have been set aside as a contingency toward potential future audits of prior year results.

The Hospitals' management realizes that investment risk will be ongoing. Additional flexibility with investment alternatives from the North Carolina State Treasurer will continue to be sought during fiscal year 2011 in order to minimize investment risk to the extent possible.

University of North Carolina Hospitals
Summary of Condensed Financial Statements Totals
For the Fiscal Years Ended June 30, 2010 and 2009

Summary of Condensed Financial Statements Totals — **Table 1**

	FY10	FY09	Change
STATEMENTS OF NET ASSETS			
Current Assets	$ 347,352,673	$ 433,518,299	(86,165,626)
Capital Assets, Net	562,424,230	531,351,062	31,073,168
Other Noncurrent Assets	545,141,526	381,558,862	163,582,664
TOTAL ASSETS	1,454,918,429	1,346,428,223	
Current Liabilities	135,130,597	133,112,835	2,017,762
Noncurrent Liabilities	324,125,616	302,510,790	21,614,826
TOTAL LIABILITIES	459,256,213	435,623,625	
Invested in Capital Assets, Net of Related Debt	390,509,594	343,497,012	47,012,582
Restricted for Expendable Uses	156,477,477	138,779,160	17,698,317
Unrestricted	448,675,145	428,528,426	20,146,719
TOTAL NET ASSETS	$ 995,662,216	$ 910,804,598	
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
Net Patient Service Revenue	$ 922,397,680	$ 840,265,530	82,132,150
Other Operating Revenues	23,514,569	19,215,856	4,298,713
Prior Year Third Party Settlements	8,195,293	30,670,072	(22,474,779)
TOTAL OPERATING REVENUES	954,107,542	890,151,458	
Salaries and Benefits	497,762,304	471,823,604	25,938,700
Medical and Surgical Supplies	161,315,247	157,956,222	3,359,025
Contracted Services	94,193,202	104,475,637	(10,282,435)
Other Supplies and Materials	56,525,000	54,462,052	2,062,948
Communication, Utilities, and Travel	20,794,282	17,695,251	3,099,031
Medical Malpractice Costs	4,356,494	1,721,648	2,634,846
Depreciation and Amortization	52,639,101	45,349,232	7,289,869
TOTAL OPERATING EXPENSES	887,585,630	853,483,646	
OPERATING INCOME	66,521,912	36,667,812	
State Appropriations	41,811,381	42,002,451	(191,070)
Investment Activity	33,323,745	(84,617,399)	117,941,144
Noncapital Gifts and Grants	244,443	235,586	8,857
Nonoperating Expenses	(9,429,186)	(13,682,821)	(4,253,635)
NET NONOPERATING REVENUES (EXPENSES)	65,950,383	(56,062,183)	
Capital Grants	16,100,742	35,880,913	(19,780,171)
Refund of Prior Years Capital Appropriations	(1,326,801)		1,326,801
Health Care System Assessments	(62,388,618)	(28,092,240)	34,296,378
Transfer of Physicians' Office Building		(28,562,885)	(28,562,885)
INCREASE (DECREASE) IN NET ASSETS	84,857,618	(40,168,583)	
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	910,804,598	950,973,181	
NET ASSETS - END OF YEAR	$ 995,662,216	$ 910,804,598	

University of North Carolina Hospitals
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	$	110,011,529
Restricted Cash and Cash Equivalents (Note 2)		9,832,151
Receivables:		
Patient Accounts Receivable, Net (Note 4)		118,286,225
Accrued Interest Receivable		421,207
Other Accounts Receivable, Net		22,770,230
Due from Primary Government		1,978,352
Due from State of North Carolina Component Units		9,300,719
Estimated Third Party Settlements (Note 5)		35,499,834
Inventories		14,639,280
Prepaid Expenses		24,613,146
Total Current Assets		347,352,673
Noncurrent Assets:		
Restricted Cash and Cash Equivalents (Note 2)		143,819,965
Investments (Note 2)		102,999,827
Cash and Investments Designated for Capital Projects (Note 2)		260,954,793
Advanced Deposits with Liability Insurance Trust Fund (Note 12)		6,261,669
Patient Accounts Receivable, Net (Note 4)		8,167,610
Bond Issuance Costs, Net		1,178,653
Deferred Outflow of Resources (Note 3)		18,809,646
Start-Up Costs, Net		515,594
Investments in Affiliates (Note 15)		2,433,769
Capital Assets - Nondepreciable (Note 6)		73,168,470
Capital Assets - Depreciable, Net (Note 6)		489,255,760
Total Noncurrent Assets		1,107,565,756
Total Assets		1,454,918,429
LIABILITIES		
Current Liabilities:		
Accounts Payable		31,327,983
Accrued Salaries and Benefits		36,888,766
Estimated Third Party Settlements (Note 5)		21,481,653
Due to Patients or Third Parties		2,715,894
Due to Primary Government		4,328,919
Due to State of North Carolina Component Units		23,330,252
Bond Interest Payable		433,321
Funds Held for Others		1,208,686
Long-Term Liabilities - Current Portion (Note 7)		13,415,123
Total Current Liabilities		135,130,597
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		257,449,561
Hedging Derivative Liability (Note 3)		18,809,646
Estimated Third Party Settlements (Note 5)		47,866,409
Total Noncurrent Liabilities		324,125,616
Total Liabilities		459,256,213

University of North Carolina Hospitals
Statement of Net Assets
June 30, 2010

Exhibit A-1
Page 2

NET ASSETS		
Invested in Capital Assets, Net of Related Debt		390,509,594
Restricted for Expendable Uses for:		
Maintenance Reserve Fund		142,052,698
Liability Insurance Trust Fund		6,261,669
Trust Fund Donations		504,794
Minority Interest in Carolina Dialysis, LLC		7,658,316
Unrestricted		448,675,145
Total Net Assets	$	995,662,216

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

University of North Carolina Hospitals
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Exhibit A-2

REVENUES		
Operating Revenues:		
Net Patient Service Revenue (Note 9)	$	922,397,680
Other Operating Revenues		23,514,569
Prior Year Third Party Settlements		8,195,293
Total Operating Revenues		954,107,542
EXPENSES		
Operating Expenses:		
Salaries and Benefits		497,762,304
Medical and Surgical Supplies		161,315,247
Contracted Services		94,193,202
Other Supplies and Services		56,525,000
Communication, Utilities, and Travel		20,794,282
Medical Malpractice Costs		4,356,494
Depreciation and Amortization		52,639,101
Total Operating Expenses		887,585,630
Operating Income		66,521,912
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		41,811,381
Noncapital Gifts and Grants		244,443
Investment Income (Net of Investment Expense of $1,110,505.64)		32,945,887
Gain on Investments in Affiliates (Note 15)		377,858
Interest and Fees on Debt		(8,307,663)
Loss on Disposal of Capital Assets		(1,121,523)
Net Nonoperating Revenues		65,950,383
Income Before Other Revenues, Expenses, Gains, or Losses		132,472,295
Capital Grants		16,100,742
Refund of Prior Years Capital Appropriations		(1,326,801)
Health Care System Assessments (Note 14)		(62,388,618)
Increase in Net Assets		84,857,618
NET ASSETS		
Net Assets - July 1, 2009		910,804,598
Net Assets - June 30, 2010	$	995,662,216

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

University of North Carolina Hospitals
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Patient or Third Parties	$	934,966,948
Payments to Employees and Fringe Benefits		(491,075,595)
Payments to Vendors and Suppliers		(342,660,899)
Payments for Medical Malpractice		(2,975,000)
Other Receipts		17,392,613
Net Cash Provided by Operating Activities		115,648,067
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		41,811,381
Health Care System Assessments		(62,388,618)
Interest and Fees Paid on Revenue Bonds		(359,768)
Principal Paid on Revenue Bonds		(952,000)
Noncapital Gifts and Grants		244,443
Net Cash Used by Noncapital Financing Activities		(21,644,562)
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Principal Paid on Capital Revenue Bonds		(6,438,000)
Principal Paid on Notes Payable		(11,722,616)
Interest and Fees Paid on Capital Debt		(7,196,581)
Capital Grants		16,041,744
Refund of Prior Years Capital Appropriations		(1,326,801)
Acquisition and Construction of Capital Assets		(86,878,697)
Refund of Funds Held in Escrow		3,446
Proceeds from Sale of Capital Assets		80,400
Net Cash Used by Capital Financing and Related Financing Activities		(97,437,105)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		6,054,613
Investments In and Loans to Affiliated Enterprises:		
Cash Receipts		139,497
Net Cash Provided by Investing Activities		6,194,110
Net Increase in Cash and Cash Equivalents		2,760,510
Cash and Cash Equivalents - July 1, 2009		362,498,492
Cash and Cash Equivalents - June 30, 2010	$	365,259,002

University of North Carolina Hospitals
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$	66,521,912
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization Expense		52,639,101
Changes in Assets and Liabilities:		
Patient Accounts Receivable		(1,916,595)
Other Accounts Receivable		(4,466,499)
Estimated Third Party Settlements		7,560,441
Inventories		622,203
Prepaid Expenses		(22,142,092)
Advance Deposits with Liability Insurance Trust Fund		1,381,494
Accrued Salaries and Benefits		6,188,966
Accounts and Other Payables		11,686,720
Due to Patients or Third Parties		(1,269,576)
Funds Held for Others		(294)
Compensated Absences		(1,157,714)
Net Cash Provided by Operating Activities	$	115,648,067
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	110,011,529
Restricted Cash and Cash Equivalents		9,832,151
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		143,819,965
Cash Designated for Capital Projects		101,595,357
Total Cash and Cash Equivalents - June 30, 2010	$	365,259,002
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Investments in Affiliated Enterprises:		
Current Gain from Equity Method Adjustments	$	377,858
Change in Fair Value of Investments		26,739,976
Loss on Disposal of Capital Assets		(1,121,523)

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Organization** - The University of North Carolina Hospitals at Chapel Hill (the Hospitals) is the only state-owned teaching hospital in North Carolina. With a licensed base of 799 beds, this facility serves as an acute care teaching hospital for The University of North Carolina at Chapel Hill. The Hospitals consists of North Carolina Memorial Hospital, North Carolina Children's Hospital, North Carolina Neurosciences Hospital, North Carolina Women's Hospital and North Carolina Cancer Hospital. As a state agency, the Hospitals is required to conform to financial requirements established by various statutory and constitutional provisions. While the Hospitals is exempt from both federal and State income taxes, a small portion of its revenue is subject to the unrelated business income tax.

B. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements.

The Hospitals is a part of the University of North Carolina (UNC) Health Care System, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the Hospitals and its component units for which the UNC Health Care System Board of Directors is responsible. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Board of Directors of the UNC Health Care System has delegated responsibilities for financial accountability of the Hospitals' funds. The Hospitals' component units are blended in the Hospitals' financial statements. The blended component units, although legally separate, are, in substance, part of the Hospitals' operations and therefore, are reported as if they were part of the Hospitals.

Blended Component Units - Although legally separate, Health System Properties, LLC (the LLC) and Carolina Dialysis, LLC (the CDLLC), component units of the Hospitals, are reported as if they were part of the Hospitals.

The LLC was established to purchase, develop and/or lease real property. The LLC is reported as part of the Hospitals because the UNC Health Care System is the sole member manager and the LLC is governed by the same Board that directs the Hospitals' operations. Additionally, the only properties owned to date by the LLC are for the sole use and benefit of the Hospitals.

The Hospitals 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 the Hospitals through the Chief Executive Officer and two appointed by Renal Research Institute. The CDLLC was formed for the purposes 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. The CDLLC is included as part of the Hospitals because of the nature and significance of the relationship of the CDLLC with the Hospitals. Because the CDLLC provides services almost entirely to the Hospitals' patients, its financial statements have been blended with those of the Hospitals.

Separate financial statements for the LLC and CDLLC may be obtained from the Chief Financial Officer, University of North Carolina Hospitals, 307 Med Wing E, 101 Manning Drive, Chapel Hill, North Carolina, 27514, or by calling (919) 966-5112. Other related foundations and similar nonprofit corporations for which the Hospitals is not financially accountable are not part of the accompanying financial statements.

C. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the Hospitals' activities is considered to be a single business-type activity and

accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospitals does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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

Nonexchange transactions, in which the Hospitals receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, a capital grant for the NC Cancer Hospital, Health Care System assessments, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met.

E. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, security deposits, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

F. **Investments** - This classification represents the participation in an equity investment fund through the University of North Carolina Hospitals at Chapel Hill Trust. Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

G. **Patient Accounts Receivable** - The Hospitals' patient accounts receivable consists of unbilled (in house patients, inpatients discharged but not final billed and outpatients not final billed) and billed amounts.

Payment of these charges comes primarily from Managed Care payers, Medicare, Medicaid and, to a lesser extent, the patient. These amounts are recorded in the financial statements net of charity care, contractual allowances and allowances for bad debt to determine the net realizable value of the accounts receivable balance. See the section Net Patient Service Revenue later in the Significant Accounting Policies for a further discussion of these reductions.

The reserves recorded for these deductions are used to determine net patient accounts receivable and are calculated based on the historical collection percentage realized for each payer. The collection rates are updated monthly in order to reflect the most up to date information available.

The Hospitals has established flexible payment arrangements for patient balances up to a maximum of 36 months depending on the outstanding balance due. Amounts due beyond one year under these arrangements are classified as noncurrent assets.

H. **Other Receivables** - In addition to patient accounts receivable, the Hospitals recognizes other receivables related to its operations. These items include the sales tax refund due from the North Carolina Department of Revenue, education loan receivables, amounts due from affiliates and other state agencies, and billings to outside companies for ancillary testing, critical care transportation, and pharmacy supplies. Receivables are recorded net of estimated uncollectible amounts.

I. **Inventories** - Inventories consist of medical and surgical supplies, pharmaceuticals, prosthetics, and other supplies used to provide patient care or by service departments within the Hospitals. Inventories are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

J. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The Hospitals capitalizes assets, including intangible assets, that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater. Useful life estimates are assigned based on the American Hospital Association publication *Estimated Useful Lives of Depreciable Hospital Assets*.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 25 years for general infrastructure, 10 to 40 years for buildings, 3 to 20 years for machinery and equipment, and 3 years for computer software.

K. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets, funds equal to 7.5% of gross patient revenue as limited by applicable revenue bond covenants, and resources designated for liability insurance claims. Current restricted resources include certain trust funds restricted because external parties or statute limits their use, resources legally segregated for the payment of principal and interest as required by debt covenants, funds held for workers compensation, and unexpended capital funds.

L. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable, arbitrage rebate payable, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The Hospitals amortizes bond premiums/discounts over the life of the bonds using the effective interest method. The deferred losses on refunds are amortized over the life of the new debt using the straight-line method. Issuance costs are also amortized over the life of the bonds using the straight-line method.

M. **Compensated Absences** - The Hospitals' policy is to record the cost of annual leave when earned. Employees earn annual leave at varying rates depending upon years of service and the leave plan in which they participate.

Traditional Plan - The policy provides for a maximum accumulation of unused annual leave of 30 days that can be carried forward beyond the pay period that includes December 31 or for which an employee can be paid upon termination of employment. Also, any accumulated annual leave in excess of 30 days, during the pay period that includes December 31, is converted to sick leave. Employees earn holiday leave at the rate of 11 or 12 days per year with an unlimited accumulation. The Hospitals' policy requires that employees use holiday hours in excess of 40 prior to using earned annual leave. At termination, employees are paid for any accumulated holiday leave. Employees earn sick leave at the rate of one day per month with an unlimited accumulation.

Paid Time Off (PTO) Plan - The PTO program combines the various leave types that employees may earn into one earning rate that varies depending upon years of service. This program is mandatory for all new employees. The policy provides for a maximum accumulation of 280 hours of unused PTO at the last day of the last pay period of the calendar year that includes December 31. At that time, the excess accumulation over 280 hours is converted to long-term sick leave, which is treated similar to sick leave in the Traditional Plan. Upon termination of employment, employees are paid for their current balance in PTO based upon their years of service. Once an employee has more than five years of service, the entire accumulated balance is paid up to 280 hours. The PTO program has a sell back feature that allows employees to sell back 100% of their accumulated hours over a minimum floor. Prior to fiscal year 2010, this sell back feature was annual, with a payout in January. Beginning July 1, 2009, the sell back feature became semi-annual, with payouts in June and December. During fiscal year 2010, the annual payout in January was available to eligible employees who had made the election in the previous year. However, starting in fiscal year 2011, only the semi-annual payouts in June and December will be available. Under the semi-annual payout plan, employees can sell back from eight to 100 hours of their PTO balance with a balance of at least 140 hours at the time of the sell back. There is a 10% forfeiture of the cash value to remain compatible with IRS regulations regarding taxability.

Liability Calculation - The liability for accumulated annual leave, holiday leave, and PTO leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30. The liability is equal to the accumulated hours multiplied by the employee's current hourly rate plus benefits for social security and state retirement.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method.

There is no liability for unpaid accumulated sick leave because the Hospitals has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

N. **Net Assets** - The Hospitals' net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the Hospitals' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been

incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the Hospitals is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from patient care and ancillary services, unrestricted gifts, and investment income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the Hospitals. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

O. **Revenue and Expense Recognition** - The Hospitals classifies its revenues and expenses as operating or nonoperating in the accompanying Statement 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 Hospitals' 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. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the Hospitals, as well as investment income and gain (loss) on disposal of capital assets, are considered nonoperating since these are either investing, capital, or noncapital financing activities.

Capital grants and Health Care System assessments are presented separately after nonoperating revenues and expenses.

P. **Net Patient Service Revenue** - Patient service revenue is recorded at the Hospitals' established rates and includes all charges for inpatient accounts discharged after June 30, 2009, (less amounts previously recorded at June 30, 2009, for in house patients) and all charges on in house accounts and all charges for outpatient accounts registered after June 30, 2009. The difference between established rates and the estimated amount collectible is recognized as revenue deductions on an accrual basis and deducted from gross patient service revenue to report service revenue at net realizable value. Revenue deductions consist of charges for charity care, contractual allowances, and bad debt.

Charity care provided represents health care services that were provided free of charge to individuals who meet the criteria of the Hospitals' charity care policy. Charity care provided is not considered to be revenue to the Hospitals and is deducted in determining gross patient service revenue.

Differences between the amounts paid for services under third party reimbursement programs and established rates are accounted for as contractual adjustments. Retroactively calculated adjustments are recorded as prior year third party settlements in the year in which the adjustment can be reasonably estimated.

Q. **Medical Malpractice Cost** - Medical malpractice costs represent the actuarially determined contribution to the Liability Insurance Trust Fund. See Note 12 for further discussion of the Liability Insurance Trust Fund.

R. **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 Hospitals' operations.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. **Deposits** - Pursuant to *North Carolina General Statute* 116-37.2, the Hospitals is required to deposit its funds as defined in this statute, including moneys received from fees and other payments for services rendered in its hospitals and/or clinical operations, gifts, grants, and moneys received from or for the operation of any of the Hospitals self-supporting auxiliary enterprises, with the State Treasurer. The Hospitals may voluntarily deposit special funds, revenue bond proceeds, and debt service funds. Special funds consist of moneys for agency funds held directly by the Hospitals. Bond proceeds and debt service funds are invested in accordance with bond resolutions. These funds are currently

on deposit with the State Treasurer and therefore, available on demand to comply with applicable bond covenants.

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $348,312,699 which represents the Hospitals' equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2010 was $35,963. The carrying amount of the Hospitals' deposits not with the State Treasurer was $16,910,340 and the bank balance was $22,064,452. Custodial credit risk is the risk that in the event of a bank failure, the Hospitals' deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The Hospitals does not have a deposit policy for custodial credit risk. As of June 30, 2010, $21,374,358 of the Hospitals' bank balance was uninsured and uncollateralized.

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

University of North Carolina Hospitals Investment Fund with The Treasurer of the State of North Carolina - At June 30, 2010, the amount shown on the Statement of Net Assets which represents funds deposited with and invested by the State Treasurer is $262,359,263. The State Treasurer contracted with an external party (Trustee) to create the University of North Carolina Hospitals at Chapel Hill Trust (Trust). The Hospitals is the only depositor in the Trust; however, the Trust is a participant of a commingled equity investment fund. The Trustee

manages the assets, primarily in equity and equity-based securities in accordance with General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities and maintains all related accounting records. The investments are valued at fair market value. Deposit and investment risks associated with the Trust are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

C. Reconciliation of Deposits and Investments

A reconciliation of deposits and investments for the Hospitals at June 30, 2010, is as follows:

Cash on Hand	$	35,963
Carrying Amount of Deposits with Private Financial Institutions		16,910,340
Deposits in the Short Term Investment Fund		348,312,699
Investments with the State Treasurer		262,359,263
Total Deposits and Investments	$	627,618,265
Deposits		
Current:		
Cash and Cash Equivalents	$	110,011,529
Restricted Cash and Cash Equivalents		9,832,151
Noncurrent:		
Restricted Cash and Cash Equivalents		143,819,965
Cash Designated for Capital Projects		101,595,357
Total Deposits		365,259,002
Investments		
Noncurrent:		
Investments		102,999,827
Investments Designated for Capital Projects		159,359,436
Total Investments		262,359,263
Total Deposits and Investments	$	627,618,265

NOTE 3 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2010, are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2010	
		Classification	Decrease	Classification	Liability
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed Interest Rate Swap 2003A & 2003B Bonds	$ 94,600,000	Deferred Outflow of Resources	$ (4,352,717)	Hedging Derivative Liability	$ (13,574,099)
Pay-Fixed Interest Rate Swap 2009A Bonds	$ 42,020,000	Deferred Outflow of Resources	(1,243,851)	Hedging Derivative Liability	(5,235,547)
			$ (5,596,568)		$ (18,809,646)

Hedging derivative instruments held at June 30, 2010, are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge of Changes in Cash on the 2003 A&B Series	$ 94,600,000	2/13/2003	2/1/2029	Pay 3.48% Receive 67% LIBOR
Pay-Fixed Interest Rate Swap	Hedge of Changes in Cash on the 2009A Series Bonds	$ 42,020,000	2/12/2009	2/1/2024	Pay 3.48% Receive 67% LIBOR

The fair value of the pay-fixed interest rate swaps was estimated by Bank of America, National Association (BOA) using the zero coupon method. This method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for London Inter-Bank Offered Rate (LIBOR) due on the date of each future net settlement on the swap.

The Hospitals' interest rate swap hedging derivatives have been determined to be effective using the synthetic instrument method.

Risks

Interest Rate Risk: The Hospitals is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of

June 30, 2010. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the Hospitals' variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps will decrease. The fair values reported are the market values as of June 30, 2010.

Credit Risk: As of June 30, 2010, the Hospitals is not exposed to credit risk because the swaps have a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Hospitals would be exposed to credit risk in the amount of the derivatives' fair value. The Hospitals has a policy of requiring collateral to support hedging derivative instruments subject to credit risk. This policy states that at such time that BOA's ratings fall below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury Obligations, U.S. Government Agency Fixed Rate Fixed Maturity Securities, U.S. Government Agency Single Class Mortgage-Backed Securities, U.S. Treasury STRIPS, and other U.S. Government Agency Mortgage-Backed Securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company, or financial institution organized under the laws of the United States (or any state or a political subdivision thereof).

The Hospitals entered into a master agreement with the International Swap Dealers Association, Inc. (ISDA) in January 2003. In this agreement, master netting arrangements were established between the contractual parties. All derivative instruments held by the Hospitals are subject to this agreement.

Basis Risk: The Hospitals receives 67% of 1-month LIBOR-BBA Index from BOA and pays a floating rate to its bondholders set by the Remarketing Agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of 1-month LIBOR-BBA Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

Termination Risk: The derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Hospitals or the counterparty may terminate the swap if the other party fails to

perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of the termination the swap has a negative fair value, the Hospitals would be liable to the counterparty for that amount. Termination could result in the Hospitals being required to make an unanticipated termination payment.

NOTE 4 - PATIENT ACCOUNTS RECEIVABLE, NET

A. **Current** - Net patient accounts receivable consisted of amounts due from patients and third parties at estimated realizable value. Included in gross receivables are amounts receivable at established billing rates less payments received through June 30, 2010. Allowances for uncollectible accounts and contractual adjustments are estimated using historical collection statistics. The components of current net patient accounts receivable reflected in the accompanying Statement of Net Assets are as follows at June 30, 2010:

	Amount
In House Patients	$ 41,846,087
Discharged (Not Final Billed) Patients	62,356,276
Total Unbilled	104,202,363
Discharged (Billed) Patients	240,968,257
Payment Arrangements	494,552
Charity Care Provided	(47,060,395)
Current Gross	298,604,777
Allowance for Bad Debts	(19,752,755)
Contractual Allowances	(160,565,797)
Total Allowances	(180,318,552)
Current - Net	$ 118,286,225

B. **Noncurrent** - Net patient accounts receivable consisted of $8,167,610 (net of $7,408,386 estimated uncollectible) and represents the value of patient payment arrangements that are initiated at the request of the patient. These payment arrangements are based on signed contractual agreements for the specific monthly amounts that extend beyond one year but are capped at three years.

NOTE 5 - ESTIMATED THIRD PARTY SETTLEMENTS

The Hospitals renders care to patients covered by the Medicare, Medicaid, and Tricare/Champus programs. Inpatient acute care services rendered to

Medicare patients are paid at prospectively determined rates per discharge. Medicare outpatient services are reimbursed at prospectively determined rates. Additionally, the Hospitals receives interim pass-through payments from Medicare for costs such as organ costs, graduate medical education, bad debts, etc., that are ultimately settled through the annual Medicare Cost Report. On an interim basis, Medicaid inpatient services are reimbursed on a prospectively determined rate per discharge and Medicaid outpatient services are reimbursed on an interim basis at an agreed upon rate. Ultimately, most of Medicaid inpatient and outpatient services are settled at allowable cost through the filing of an annual cost report. In addition to Tricare/Champus payments for services on an interim basis, the Tricare/Champus program reimburses the Hospitals for a portion of capital and direct medical education costs based on the Medicare cost report.

The Hospitals has calculated the estimated third party settlements for the outstanding Medicare, Medicaid, and Tricare/Champus cost reports during the fiscal year ended 2010. It is estimated that the Hospitals owes Medicare $21,481,653 within the next twelve months and that $19,559,406 and $28,307,003 are owed to Medicare and Medicaid respectively on a noncurrent basis. Medicaid and Tricare/Champus currently owe the Hospitals $31,499,834 and $4,000,000 respectively. Included in the estimated liability amounts above, management reserved $62,107,055 for all outstanding Medicare and Medicaid cost reports. The reserve for Medicare is calculated based on at-risk items for all outstanding Medicare cost reports while the reserve for Medicaid equals a percentage of allowable Medicaid costs deemed appropriate by management. The Hospitals also included in its estimated liability for both Medicare and Medicaid a reserve for the claims audit program. This program is in the process of being implemented by Centers for Medicare and Medicaid Services to identify improper underpayments or overpayments made to health care providers. An estimate is made for the current year's Medicare, Tricare/Champus, and Medicaid settlement by using the most current available statistics, costs, settlement data, and charges.

Once a cost report is filed, it is subject to an initial tentative settlement and subsequent on-site audit. Each report is audited by the programs for compliance with the applicable regulations established for the Medicaid, Medicare, and Tricare/Champus programs. Each cost report can also be re-opened or appealed for issues that the Hospitals or the Medicare or Medicaid programs feel are warranted. There are several such requests under consideration, as well as audits that are incomplete at this time. Any of the above can result in a change to the reimbursement requiring a refund from the program or payment to the program.

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	$ 23,352,302	$ 18,025,548	$ 0	$ 41,377,850
Construction in Progress	149,189,678	35,797,267	153,196,325	31,790,620
Total Capital Assets, Nondepreciable	172,541,980	53,822,815	153,196,325	73,168,470
Capital Assets, Depreciable:				
Buildings	366,460,959	153,196,326	8,790,501	510,866,784
Machinery and Equipment	334,215,113	31,759,613	19,959,298	346,015,428
General Infrastructure	5,197,281			5,197,281
Computer Software	25,779,295	5,983,425	2,784,716	28,978,004
Total Capital Assets, Depreciable	731,652,648	190,939,364	31,534,515	891,057,497
Less Accumulated Depreciation/Amortization for:				
Buildings	124,192,581	19,580,543	5,383,594	138,389,530
Machinery and Equipment	224,708,359	32,168,468	18,188,769	238,688,058
General Infrastructure	4,102,016	211,068		4,313,084
Computer Software	19,840,610	644,402	73,947	20,411,065
Total Accumulated Depreciation	372,843,566	52,604,481	23,646,310	401,801,737
Total Capital Assets, Depreciable, Net	358,809,082	138,334,883	7,888,205	489,255,760
Capital Assets, Net	$ 531,351,062	$ 192,157,698	$ 161,084,530	$ 562,424,230

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	$ 262,150,000	$ 0	$ (7,390,000)	$ 254,760,000	$ 7,615,000
Add Premium	815,860		(236,739)	579,121	
Deduct Deferred Charge on Refunding	(15,561,371)		963,932	(14,597,439)	
Total Revenue Bonds Payable	247,404,489		(6,662,807)	240,741,682	7,615,000
Notes Payable	14,430,820		(11,722,616)	2,708,204	2,708,204
Arbitrage Rebate Payable	268,892			268,892	
Compensated Absences	28,303,620	42,302,098	(43,459,812)	27,145,906	3,091,919
Total Long-Term Liabilities	$ 290,407,821	$ 42,302,098	$ (61,845,235)	$ 270,864,684	$ 13,415,123

B. Revenue Bonds Payable - The Hospitals was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Rex Acquisition and Hospitals Renovations	2001A 2001B	0.20% * 0.21% *	02/15/2031	$ 110,000,000	$ 10,400,000	$ 99,600,000
Refund Portion of 1996 Revenue Bonds	2003A 2003B	3.51% ** 3.55% **	02/01/2029	98,015,000	3,415,000	94,600,000
Refund Portion of 1996 Revenue Bonds	2005A	3.00% to 5.00 %	02/01/2015	30,540,000	12,000,000	18,540,000
Refund 1999 Revenue Bonds	2009A	3.59% **	02/01/2024	44,290,000	2,270,000	42,020,000
Total Revenue Bonds Payable (principal only)				$ 282,845,000	$ 28,085,000	254,760,000
Less: Unamortized Loss on Refunding						(14,597,439)
Plus: Unamortized Premium						579,121
Total Revenue Bonds Payable						$ 240,741,682

* For variable rate debt, interest rates in effect at June 30, 2010 are included.
** For variable rate debt with interest rate swaps, the synthetic fixed rates in effect at June 30, 2010 are shown.

C. Demand Bonds - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the Hospitals' Remarketing Agents.

With regards to the following demand bonds, the Hospitals has entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt with the exception of Series 2009A Advanced Refunding bonds, for which the Hospitals acts as its own liquidity facility.

University of North Carolina Hospitals at Chapel Hill Revenue Bonds - Series 2001A and Series 2001B: On January 31, 2001, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $55,000,000 (2001A) and $55,000,000 (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. A portion of the proceeds was used to reimburse the Hospitals for $75,000,000 spent allowing the UNC Health Care System to acquire controlling interest in Rex Healthcare, Inc. The remaining proceeds were used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the Bond Tender Agent, Wachovia Bank, National Association. The Hospitals' Remarketing Agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Series 2001A) and Banc of America Securities LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% of the outstanding principal amount of the bonds assigned to each agent.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thuringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January, and April thereafter until the expiration date or the termination date of the Agreements. For the fiscal year, the percentage was 0.25% with the long-term agreement that became effective on July 11, 2005. This agreement has been extended to October 11, 2014.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Formula Rate (Base Rate equal to the higher of the Prime Rate for such day or the sum of .50% plus the Federal Funds Rate) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July, and October) for each period in which Bank Bonds are outstanding. At June 30, 2010, there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Agreements allow the Hospitals to redeem bank bonds in equal quarterly installments, on the first business day of January, April, July, and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable Purchase Date of the Bank

Bond and end no later than the fifth anniversary of such Purchase Date. If the take out agreement were to be exercised because the entire outstanding $99,600,000 of demand bonds was "put" and not resold, the Hospitals would be required to pay $21,662,956 a year for five years under the installment loan agreement assuming a 3.25% prime interest rate.

The current expiration date of the Agreements is December 31, 2015. The Liquidity Provider has the option to terminate its commitment on October 11, 2011, or October 11, 2014, by providing adequate notice of its intention. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of Liquidity Provider.

University of North Carolina Hospitals at Chapel Hill Revenue Refunding Bonds - Series 2003A and Series 2003B: On February 13, 2003, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $63,770,000 (2003A) and $34,245,000 (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund $88,325,000 of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand with seven days notice to the Remarketing Agent and delivery to the bond Tender Agent, Wells Fargo Bank, National Association. The Hospitals' Remarketing Agents, Banc of America Securities LLC (Series 2003A) and Wells Fargo Bank, National Association (Series 2003B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.08% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003A and is equal to 0.07% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between the Hospitals and Bank of America, National Association (Series 2003A) and Wells Fargo Bank, National Association (Series 2003B), Liquidity Facilities have been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available.

The 2003A Agreement with Bank of America, National Association was amended on June 9, 2010, and requires a facility fee equal to 0.58% of the available commitment for Series 2003A payable quarterly in arrears, beginning on August 1, 2010, and on each November 1, February 1, May 1, and August 1, thereafter until the expiration date or the termination date of the Agreement. The facility fee remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt assigned by Moody's and S&P is A1/A+ or higher. If the rating assigned to Parity Debt by either Moody's or S&P is downgraded below A1 or A+, respectively, the Commitment Rate assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.78%
A- or lower	A3 or lower	0.98%

Under the 2003A Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime rate plus 1.50% or the Federal Funds Rate plus 3.00%, the Base Rate, for the first 90 days and then the Base Rate plus 0.50% from the 91st day to the 367th day following the date of purchase and the Base Rate plus 1.00% from the 368th day following such date of purchase and thereafter subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each calendar month following the date on which such Bank Bond became a Bank Bond. At June 30, 2010, there were no Bank Bonds held by the 2003A Liquidity Facility.

Included in the 2003A Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within the earlier of the termination date and 367 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A Agreement allows the Hospitals to redeem bank bonds in six consecutive, equal semi-annual installments of principal beginning on the first business day of the month that occurs at least five and not more than six months following the termination date, until fully paid. In any event, all principal and accrued and unpaid interest shall be due and payable on the date the sixth installment is due. If the take out agreement were to be exercised because the entire outstanding $61,530,000 of demand bonds was "put" and not resold, the

Hospitals would be required to pay $23,394,218, $22,573,820 and $21,394,496 in years one, two and three respectively following the termination date under the installment loan agreement assuming a Base Rate of 4.75% (Prime plus 1.50%).

The current expiration date of the Series 2003A Agreement is July 1, 2011. The Hospitals may request additional extensions, which are approved at the discretion of the Liquidity Provider.

The 2003B Agreement with Wells Fargo Bank, National Association was amended on June 30, 2010 and requires a facility fee equal to 0.60% of the available commitment for Series 2003B payable quarterly in arrears, beginning on November 1, 2010, and on each February 1, May 1, August 1, and November 1 thereafter until the expiration date or the termination date of the Agreement. The facility fee remains in effect over the life of the Agreement so long as the rating assigned to Parity Debt assigned by S&P and Moody's is A+/A1 or higher. If the rating assigned to Parity Debt by either S&P or Moody's is downgraded below A+ or A1, respectively, the adjusted Hospitals' Commitment Rate (lowest rating to be used) assigned to such lower rating as set forth below shall apply, effective as of the public announcement of the rating:

S&P	Moody's	Commitment Rate
A	A2	0.75%
A-	A3	0.90%
BBB+	Baa1	1.10%
BBB+	Baa2	1.35%
BBB-	Baa3	1.65%
Below investment grade	Below investment grade	2.65%

Under the 2003B Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond Interest Rate equal to the greater of the Prime rate plus 1.00%, the Federal Funds Rate plus 2.00% or 7.00%, the Base Rate, plus 2.00% subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. At June 30, 2010, there were no Bank Bonds held by the 2003B Liquidity Facility.

Included in the 2003B Agreement is a take out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" by the termination date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003B Agreement allows the Hospitals to redeem bank bonds in 11 equal quarterly

installments of principal, on the first business day of each February, May, August, and November, beginning on the first of such dates that occurs at least 90 days after the Purchase Date of such Bank Bonds. The Hospitals shall pay interest in arrears on each date that would be an Interest Payment Date for the Series 2003B Bonds, beginning on the first Interest Payment Date that occurs after the Loan Date. If the take out agreement were to be exercised because the entire outstanding $33,070,000 of demand bonds was "put" and not resold, the Hospitals would be required to pay $11,093,482, $13,874,369, and $12,792,077 in years one, two, and three respectively following the purchase date of the Bank Bonds assuming a Base Rate of 7.00%.

The current expiration date of the Series 2003B Agreement is July 31, 2011. The Hospitals may request additional extensions, which are approved at the discretion of the Liquidity Provider.

University of North Carolina Hospitals at Chapel Hill Revenue Refunding Bonds - Series 2009A: On February 12, 2009, the Hospitals issued Series 2009A tax-exempt variable rate demand bonds in the amount of $44,290,000 that have a final maturity date of February 1, 2024. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2010. The proceeds were used to advance refund $43,505,000 of the Series 1999 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand upon delivering irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent not later than 4:00 p.m. on a Business Day not less than seven (7) days before the Purchase Date and upon delivering such Series 2009A bonds to the bond Tender Agent, U.S. Bank, National Association, no later than noon on such Purchase Date. The Hospitals' Remarketing Agent, Banc of America Securities LLC has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.09% of the weighted average daily principal amount of Series 2009A Bonds outstanding during such periods in which the Series 2009A Bonds are Variable Rate Bonds.

Under a separate Liquidity Agreement with the Trustee, the Hospitals has established itself as Liquidity Facility for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. Upon receipts of any notice from the Remarketing Agent that there is a

Projected Funding Amount on the Business Day prior to each Purchase Date or Mandatory Purchase Date, and upon receipts of written demand for payment from the Tender Agent by noon on each Purchase Date or Mandatory Purchase Date, the Hospitals shall wire to the Tender Agent, in immediately available funds, an amount equal to the Actual Funding Amount, which shall be equal to the Purchase Price of all Series 2009A bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds received by the Remarketing Agent, by not later than 2:00 p.m. on the Purchase Date or Mandatory Purchase Date.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2010, are as follows:

	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2011	$ 7,615,000	$ 1,380,516	$ 4,479,997	$ 2,708,204	$ 23,250
2012	7,900,000	1,201,394	4,390,408		
2013	8,380,000	1,010,714	4,275,311		
2014	8,695,000	812,968	4,174,625		
2015	9,000,000	604,887	4,064,812		
2016-2020	52,195,000	2,123,794	16,709,162		
2021-2025	63,580,000	1,473,095	9,015,127		
2026-2030	79,195,000	659,865	2,176,056		
2031-2035	18,200,000	23,510			
Total Requirements	$ 254,760,000	$ 9,290,743	$ 49,285,498	$ 2,708,204	$ 23,250

Interest on the variable rate 2001A and 2001B revenue bonds is calculated based upon the fiscal year 2010 effective rates at which the bonds were remarketed of 0.20% and 0.21%, respectively. Interest on the variable rate 2003A, 2003B, and 2009A revenue bonds is calculated based upon the synthetic rates at June 30, 2010, of 3.51%, 3.55%, and 3.59%, respectively. This schedule also includes the debt service requirements for debt associated with interest rate swaps. See Note 7C for more information on the demand bonds and Note 3 for more information on the interest rate swap agreement.

E. Notes Payable - The Hospitals was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Medical Equipment	SunTrust	3.43%	09/29/2010	$ 50,000,000	$ 47,291,796	$ 2,708,204

NOTE 8 - OPERATING LEASE OBLIGATIONS

The Hospitals entered into operating leases for space rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	$ 2,310,042
2012	2,126,352
2013	2,023,972
2014	1,619,369
2015	1,027,404
2016-2020	1,973,516
Total Minimum Lease Payments	$ 11,080,655

Rental expense for all operating leases during the year was $2,940,342.

NOTE 9 - NET PATIENT SERVICE REVENUE

Medicare: The Hospitals is reimbursed 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 Medicare Severity Diagnosis-Related Groups (MSDRGs) applicable to each patient discharge, rather than on the basis of the Hospitals' allowable charges. The difference in the standard hospital charge and the prospective payment for such services is reflected as an adjustment from patient service revenue. The claims payments are MSDRG payments, including capital related costs and add-on payments for indirect medical education and disproportionate share.

Medicare makes payments for Direct Graduate Medical Education (DGME) in support of the direct costs of residency training. Medicare also pays a portion of Medicare bad debts and organ acquisition costs for the Medicare beneficiaries. These pass-through payments are discussed further in Note 5, Estimated Third Party Settlements.

Medicare reimburses the Hospitals for inpatient hospital services furnished in the inpatient rehabilitation unit, referred to as an inpatient rehabilitation facility (IRF), under the provisions of the Inpatient Rehabilitation Facility Prospective Payment System (IRF PPS). IRF PPS utilizes information from a patient assessment instrument (IRF PAI) to classify patients into distinct groups based on clinical characteristics and expected resource needs. Payments are calculated for each group, including case and facility

adjustments. Payments made under this system cover the inpatient operating and capital costs of covered rehabilitation services and are made on a per discharge basis. The IRF receives additional payments for residency programs and bad debt in a pass-through payment.

Medicare reimburses the Hospitals for services furnished in the inpatient psychiatric unit under the provisions of the Inpatient Psychiatric Facility Prospective Payment System (IPF PPS). Under this system, payment to IPFs is based on a federal per diem base rate that includes both inpatient operating and capital-related costs (including routine and ancillary services) but excludes certain pass-through costs (i.e., bad debt and direct medical education). The federal per diem base rate provides patient-level and facility-level adjustments including wage index and teaching adjustments. The payment for an individual patient is further adjusted for factors such as the Diagnosis Related Group classification, age, length of stay, and the presence of specified comorbidities. Additional payments are provided for cost outlier cases, a qualifying emergency department (ED) and electroconvulsive therapy treatments.

With the Balanced Budget Act of 1997, most outpatient services are paid on a prospective payment system. The system became effective August 1, 2000, and is based on ambulatory payment classifications (APC). It applies to most hospital outpatient services other than ambulance, rehabilitation services, clinical diagnostic laboratory services, non-implantable durable medical equipment, prosthetic devices, and orthotics, which are paid based on fee schedules.

Medicaid: Medicaid reimburses inpatient services on an interim basis under a prospective payment system using diagnostic related groups as its basis. A settlement is made at year end to adjust from the interim reimbursement to a cost-based reimbursement basis.

Medicaid reimburses most outpatient services on an interim basis at an agreed-upon rate based on documented costs. Medicaid also reimburses the Hospitals for graduate medical education costs. In addition, Medicaid reimburses the Hospitals for providing services to a disproportionate share of uninsured and low income patients. Final settlement is determined after submission of annual cost reports by the Hospitals. Several services such as hearing aids, durable medical equipment (DME), outpatient pharmaceuticals, home health, and diagnostic laboratory services are paid on fee schedules.

Commercial/Managed Care Payer Agreements: The Hospitals has entered into reimbursement agreements with certain commercial insurance carriers and managed care organizations to accept patients on a discounted fee for service basis. The basis for reimbursement under these agreements includes case rates

per discharge, discounts from established charges, fee schedules, and per diem rates.

In general, all payments for inpatient and outpatient services are subject to deductibles and co-payments that are the patient's responsibility. Additionally, insurance plans may reimburse their subscribers or make direct payment to the Hospitals on an assignment of benefits basis.

A summary of net patient service revenue for the year ended June 30, 2010, follows:

	2010
Inpatient Routine	$ 387,581,178
Inpatient Ancillary	755,364,789
Outpatient	890,033,121
Charity Care Provided	(121,756,249)
Gross Patient Service Revenue	1,911,222,839
Medicare Contractual Allowance	(353,384,430)
Medicaid Contractual Allowance	(256,720,787)
Managed Care Contractual Allowance	(307,874,550)
Other Contractual Allowances	(22,903,522)
Bad Debt	(47,941,870)
Contractual Adjustments	(988,825,159)
Net Patient Service Revenue	$ 922,397,680

NOTE 10 - PENSION PLANS

A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement 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.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the Hospitals had a total payroll of $390,301,553, of which $331,129,294 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $11,821,316 and $19,867,758, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The Hospitals made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were $11,821,316, $10,453,508, and $8,746,589, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund.* The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the Hospitals. The voluntary contributions by employees amounted to $728,564 for the year ended June 30, 2010.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the Hospitals except for a 5% employer contribution for the Hospitals'

law enforcement officers, which is mandated under *North Carolina General Statute* 143-166.30(e). Total employer contributions on behalf of the Hospitals' law enforcement officers for the year ended June 30, 2010, were $57,819. The voluntary contributions by employees amounted to $2,568,974 for the year ended June 30, 2010.

IRC Section 403(b) and 403(b)(7) Plans - Eligible Hospitals employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Hospitals. The voluntary contributions by employees amounted to $3,555,804 for the year ended June 30, 2010.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Benefits** - The Hospitals participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable

beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the Hospitals contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The Hospitals made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $14,900,818, $12,755,768, and $11,757,710, respectively. The Hospitals assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Disability Income** - The Hospitals participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the *North Carolina General Statutes*, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the Hospitals made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The Hospitals made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $1,721,872, $1,617,805, and $1,491,222, respectively. The Hospitals assumes no liability for long-term disability benefits under DIPNC other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report.*

NOTE 12 - RISK MANAGEMENT

The Hospitals is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via 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 and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $1,000,000 are retained under the authority of the State Tort Claims Act.

The Hospitals is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Premiums are paid based on square footage and the value of building contents. The Hospitals purchased through the Fund "all risks" replacement cost basis insurance for buildings and contents subject to a $25,000 per occurrence deductible.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The Hospitals pays premiums to the North Carolina Department of Insurance for the coverage.

The Hospitals is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The Hospitals is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible.

The Hospitals purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The coverage includes:

- Boiler and Machinery insurance up to $25,000,000 with a deductible of $5,000;

- Directors and Officers Liability insurance up to $15,000,000 with a deductible of $200,000 per occurrence; with excess coverage of $10,000,000;
- Master Crime insurance up to $500,000 with a deductible of $1,000;
- Comprehensive General Liability insurance up to $2,000,000 with a deductible of $10,000 per occurrence; with excess coverage of $5,000,000;
- General Liability for Helipad on Premises insurance up to $20,000,000 with a deductible of $10,000 per aircraft;
- General Liability for Non-owned Aircraft insurance up to $20,000,000 per occurrence with no deductible;
- Computerized Business Equipment replacement cost insurance up to $603,850 with a deductible of $10,000 per occurrence;
- Fine Arts Floater insurance up to $100,000 with a deductible of $1,000 per occurrence.

Hospitals employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the Hospitals' primary responsibility is to arrange for and provide the necessary treatment for work related injury. The Hospitals is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The Hospitals retains the risk for workers' compensation.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

Liability Insurance Trust Fund - The Hospitals participates in the Liability Insurance Trust Fund (Trust Fund), a claims-servicing public entity risk pool for healthcare professional liability protection. The Trust Fund services 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 Trust Fund.

The Trust Fund is an unincorporated entity created by Chapter 116, Article 26, of the *North Carolina General Statutes* and The University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the Hospitals and The University of North Carolina at Chapel Hill Physicians and Associates (UNC P&A), the program participants. The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance.

Participation in the Trust Fund is open to the University of North Carolina, any constituent institution of the University of North Carolina, the Hospitals, and any health care institution, agency or entity that has an affiliation agreement with the University of North Carolina, with a constituent institution of the University of North Carolina, or with the Hospitals. Only the UNC P&A and the Hospitals have participated in the Trust Fund to date. Participants provide management and administrative services to the Trust Fund at no cost.

The Trust Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of 13 members as follows: one member each appointed by the State Attorney General, the State Auditor, the State Insurance Commissioner, the Director of the Office of State Budget and Management, the State Treasurer, (each serving at the pleasure of the appointer); and eight members appointed to three year terms (with no limit on the number of terms) by the UNC System's Board of Governors.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. Claim liabilities are recomputed annually based on an independent actuary's study to produce current estimates that reflect recent settlements, claims frequency, inflation and other factors. Participant assessments are determined at a level to fund claim liabilities, discounted for future investment earnings. Each participant is required by statute to maintain a fund balance of $100,000 at all times. Participants are subject to additional premium assessments in the event of deficiencies.

For the period July 1, 2009, through June 30, 2010, the Trust Fund provided coverage on an occurrence basis of $3,000,000 per individual and $7,000,000

in the aggregate per claim. The Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer in prior years. However, excess reinsurance coverage has not been purchased for any policy year since June 30, 2006, as the Trust Fund chose to retain 100% of the liability. In lieu of reinsurance, the participants contributed $10,000,000 in the aggregate toward the Reimbursement Fund for future losses. In addition, during fiscal year 2010, the participants contributed additional $1,006,106 to replenish the Reimbursement Fund to its original $10,000,000 level. For the fiscal year ended June 30, 2010, the Trust Fund purchased a direct insurance policy to cover the first $1,000,000 per occurrence and $3,000,000 in the aggregate for dental residents. *North Carolina General Statutes* Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to $30,000,000, in the event that the Trust Fund may have insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund has purchased annuity contracts to settle claims for which the claimant has signed an agreement releasing the Trust Fund from further obligation. The related claim liabilities have been removed from estimated malpractice costs.

The Council may choose to terminate the Trust Fund, or the respective participants may choose to terminate their participation. In the event of such termination by either the Council or a participant, an updated actuarial study will be performed to determine amounts due to or from the participants based on loss experience up to the date of termination.

At June 30, 2010, the Hospitals' assets in the Trust Fund totaled $28,551,750 while Hospitals' liabilities totaled $22,290,081 resulting in net assets of $6,261,669.

Additional disclosures relative to the funding status and obligations of the Trust Fund are set forth in the audited financial statements of the Liability Insurance Trust Fund. Copies of this report may be obtained from The University of North Carolina Liability Insurance Trust Fund, University of North Carolina Health Care System, 211 Friday Center Drive, Hedrick Building, Room 2029, Chapel Hill, NC 27517.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The Hospitals has established an encumbrance system to track its outstanding commitments on construction projects and other

purchases. Outstanding commitments on construction contracts were $18,899,797 and on other purchases were $28,296,650 at June 30, 2010.

B. **Pending Litigation and Claims** - The Hospitals is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. Hospitals management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the Hospitals.

NOTE 14 - RELATED PARTIES

University of North Carolina Health Care System Enterprise Fund - The Board of Directors of UNC Health Care System (System) authorized and approved the creation of an Enterprise Fund to support the System's mission and vision to be the nation's leading public academic health care system. The key components of the System contributing to the Enterprise Fund during fiscal year 2010 are the University of North Carolina Hospitals, the clinical patient care programs established or maintained by the University of North Carolina at Chapel Hill School of Medicine and UNC Physicians & Associates, and Rex Healthcare, Inc. Pursuant to a memorandum of understanding effective July 1, 2005, the key components agreed to finance the Enterprise Fund. For the year ended June 30, 2010, the Hospitals was assessed $43,088,618 to fund initiatives supported by the Enterprise Fund.

In fiscal year 2007 the System's Board of Directors approved a $10 million transfer to the UNC School of Medicine (SOM) with the intent of making transfers in fiscal year 2008 and fiscal year 2009 but did not due to uncertainty caused by the recession. The SOM has had an ongoing need for funding and the strong performance of the Hospitals during fiscal year 2010 made an additional $10 million transfer possible.

On July 21, 2008, the System purchased a controlling interest in Chatham Hospital, Inc. for $2 million on the closing date and a contractual commitment to pay an additional $9.3 million to expand health care services in Chatham County. At the direction of the System, the Hospitals transferred $2 million on the closing date and paid the remaining commitment during fiscal year 2010.

Rex Healthcare, Inc. - Rex Healthcare, Inc. (Rex) is a not-for-profit corporation and is exempt from federal and North Carolina income taxation as a 501(c)(3) charitable organization. Rex does not conduct active operations but serves as the parent corporation for a multi-entity health care delivery system that was organized to provide a wide range of health care services to the residents of Wake County, North Carolina and surrounding counties. The

System acquired Rex in 2000 and is the sole member of the corporation. The System appoints eight of the 13 seats on Rex's Board of Trustees and also reviews and approves Rex's annual operating and capital budgets. The principal corporate entities under the common control of Rex Healthcare, Inc. are:

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

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

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

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

The Hospitals provides certain management, legal and contracting services to Rex. Likewise, Rex also provides certain employee contracting services to the Hospitals. These transactions resulted in the Hospitals receiving $1,962,537 from Rex and the Hospitals paying $618,915 to Rex during the year ended June 30, 2010.

The Medical Foundation of North Carolina, Inc. - The Hospitals is a participant in The Medical Foundation of North Carolina, Inc. (Foundation), a nonprofit Foundation for the University of North Carolina at Chapel Hill and

the Hospitals, which solicits gifts and grants for both entities. The Board of Directors of the Medical Foundation administers the funds of the Foundation.

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

The Hospitals entered into a five year management agreement with Chatham Hospital, Inc. on August 1, 2006, which includes staffing and assistance with operations and planning.

The Hospitals was paid $196,743 for these services during the year ended June 30, 2010.

On February 8, 2007, the Hospitals established a $1,999,000 escrow account to serve as collateral for some of the financial covenants related to Chatham Hospital, Inc. debt. On February 10, 2010, the Department of Housing and Urban Development's Office of Insured Health Care Facilities approved the release of the escrow funds for deposit into the Chatham Hospital, Inc. MOB (medical office building) Construction Fund. According to the terms of the escrow agreement, the $1,999,000 balance converted into a note payable to the Hospitals effective upon the release of the escrow funds.

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

Triangle Physician Network, LLC - Triangle Physician Network, LLC (TPN) is a wholly owned subsidiary of the System that owns and operates twelve community based practices throughout the Triangle (Raleigh, Durham and Chapel Hill), North Carolina area. The purpose of the community based practices is to provide care close to home for the convenience of the patients and allow clinicians and staff of the System to be part of their local communities.

The Hospitals provides purchasing, accounts payable, and accounting services to TPN and has accrued $218,327 for services provided during the fiscal year. TPN also paid $1,952,946 for supplies and bio-medical equipment services received from the Hospitals during fiscal year 2010.

First Health-UNC HCS, LLC - First Health–UNC HCS, LLC is a joint venture between the System and First Health of the Carolinas, Inc., which was created to purchase and operate Sanford Hematology & Oncology (SHO), a

clinic located in Sanford, North Carolina. Each entity has a 50% ownership interest in SHO.

First Health - UNC HCS, LLC paid the Hospitals $1,491,019 for supplies and bio-medical equipment services received during fiscal year 2010.

NOTE 15 - INVESTMENT IN AFFILIATES

The Hospitals has investments in affiliates and joint ventures accounted for on the equity method. Investments in affiliates were $2,433,769 at June 30, 2010. The Hospitals' share of these affiliates and joint ventures is not significant individually. The summarized financial information below represents an aggregation of the ongoing affiliates and joint ventures:

	2010 (Unaudited)
TOTAL AFFILIATE ACTIVITY	
Current Assets	$ 4,168,042
Noncurrent Assets	913,579
Current Liabilities	308,864
Shareholders Equity	4,772,757
Revenue	7,902,673
Net Gain	838,773
HOSPITALS' SHARE OF ACTIVITY	
Realized Affiliate Gain - Ongoing Operations	$ 377,858

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the Hospitals implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.*

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.

NOTE 17 - SUBSEQUENT EVENTS

On February 19, 2010, the Board of Governors of the University of North Carolina System approved the issuance of up to $50 million dollars in general revenue bonds to be used by the Hospitals. The University of North Carolina Health Care System Board of Directors ratified the issuance of these bonds on September 20, 2010. Bonds are expected to be issued before the end of the 2010 calendar year, and proceeds will be used to fund the Ambulatory Care Center Expansion and Renovation ($26.8 million) and the Imaging and Outpatient Center ($21.9 million); the remaining balance will fund general hospital renovations and equipment.

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STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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

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

We have audited the financial statements of the University of North Carolina Hospitals, which is a part of the multi-campus University of North Carolina System, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 19, 2010.

As discussed in Note 16 to the financial statements, the Hospitals implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospitals' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospitals' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospitals' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Hospitals' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the Hospitals, the Board of Governors, the Board of Directors of the University of North Carolina Health Care System, the Audit and Compliance Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

October 19, 2010

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647

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Statement of Net Assets (Unaudited)

For the Years Ended June 30, 2010, and June 30, 2009

	2010	2009
CURRENT ASSETS		
Cash and Investments	$83,067,938	$81,474,119
Patient Accounts Receivable - Net	23,831,412	29,229,498
Estimated Third-Party Settlements	29,283,470	16,946,470
Other Assets and Receivables	11,687,329	65,246
Assets Whose Use Is Limited or Restricted	10,065,335	10,669,854
Prepaid Expenses	-	20,406
Total Current Assets	**157,935,484**	**138,405,593**
NONCURRENT ASSETS		
Property, Plant & Equipment - Net	$4,649,400	5,999,200
Total Noncurrent Assets	4,649,400	5,999,200
Total Assets	**162,584,884**	**144,404,793**
CURRENT LIABILITIES		
Accounts and Other Payables	8,404,061	4,401,632
Accrued Salaries and Benefits	8,215,430	6,014,294
Estimated Third-Party Settlements	5,628,430	4,550,000
Notes & Bonds Payable	1,449,800	1,349,800
Total Current Liabilities	**26,448,419**	**16,315,726**
NONCURRENT LIABILITIES		
Notes & Bonds Payable	3,199,600	4,649,400
Compensated Absences	24,740,862	20,964,694
Total Noncurrent Liabilities	**27,940,462**	**25,614,094**
Total Liabilities	**54,388,881**	**41,929,820**
NET ASSETS	**108,196,003**	**102,474,973**
TOTAL LIABILITIES AND NET ASSETS	**$162,584,884**	**$144,404,793**

Statement of Revenues and Expenses (Unaudited)

For the Years Ended June 30, 2010, and June 30, 2009

	2010	2009
OPERATING REVENUE		
Net Patient Service Revenue	$223,787,226	$219,352,448
Other Operating Revenue	52,775,000	24,499,993
Net Operating Revenue	**276,562,226**	**243,852,441**
OPERATING EXPENSES		
Salaries and Fringe Benefits	251,015,295	205,268,614
Medical and Surgical Supplies	6,865,349	19,899,849
Contracted Services	19,027,654	15,644,400
Other Supplies and Services	18,778,129	16,739,542
Communications and Utilities	2,754,305	2,942,222
Medical Malpractice Costs	1,710,699	(2,313,527)
Bond and Other Interest Expense	1,553,819	1,577,424
Medical School Trust Fund (MSTF)	7,593,882	9,184,472
Total Operating Expenses	**309,299,132**	**268,942,996**
OPERATING INCOME (LOSS)	**(32,736,906)**	**(25,090,555)**
NONOPERATING GAINS (LOSSES)		
Interest and Investment Income	1,210,775	(8,595,073)
Nonoperating Income (Expense)	875,000	-
Transfers to HCS Enterprise Fund	(7,500,429)	(3,500,004)
Transfers from HCS Enterprise Fund	43,872,590	24,626,614
Total Nonoperating Gains (Losses)	**38,457,936**	**12,531,537**
NET INCOME (LOSS)	**$5,721,030**	**($12,559,018)**

Statement of Cash Flows (Unaudited)

For the Years Ended June 30, 2010, and June 30, 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Patients and Third Parties	$217,926,742	$217,001,256
Payments to Employees and Fringe Benefits	(245,037,991)	(200,686,369)
Payments to Vendors and Suppliers	(40,166,177)	(33,965,454)
Payments for Medical Malpractice	(1,591,907)	(3,800,004)
Operating Capital Grants	32,250,507	24,626,614
Other Receipts	45,181,118	18,877,711
Net Cash Provided (Used)	**8,562,292**	**22,053,754**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Net Cash Provided (Used)	-	-
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Principal & Arbitrage Paid on Outstanding Debt	(1,349,800)	(1,249,800)
Interest and Fees Paid on Debt	(204,019)	(327,624)
Net Cash Provided (Used)	**(1,553,819)**	**(1,577,424)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income & Other Activity	1,210,775	(8,595,073)
Purchase and Sale of Investments, Net of Fees	-	47,538,945
Investments in and Loans to Affiliated Enterprises - Net	(6,625,429)	(3,500,004)
Net Cash Provided (Used)	**(5,414,654)**	**35,443,868**
NET INCREASE (DECREASE)	**1,593,819**	**55,920,198**
BEGINNING CASH AND CASH EQUIVALENTS	**81,474,119**	**25,553,921**
ENDING CASH AND CASH EQUIVALENTS	**83,067,938**	**$81,474,119**

Statement of Net Assets (Unaudited)

For the Years Ended June 30, 2009, and June 30, 2008

	2009	2008
CURRENT ASSETS		
Cash and Investments	$81,474,119	$25,553,921
Patient Accounts Receivable - Net	29,229,498	24,828,306
Estimated Third-Party Settlements	16,946,470	13,119,186
Other Assets and Receivables	65,246	7,454,720
Assets Whose Use Is Limited or Restricted	10,669,854	75,977,281
Prepaid Expenses	20,406	-
Total Current Assets	**138,405,593**	**146,933,414**
NONCURRENT ASSETS		
Property, Plant & Equipment - Net	5,999,200	7,249,000
Total Noncurrent Assets	5,999,200	7,249,000
Total Assets	**144,404,793**	**154,182,414**
CURRENT LIABILITIES		
Accounts and Other Payables	4,401,632	7,002,680
Accrued Salaries and Benefits	6,014,294	3,242,455
Estimated Third-Party Settlements	4,550,000	2,500,000
Notes & Bonds Payable	1,349,800	1,249,800
Total Current Liabilities	**16,315,726**	**13,994,935**
NONCURRENT LIABILITIES		
Notes & Bonds Payable	4,649,400	5,999,200
Compensated Absences	20,964,694	19,154,288
Total Noncurrent Liabilities	**25,614,094**	**25,153,488**
Total Liabilities	**41,929,820**	**39,148,423**
NET ASSETS	**102,474,973**	**115,033,991**
TOTAL LIABILITIES AND NET ASSETS	**$144,404,793**	**$154,182,414**

Statement of Revenues and Expenses (Unaudited)

For the Years Ended June 30, 2009, and June 30, 2008

	2009	2008
OPERATING REVENUE		
Net Patient Service Revenue	$219,352,448	$207,378,544
Other Operating Revenue	24,499,993	38,596,143
Net Operating Revenue	**243,852,441**	**245,974,687**
OPERATING EXPENSES		
Salaries and Fringe Benefits	205,268,614	189,481,826
Medical and Surgical Supplies	19,899,849	-
Contracted Services	15,644,400	17,923,933
Other Supplies and Services	16,739,542	40,826,778
Communications and Utilities	2,942,222	2,739,175
Medical Malpractice Costs	(2,313,527)	8,121,068
Bond and Other Interest Expense	1,577,424	1,538,499
Medical School Trust Fund (MSTF)	9,184,472	9,176,951
Total Operating Expenses	**268,942,996**	**269,808,230**
OPERATING INCOME (LOSS)	**(25,090,555)**	**(23,833,543)**
NONOPERATING GAINS (LOSSES)		
Interest and Investment Income	(8,595,073)	3,568,295
Nonoperating Income (Expense)	-	(297,401)
Transfers to HCS Enterprise Fund	(3,500,004)	(3,400,000)
Transfers from HCS Enterprise Fund	24,626,614	22,747,500
Total Nonoperating Gains (Losses)	**12,531,537**	**22,618,394**
NET INCOME (LOSS)	**($12,559,018)**	**($1,215,149)**

Statement of Cash Flows (Unaudited)

For the Years Ended June 30, 2009, and June 30, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Patients and Third Parties	$217,001,256	$210,280,783
Payments to Employees and Fringe Benefits	(200,686,369)	(187,722,549)
Payments to Vendors and Suppliers	(33,965,454)	(55,695,160)
Payments for Medical Malpractice	(3,800,004)	(1,213,620)
Operating Capital Grants	24,626,614	22,747,500
Other Receipts	18,877,711	16,637,349
Net Cash Provided (Used)	**22,053,754**	**5,034,303**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Net Cash Provided (Used)	-	-
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Principal & Arbitrage Paid on Outstanding Debt	(1,249,800)	(1,149,700)
Interest and Fees Paid on Debt	(327,624)	(388,799)
Net Cash Provided (Used)	**(1,577,424)**	**(1,538,499)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income & Other Activity	(8,595,073)	2,169,312
Purchase and Sale of Investments, Net of Fees	47,538,945	(71,336,055)
Investments In and Loans to Affiliated Enterprises - Net	(3,500,004)	(3,697,401)
Net Cash Provided (Used)	**35,443,868**	**(72,864,144)**
NET INCREASE (DECREASE)	**55,920,198**	**(69,368,340)**
BEGINNING CASH AND CASH EQUIVALENTS	**25,553,921**	**94,922,261**
ENDING CASH AND CASH EQUIVALENTS	**$81,474,119**	**$25,553,921**

REX HEALTHCARE, INC. AND SUBSIDIARIES

COMBINED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2011 AND 2010

REX HEALTHCARE, INC. AND SUBSIDIARIES
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YEARS ENDED JUNE 30, 2011 AND 2010

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LarsonAllen LLP

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Rex Healthcare, Inc. and Subsidiaries
Raleigh, North Carolina

We have audited the accompanying combined balance sheets of Rex Healthcare, Inc. and Subsidiaries ("Rex") for the years ended June 30, 2011 and 2010 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of Rex's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects the combined financial position of Rex Healthcare, Inc. and Subsidiaries as of June 30, 2011 and 2010, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 2 through 7 and the Schedule of Funding Progress on page 34 are both supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements of Rex, taken as a whole. The accompanying combining schedules on pages 32 through 33 are presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities. Accordingly, we do not express an opinion on the financial position, results of operations or changes in net assets of the individual entities. However, such information has been subjected to the auditing procedures applied in our audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

LarsonAllen LLP

Charlotte, North Carolina
September 19, 2011

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010

Overview

The Management's Discussion and Analysis section of the Rex Healthcare, Inc. and Subsidiaries ("Rex") annual financial report is designed to provide a general overview of the financial position and operating results as of and for the fiscal years ended June 30, 2011 and 2010. This discussion and analysis should be read in conjunction with the combined financial statements and related notes which follow this discussion and analysis.

Rex Healthcare, Inc. is a private, not-for-profit health care organization located in Raleigh, North Carolina, and a member of the University of North Carolina Health Care System. The flagship facility is Rex Hospital, Inc., a 433-bed community hospital. Rex has a 117-year history of providing excellent health services. Rex Hospital, Inc. provides comprehensive care, including emergency, general surgery, orthopedics, oncology, vascular, cardiac, gynecology, and obstetric services on its main campus. Rex Hospital, Inc. reaches beyond the hospital setting to provide long-term care and sub-acute rehabilitation in two skilled nursing centers – a 120-bed center in Raleigh and a 107-bed facility in Apex. In Cary, Rex offers wellness and diagnostic services. Rex Surgery Center of Cary provides outpatient surgery services. At its Wakefield campus, Rex provides outpatient surgery, a full cancer center with medical and radiation oncology services, urgent care, diagnostics, family medicine and a wellness center. At its Knightdale campus, Rex provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. In addition, Rex has a fourth medically supervised wellness center in Garner. Rex operates a home health service, outpatient rehab in three locations, and a senior health center in an underserved market in downtown Raleigh. Rex also provides radiation oncology services in Johnston County. During 2011, Rex broke ground on Rex Healthcare of Holly Springs which will provide urgent care, diagnostics and physician practices to residents in Southern Wake County. It is expected to open in 2012.

Current Year Events

Rex Healthcare had a successful fiscal year 2011. Significant time was spent on planning for the future. Certificate of need (CON) applications were filed for a 50-bed hospital at Rex Healthcare of Holly Springs and a 40-bed hospital at Rex Healthcare of Wakefield. A CON application also was filed for 11 beds to begin construction of Rex Vision 2030 on the main Rex Hospital campus. Rex joint-ventured its Cary Surgery Center with 23 surgeons from Cary. Rex also won certificate of needs for a heart center and cancer hospital.

Physician alignment continued to be a priority at Rex Healthcare during the past fiscal year. A new group joined Rex Physicians, LLC – Wake Heart & Vascular Specialists, while existing practices Rex Surgical Specialists and Rex Heart & Vascular Specialists expanded their presence in Wake County.

Rex continued to be recognized with significant accolades. *Modern Healthcare* magazine named Rex one of the top 100 places to work in health care for 2011. Professional Research Consultants (PRC) nationally recognized Rex Healthcare for its shining achievements in patient service. Rex won eight patient loyalty awards with Rex Hematology Oncology again winning the top performer in the U.S. In addition, Rex achieved its highest HCAHPS scores since reporting began. Rex achieved its goal of 67 percent *excellent* in patient satisfaction with overall satisfaction recorded at 98 percent. Rex was named a Top 50 Best Hospital in the nation by Becker's Hospital Review for 2011.

Current Year Events (Continued)

Additional accomplishments during fiscal year 2011 included Magnet re-designation. Rex also achieved Cycle 3 Chest Pain Center accreditation with PCI, and Blue Cross Blue Shield Center of Distinction for Joint Care and Bariatric Surgery.

Other awards included: Award of Excellence from The Carolinas Center for Medical Excellence by Rex Rehabilitation & Nursing Care Center; reaccreditation by CARF – Rex Rehabilitation & Nursing Care Center; named to the OCS/DecisionHealth Home Care Elite list – Rex Home Services; recognized as a Best Place to Work by Triangle Business Journal and a Family-Friendly Place to Work by Carolina Parent; and the Rex culinary chefs won a gold medal with UNC at NC Prevention Partners and a silver medal at a national competition.

The National Research Corporation (NRC) named Rex Healthcare a Consumer Choice Award winner in 2010. Rex was also recognized nationally by HealthGrades in 2011 with numerous awards including recipient of the HealthGrades 2011 'America's 50 Best' Award™, recipient of the HealthGrades 2011 Distinguished Hospital Award - Clinical Excellence™, recipient of the HealthGrades 2010 Patient Safety Award™, recipient of the HealthGrades Cardiac Care Excellence Award™, recipient of the HealthGrades Coronary Intervention Excellence Award™, ranked among the top 5% in the nation for Overall Cardiac Services, ranked among the top 5% in the nation for Cardiology Services, ranked among the top 5% in the nation for Coronary Interventional Procedures, ranked #1 in North Carolina for Overall Cardiac Services (2011), ranked #1 in North Carolina for Cardiology Services (2011), ranked #1 in North Carolina for Coronary Interventional Procedures, ranked #1 in North Carolina for GI Surgery (2011), and Ranked #1 in North Carolina for Overall Bariatric Surgery (2011).

Rex's overall credit rating was also reaffirmed by Fitch, Standard and Poors, and Moody's at A+/A1.

Using this Financial Report

Rex's financial statements report information of Rex using accounting methods similar to those used by private-sector health organizations. These statements offer short and long-term financial information about its activities.

Balance Sheet

The balance sheet includes all of Rex's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Rex's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of Rex and assessing the liquidity and financial flexibility of Rex.

Statement of Revenues, Expenses and Changes in Net Assets

Revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of Rex's operations over the past year and can be used to determine whether Rex has successfully recovered all of its costs through its fees and other sources of revenue, profitability and credit worthiness.

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010

Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities. It also provides answers to such questions as where cash comes from, what cash was used for and what the change in the cash balance was during the reporting period.

Notes to the Combined Financial Statements

Notes to the combined financial statements are designed to give the reader additional information concerning Rex and further supports the statements noted above.

Financial Analysis

The statement of revenues, expenses and changes in net assets reports the net assets of Rex and the changes affecting them. Rex's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, increases or decreases in Rex's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will also need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation.

Condensed Combined Balance Sheets

The following condensed combined balance sheets show the combined financial position at June 30, 2011, 2010, and 2009 (in $000's):

	2011	2010	2009
ASSETS			
Current Assets	$ 194,576	$ 143,526	$ 112,477
Capital Assets, Net	268,125	261,418	240,388
Noncurrent Assets	217,212	136,265	120,875
Total Assets	$ 679,913	$ 541,209	$ 473,740
LIABILITIES			
Long-Term Debt, Including Current Portion	$ 159,570	$ 111,148	$ 99,788
Other Liabilities	106,878	85,655	76,487
Total Liabilities	266,448	196,803	176,275
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	103,728	150,270	140,600
Restricted	3,959	4,123	4,525
Unrestricted	305,778	190,013	152,340
Total Net Assets	413,465	344,406	297,465
Total Liabilities and Net Assets	$ 679,913	$ 541,209	$ 473,740

Financial Analysis (Continued)

Current assets increased $51,050 (35.6%) and $31,049 (27.6%) in 2011 and 2010, respectively. The increases result from growth in outpatient volumes, disciplined expense control, and improved reimbursement associated with renegotiated payor contracts.

Noncurrent assets increased $80,947 (59.4%) in 2011 and $15,390 (12.7%) in 2010, the result of investment earnings consistent with overall market performance.

During 2011 and 2010, long-term debt increased $48,423 (43.6%) and $11,360 (11.4%), respectively. In 2011, we issued Series 2010A Revenue Bonds, the proceeds of which refunded the Series 1998 Revenue Bonds and provided approximately $47,600 in funding for certain capital projects, resulting in a net increase in long-term debt. The increase in 2010 is the net result of scheduled debt repayments on the Series 1998 Revenue Bonds and the Tax Exempt Lease Financing and the assumption of an additional $24,216 of indebtedness in conjunction with our acquisition of full ownership of our suburban campus in the Wakefield community.

Net assets increased $69,059 (20.1%) in 2011 and $46,941 (15.8%) during 2010, primarily the result of strong operating performance and investment earnings. Investment income contributed $27,437 and $15,243 in 2011 and 2010, respectively, to the increase in net assets. For further information on this change, see the following statement of revenues, expenses and changes in net assets.

Capital Assets

Rex's investment in capital assets consisted of the following at June 30, 2011, 2010 and 2009 (in $000's):

	2011	2010	2009
Land and Land Improvements	$ 49,679	$ 49,679	$ 42,816
Buildings and Improvements	263,902	264,540	235,763
Equipment	285,341	273,734	260,626
Total Capital Assets	598,922	587,953	539,205
Accumulated Depreciation	(360,765)	(334,139)	(304,200)
Total Capital Assets, Net	238,157	253,814	235,005
Construction in Progress	29,968	7,604	5,383
Total Capital Assets	$ 268,125	$ 261,418	$ 240,388

The increase in Rex's investment in capital assets in 2011 and 2010 represents purchases of capital assets, net of disposals and depreciation expense, combined with the capital assets of Rex CDP Ventures, LLC and subsidiaries which were acquired by Rex during fiscal year 2010.

Capital investments in 2011 consisted primarily of costs incurred in conjunction with the construction of a replace Central Energy Plant for the main campus, new inpatient beds, and technology assets.

During 2010, Rex's major routine capital investments included two replacement linear accelerators, new inpatient beds and a replacement cardiac catheterization lab. Rex continued to invest in information technology with enhancements to the electronic medical record system.

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010

Financial Analysis (Continued)

Condensed Combined Statements of Revenues, Expenses and Changes in Net Assets

While the combined balance sheets show the change in financial position of net assets, the following combined statements of revenues, expenses and changes in net assets provides answers to the nature and source of these changes for the years ended June 30, 2011, 2010 and 2009 (in $000's):

	2011	2010	2009
Operating Revenues	$ 628,617	$ 571,001	$ 513,126
Operating Expenses	579,761	535,228	492,560
Operating Income	48,856	35,773	20,566
Nonoperating Income (Loss)	26,232	12,187	(31,099)
Contributions and Other	(6,029)	(1,019)	-
Change in Net Assets	69,059	46,941	(10,533)
Net Assets, Beginning of Period	344,406	297,465	307,998
Net Assets, End of Period	$ 413,465	$ 344,406	$ 297,465

Operating Income

The increase in operating revenues in 2011 and 2010 is primarily the result of volume growth, increased reimbursement resulting from renegotiated payor contracts, and effective cost control. In addition, Rex recognized $2,198 in operating revenues related to the North Carolina Medicaid Reimbursement Initiative Program in 2011 compared to $2,860 in 2010. The increases in operating expenses in each year are the result of changes in patient volumes, inflation and expansion of services offered, mitigated by coordinated cost control measures. The increase in operating income is the net result of all these factors.

Nonoperating Income

Nonoperating income consisted of the following for the years ended June 30, 2011, 2010 and 2009 (in $000's):

	2011	2010	2009
Interest Income	$ 983	$ 471	$ 1,326
Dividend Income	1,946	1,885	2,051
Realized Gains (Losses), Net	3,430	12,425	(12,591)
Net Change in Unrealized Gains (Losses) on Investments	21,990	751	(18,628)
Brokerage Fees	(745)	(597)	(515)
Income from Investments in Affiliates	253	308	273
Total Investment Income (Loss)	27,857	15,243	(28,084)
Other	(1,625)	(3,056)	(3,015)
Total Nonoperating Income (Loss)	$ 26,232	$ 12,187	$ (31,099)

Finance Contact

Rex's financial statements are designed to present users with a general overview of Rex's finances and to demonstrate Rex's accountability. If you have any questions about this report or need additional financial information, inquiries may be sent to:

Chief Financial Officer
Rex Healthcare, Inc.
4420 Lake Boone Trail
Raleigh, North Carolina 27607

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 96,427	$ 64,571
Patient Accounts Receivable, Net of Allowance for Uncollectible Accounts of Approximately $9,722 in 2011 and $7,912 in 2010	75,243	57,446
Other Receivables	5,989	5,637
Inventories	10,102	9,983
Prepaid Expenses and Other Current Assets	6,815	5,889
Total Current Assets	194,576	143,526
ASSETS LIMITED AS TO USE	206,120	126,692
CAPITAL ASSETS, NET	268,125	261,418
OTHER ASSETS		
Investments in Affiliates	5,582	5,321
Deferred Debt Issuance Costs, Net	1,405	1,531
Other Assets	4,105	2,721
Total Other Assets	11,092	9,573
Total Assets	$ 679,913	$ 541,209
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 36,851	$ 11,844
Vendor Accounts Payable	30,709	29,498
Accrued Expenses and Other Liabilities	49,416	39,528
Estimated Third-Party Payor Settlements	24,640	15,758
Total Current Liabilities	141,616	96,628
LONG-TERM DEBT, Net of Current Maturities	122,719	99,304
NON-CONTROLLING INTEREST	1,170	-
OTHER NONCURRENT LIABILITIES	943	871
Total Liabilities	266,448	196,803
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	103,728	150,270
Restricted	3,959	4,123
Unrestricted	305,778	190,013
Total Net Assets	413,465	344,406
Total Liabilities and Net Assets	$ 679,913	$ 541,209

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010
(IN $000's)

	2011	2010
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Uncollectible Accounts of Approximately $21,415 in 2011 and $23,304 in 2010)	$ 608,277	$ 552,635
Other Operating Revenues	20,340	18,366
Total Operating Revenues	628,617	571,001
OPERATING EXPENSES		
Salaries	247,064	226,298
Employee Benefits	68,788	59,098
Medical Supplies and Other Expenses	233,226	218,681
Depreciation and Amortization	25,713	26,725
Interest	4,970	4,426
Total Operating Expenses	579,761	535,228
OPERATING INCOME	48,856	35,773
NONOPERATING INCOME (LOSS)		
Investment Income, Net	27,857	15,243
Other, Net	(1,625)	(3,056)
Nonoperating Income, Net	26,232	12,187
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	75,088	47,960
CONTRIBUTIONS TO RELATED PARTY	(5,609)	(1,200)
INCOME APPLICABLE TO NON-CONTROLLING INTEREST	(420)	-
OTHER	-	181
CHANGE IN NET ASSETS	69,059	46,941
Net Assets - Beginning of Year	344,406	297,465
NET ASSETS - END OF YEAR	$ 413,465	$ 344,406

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010
(IN $000's)

	2011	2010
OPERATING ACTIVITIES		
Receipts from Third-Party Payors and Patients	$ 599,010	$ 554,717
Payments to and on Behalf of Employees	(309,514)	(279,058)
Payments to Suppliers	(235,718)	(225,543)
Other Receipts	19,266	15,262
Net Cash Provided by Operating Activities	73,044	65,378
INVESTING ACTIVITIES		
Purchases and Sales of Investments, Net	(31,509)	(13,806)
Cash from Acquisition of Remaining Interest in Ventures	-	452
Contributions to Related Party	(5,609)	(1,200)
Investment Income	5,867	14,492
Other Nonoperating Income, Net	(1,625)	(3,056)
Net Cash Used in Investing Activities	(32,876)	(3,118)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(28,336)	(16,322)
Proceeds from Issuance of Long-Term Debt, Net of Premium	130,041	-
Principal Repayments of Long-Term Debt	(80,086)	(13,089)
Cash Paid for Financing Costs on Long-Term Debt	(1,361)	(125)
Cash Paid for Interest on Long-Term Debt	(2,641)	(4,451)
Net Cash Provided by (Used in) Capital and Related Financing Activities	17,617	(33,987)
INCREASE IN CASH AND CASH EQUIVALENTS	57,785	28,273
Cash and Cash Equivalents - Beginning of Year	66,284	38,011
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 124,069	$ 66,284
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO COMBINED BALANCE SHEETS:		
Cash and Cash Equivalents in Current Assets	$ 96,427	$ 64,571
Cash and Cash Equivalents in Assets Limited as to Use	27,642	1,713
Total Cash and Cash Equivalents	$ 124,069	$ 66,284

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010
(IN $000's)

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 48,856	$ 35,773
Interest Expense Considered Capital Financing Activity	4,970	4,426
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Provision for Uncollectible Accounts	21,415	23,304
Depreciation and Amortization	25,713	26,725
Loss on Disposal of Capital Assets	974	85
Changes in Assets and Liabilities:		
Patient and Other Receivables, Net	(39,564)	(27,490)
Accounts Payable and Accrued Expenses	3,846	(524)
Estimated Third-Party Payor Settlements	8,882	6,268
Other Assets and Liabilities, Net	(2,048)	(3,189)
Net Cash Provided by Operating Activities	$ 73,044	$ 65,378
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Net Change in Unrealized Gains (Losses) on Investments	$ 21,989	$ 751
Additions to Capital Assets Included in Current Liabilities	$ 4,842	$ 2,592
Capital Assets Acquired through Capital Lease Obligations	$ -	$ 413

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY

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 continued development of acute care and non-hospital programs.

Rex's sole member is the University of North Carolina Health Care System ("UNCHCS"). UNCHCS appoints eight of the thirteen seats on Rex's Board of Trustees. Additionally, UNCHCS reviews and approves Rex's annual operating and capital budgets. As required by accounting principles generally accepted in the United States of America, the combined financial statements of Rex present the financial position and results of operations of the parent entity and its blended component units which are described below:

Rex Hospital, Inc. – Rex Hospital, Inc. (the "Hospital"), located in Raleigh, North Carolina, is a 433-bed hospital. The Hospital provides inpatient, outpatient and emergency services primarily to the residents of Wake County, North Carolina. The Hospital operates on its main campus Rex Cancer Center, Rex Women's Center and Rex Rehabilitation and Nursing Care Center of Raleigh, a 120-bed nursing facility. The Hospital provides urgent care and diagnostics at its Cary, North Carolina campus, and outpatient surgery, oncology and wellness services, urgent care, family medicine and diagnostics at its Wakefield campus. Rex's Knightdale campus provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. Rex also operates Rex Rehabilitation and Nursing Care Center of Apex, a 107-bed nursing facility located in Apex, North Carolina.

Rex Holdings, LLC – Rex formed and became the sole member of Rex Holdings, LLC ("Holdings"), a single member limited liability company. Holdings was formed to hold membership interest in various limited liability companies. During fiscal year 2010, there was no activity related to this entity.

Rex Physicians, LLC – Holdings formed and became the sole member of Rex Physicians LLC ("Physicians"), a single member limited liability company which has elected to be treated as a taxable corporation. Physicians was formed to operate specialty physician practices serving the residents of Wake County and surrounding areas. Physicians currently operates physician practices in the areas of general surgery, heart and vascular services, and thoracic surgery.

Rex Enterprises Company, Inc. – Rex Enterprises Company, Inc. ("Enterprises") is a North Carolina for-profit corporation organized to hold investments in various affiliates and to promote the development of real property in support of the mission of Rex.

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY (CONTINUED)

Rex CDP Ventures, LLC – Rex CDP Ventures, LLC ("Ventures"), is a limited liability company organized to own and develop real estate in the Wakefield community of northern Wake County. Prior to June 15, 2010, Enterprises owned a 50% interest in Ventures and accounted for this investment using the equity method of accounting. On June 15, 2010, Enterprises purchased the remaining 50% interest in Ventures from Wakefield Rex Investors, LLC and accordingly began combining the financial position and results of Ventures in the combined financial statements. At June 30, 2011, Ventures was the sole member of the following limited liability companies:

Rex Wakefield Wellness, LLC – Enterprises formed and became the sole member of Rex Wakefield Wellness, LLC ("Wellness"), a single member limited liability company. Wellness was created to develop a wellness center building on the Wakefield campus of the Hospital. The Hospital leases the building from Wellness. On June 15, 2010, Enterprises contributed its membership interest in Wellness to Ventures.

Rex CDP Ventures – HT, LLC – Ventures formed and became the sole member of Rex CDP Ventures – HT, LLC ("HT"), a single member limited liability company. HT was formed to develop a retail unit of the Wakefield campus of the Hospital.

Wakefield Rex Investors MOB, LLC – Wakefield Rex Investors, LLC, formed and became the sole member of Rex Wakefield Investors MOB, LLC ("MOB") a single member limited liability company. MOB was formed to develop a medical office building on the Wakefield campus of the Hospital. On June 15, 2010, Wakefield Rex Investors, LLC contributed its ownership interest in MOB to Ventures.

Rex CDP Ventures – Retail, LLC – Ventures formed and became the sole member of Rex CDP Ventures – Retail, LLC ("Retail"), a single member limited liability company. Retail was formed to develop a retail unit of the Wakefield campus of the Hospital.

Rex Healthcare Foundation, Inc. – Rex Healthcare Foundation, Inc. (the "Foundation") 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.

Rex Home Services, Inc. – The Hospital owns Rex Home Services, Inc. ("Home Services"), a North Carolina not-for-profit corporation, organized to provide home health services primarily to the residents of Wake County, North Carolina.

Smithfield Radiation Oncology, LLC – Smithfield Radiation Oncology, LLC ("SRO") is a limited liability company organized to own and operate a linear accelerator. The Hospital is the sole member of SRO.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY (CONTINUED)

Rex Surgery Center of Cary, LLC – Rex Surgery Center of Cary, LLC ("Surgery Center") is a limited liability company organized to own and operate an ambulatory surgery center. Surgery Center was formed and began operations on February 28, 2011. The Hospital owns 79.5% of the membership interests, with the remaining 20.5% owned by an unrelated third party. Since the Hospital controls the Surgery Center, it is combined in the accompanying financial statements, with a non-controlling interest.

The financial statements include the accounts of Rex, the Hospital, Enterprises, Physicians, the Foundation, Home Services and SRO. All significant intercompany transactions and balances have been eliminated in combination.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

As a result of the transfer of the membership interest to UNCHCS, an agency of the State of North Carolina, Rex is subject to the application of accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). In 1993, GASB issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting* (the Statement), which provides guidance on how GASB pronouncements affect government entities that use business-type accounting and financial reporting. The provisions of the Statement were effective for periods beginning after December 15, 1993. As is allowable under the Statement, Rex has elected to follow the GASB hierarchy exclusively regarding authoritative literature issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in marketable debt and equity securities with readily determinable fair values, including assets whose use is limited, are measured at fair value in the accompanying balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating income (loss) in the accompanying combined financial statements. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

Investments in Affiliates

Enterprises own a 50% interest in Quality Textile Services, Inc. ("QTS"), a Raleigh, North Carolina company that provides laundry services to local hospitals. Enterprises exercises significant influence over QTS; however, it does not control it through a majority voting interest. This investment is accounted for using the equity method of accounting; accordingly, Enterprises' investment has been adjusted for its share of QTS's operations. Enterprises' equity in the net income of this affiliate totaled approximately $12,000 and $27,000 for the years ended June 30, 2011 and 2010, respectively, and is included in net nonoperating income. Enterprises received no cash distributions from QTS during 2011 or 2010. Enterprises' investment in QTS totaled approximately $2,313,000 and $2,299,000 as of June 30, 2011 and 2010, respectively. Separate financial statements for QTS are not publicly available.

Enterprises owns a 32.5% interest in Rex Cary MOB, LLC, a company that in July 2003, built and began leasing a medical office building in Cary, North Carolina. Enterprises exercises significant influence over Rex Cary MOB, LLC; however, it does not control it through a majority voting interest. This investment is accounted for using the equity method of accounting; accordingly, Enterprises' investment has been adjusted for its share of Rex Cary MOB, LLC's operations. Enterprises' equity in the net income of this affiliate totaled approximately $241,000 and $281,000 for the years ended June 30, 2011 and 2010, respectively, and is included in net nonoperating income. Additionally, Enterprises received cash distributions from Rex Cary MOB, LLC totaling approximately $241,000 and $131,000 during 2011 and 2010, respectively. Enterprises' investment in Rex Cary MOB, LLC totaled approximately $614,000 and $599,000 as of June 30, 2011 and 2010, respectively. Separate financial statements for Rex Cary MOB, LLC are not publicly available.

Enterprises owns less than a 5% interest in Rex MOB Partners, LLC, a company that operates a multi-tenant medical office building in Raleigh, North Carolina on land leased from the Hospital. This investment is accounted for using the cost method of accounting. Enterprises' investment in Rex MOB Partners, LLC totaled approximately $300,000 as of June 30, 2011 and 2010. Separate financial statements for Rex MOB Partners, LLC are not publicly available.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital asset acquisitions are recorded at cost and include interest on funds used to finance the acquisition or construction of major capital projects. Assets under capital lease are stated at the present value of the minimum lease payments at the inception of the lease. Depreciation is provided on both straight-line and accelerated methods over the estimated useful lives of the depreciable assets which is generally 5 to 15 years for equipment, 5 to 15 years for building improvements, and 30 to 40 years for buildings.

Assets under capital leases and leasehold improvements are depreciated over the estimated useful life or the related lease term, whichever is shorter; generally periods ranging from 5 to 7 years. Depreciation of assets under capital leases and leasehold improvements is included in depreciation and amortization expense in the accompanying statements of revenues, expenses and changes in net assets.

Deferred Debt Issuance Costs

Deferred debt issuance costs are amortized over the term of the related bond issuance under a method which approximates the effective interest method over the life of the bonds. Amortization of deferred debt issuance costs totaled approximately $131,000 and $109,000 for years ended June 30, 2011 and 2010. Cumulative amortization of deferred debt issuance costs totaled approximately $1,203,000 and $1,312,000 as of June 30, 2011 and 2010, respectively.

Other Assets

Other assets consisted of the following at June 30, 2011 and 2010 (in $000's):

	2011	2010
Goodwill	$ 1,812	$ 1,862
Other Assets	2,293	859
Total	$ 4,105	$ 2,721

The excess of purchase price over the fair values of identifiable net assets acquired has been allocated to goodwill. Management periodically evaluates the carrying value and remaining amortization periods of unamortized amounts based on an analysis of estimated undiscounted operating earnings from the operations of each specific business. Any events or circumstances occurring during the year or future years that might have an impact on such carrying value or remaining amortization periods are considered. Other than amortization, no adjustments have been made to the carrying value of the goodwill at June 30, 2011 and 2010.

Proprietary Fund Accounting

Rex utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, net assets are categorized as invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt is intended to reflect the portion of net assets that are associated with non-liquid capital assets less outstanding debt related to capital assets. Restricted net assets are assets generated from revenues that have third-party limitation on their use. Unrestricted net assets have no third-party restrictions on use.

Restricted net assets included the following at June 30, 2011 and 2010 (in $000's):

	2011	2010
Restricted Net Assets:		
Expendable:		
Various Scholarships, Lectureships and Buildings	$ 481	$ 416
Various Supplies, Equipment and Patient Charity Care	3,144	3,407
Total Expendable:	3,625	3,823
Nonexpendable Restricted Net Assets:		
Endowments	334	300
Total Restricted Net Assets	$ 3,959	$ 4,123

Net Patient Service Revenue

Net 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 certain insurance carriers, health maintenance organizations and preferred provider organizations, which provide for payments that are generally less than established billing rates. Contractual adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in the future as final settlements are determined. Total contractual adjustments were approximately $1,026,693,000 and $942,592,000, respectively, for the years ended June 30, 2011 and 2010.

Medicare and Medicaid Programs

Services rendered to Medicare program beneficiaries and inpatient services rendered to Medicaid program beneficiaries are paid primarily at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors and cover both operating and capital costs. Outpatient services rendered to Medicaid beneficiaries are reimbursed based on a percentage of actual costs incurred. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by fiscal intermediaries. Final settlements 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, and the appropriateness of their admission, are subject to review by an independent peer review organization.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medicare and Medicaid Programs (Continued)

Accounts receivable and patient service revenue relating to these programs are stated at estimated net realizable amounts in the accompanying combined financial statements. The Hospital's Medicare cost reports have been audited through June 30, 2007. During 2011, the Hospital filed the 2010 Medicare cost report, resulting in a tentative cash settlement of approximately $279,000. During 2010, the Hospital filed the 2009 Medicare cost report, resulting in a tentative cash settlement of approximately $171,000. For the years ended June 30, 2011 and 2010, net patient service revenue increased by approximately $5,109,000 and decreased $2,486,000, respectively, as a result of changes in estimates related to various third-party accruals and reserves.

The Hospital participates in a voluntary Medicaid disproportionate share program (the "Program"). The Program allows the Hospital to receive additional annual Medicaid funding. Prior to fiscal 2001, funding was received prior to final approval of the Program year by the Centers for Medicare and Medicaid Services ("CMS") and was subject to final settlement by the State of North Carolina once approved by CMS. Prior to 2010, the Hospital's policy was to defer 100% of the amounts received until the fiscal year after CMS approved the Program year, at which time the Hospital recognized a portion of the amounts received. During 2010, the State of North Carolina provided additional information related to the operation of the Program. With this new information, the Hospital updated its revenue recognition policy related to the Program and now recognizes all funds from the Program as net patient service revenue when received. For the years ended June 30, 2011 and 2010, the Hospital recognized net patient revenue of approximately $2,198,000 and $2,860,000, respectively, related to the Program.

Other Payors

Rex has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Rex under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Rex provides services primarily to residents of Wake and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to large numbers of patients served and formalized agreements with third-party payors. Rex has significant accounts receivable whose collectability is dependent upon the performance of certain governmental programs, primarily Medicare. Management does not believe there are significant credit risks associated with these governmental programs.

The aggregate mix of accounts receivable from patients and third-party payors was as follows at June 30, 2011 and 2010:

	2011	2010
Medicare	25 %	28 %
Medicaid	3	3
Managed Care	52	48
Self Pay	20	21
Total	100 %	100 %

Charity Care

Rex provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because Rex does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or accounts receivable in the accompanying financial statements. Rex maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The amount of charity care provided, based on charges foregone, was approximately $61,364,000 and $44,271,000 for the years ended June 30, 2011 and 2010, respectively.

Functional Expenses

Rex does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since Rex receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Operating Income

Rex classifies all revenues and expenses earned or incurred in the course of providing health care to patients as operating activities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonoperating Income (Loss)

Nonoperating income (loss) consists primarily of investment income and other miscellaneous income and expense items. Activities related to Ventures and its affiliates are included in other nonoperating income (loss). Nonoperating income (loss) consisted of the following for the years ended June 30, 2011 and 2010 (in $000's):

	2011	2010
Interest Income	$ 983	$ 471
Dividend Income	1,946	1,885
Realized Gains (Losses), Net	3,430	12,425
Net Change in Unrealized Gains (Losses) on Investments	21,990	751
Brokerage Fees	(745)	(597)
Income from Investments in Affiliates	253	308
Total Investment Income (Loss)	27,857	15,243
Other	(1,625)	(3,056)
Total Nonoperating Income, Net	$ 26,232	$ 12,187

Capitalized Interest

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest of approximately $171,000 and $0 was capitalized during the years ended June 30, 2011 and 2010, respectively.

Risk Management

Rex is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits; and medical malpractice (see Note 10). Commercial insurance and stop loss coverage is purchased for claims arising from such matters, subject to various deductibles.

Tax-Exempt Status

Rex, the Hospital, the Foundation, and Home Services are exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code. Enterprises is a taxable corporation that has net operating loss carryforwards. Physicians is a single member limited liability company that has elected to be taxed as a for-profit corporation. Physicians currently has a net operating loss in 2011 and 2010. Accordingly, no provision for income taxes has been reflected in these combined financial statements.

Rex is the sole member of SRO and Enterprises is the sole member of Ventures, Wellness, HT, MOB and Retail. As such, SRO, Ventures Wellness, HT, MOB and Retail are considered disregarded entities for tax purposes.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the 2010 combined financial statements have been reclassified to conform to the 2011 presentation. These reclassifications had no effect on previously reported changes in net assets.

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS

Assets Limited as to Use

At June 30, 2011 and 2010, Rex had the following investments, all of which were held by custodians that are agents of Rex (in $000's):

	2011	2010
Cash and Cash Equivalents	$ 27,642	$ 1,713
Certificates of Deposit	200	300
Mutual Funds	125,212	80,346
Equities	12,800	7,010
Alternative Investments	40,266	28,254
Common Trust Funds	-	9,069
	$ 206,120	$ 126,692

As of June 30, 2011, all of these investments had maturities of one year or less.

Interest rate risk – Rex has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The policy requires that the duration of the portfolio shall not exceed six years and its average maturity shall range between two and six years.

Credit risk – Rex's investment policy allows it to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the United States government; (ii) obligations issued by an approved agency or corporation wholly-owned by the United States government; (iii) interest-bearing time deposits, certificates of deposit or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Company money; and (iv) corporate notes and bonds.

Alternative investments are investments in the common stock of limited investment companies that offer a pattern of returns different from that of the overall market and occasionally have lesser levels of liquidity. Examples of alternative investments include non-publicly traded companies, real estate and hedge funds.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Assets Limited as to Use (Continued)

Concentration of credit risk – Rex limits the amount it may invest in any single issuer. Fixed income holdings in a single issuer (excluding obligations of the United States Government, its agencies and government sponsored entities) shall be limited to 5 percent of the portfolio measured at market value at the time of purchase. Treasuries, agencies and government-sponsored entities have no issuer limits. Securities rated under "A-" are limited to 3% per issuer.

Custodial credit risk – At year end, Rex's investments were not exposed to custodial credit risk.

The carrying amount of deposits and investments included in the combined balance sheets are as follows at June 30, 2011 and 2010 (in $000's):

	2011	2010
Carrying Amount:		
Deposits	$ 124,069	$ 66,284
Investments	178,478	124,979
	$ 302,547	$ 191,263
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	$ 96,427	$ 64,571
Assets Limited as to Use:		
Restricted by Contributors and Grantors	3,959	4,123
Bond Funds Held by Trustee	22,001	-
Funds Held in Escrow or Trust	30	470
Designated for Long-Term Investment	180,130	122,099
	$ 302,547	$ 191,263

All investments in securities are on deposit with Rex's fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. Rex's ownership of these securities is identified through the internal records of the fiduciary agent. Certain of these securities are optionally callable at par by the issuer on specified dates.

NOTE 4 CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

A summary of changes in the historical cost of capital assets and accumulated depreciation and amortization related to capital assets are as follows (in $000's):

For the year ended June 30, 2011:

	June 30, 2010	Transfers/ Additions	Transfers/ Retirements	June 30, 2011
PROPERTY AND EQUIPMENT				
Land	$ 34,375	$ -	$ -	$ 34,375
Land Improvements	15,304	-	-	15,304
Buildings and Improvements	264,540	-	(638)	263,902
Equipment	273,734	13,495	(1,888)	285,341
Construction in Progress	7,604	27,357	(4,993)	29,968
Total	595,557	40,852	(7,519)	628,890
ACCUMULATED DEPRECIATION				
Land Improvements	6,051	734	-	6,785
Buildings	113,317	14,412	(638)	127,091
Equipment	214,771	12,754	(636)	226,889
Total	334,139	27,900	(1,274)	360,765
Property and Equipment, Net	$ 261,418	$ 12,952	$ (6,245)	$ 268,125

For the year ended June 30, 2010:

	June 30, 2009	Transfers/ Additions	Transfers/ Retirements	June 30, 2010
PROPERTY AND EQUIPMENT				
Land	$ 27,634	$ 6,741	$ -	$ 34,375
Land Improvements	15,182	122	-	15,304
Buildings and Improvements	235,763	28,777	-	264,540
Equipment	260,626	13,579	(471)	273,734
Construction in Progress	5,383	15,326	(13,105)	7,604
Total	544,588	64,545	(13,576)	595,557
ACCUMULATED DEPRECIATION				
Land Improvements	5,432	619	-	6,051
Buildings	99,402	13,905	10	113,317
Equipment	199,366	15,765	(360)	214,771
Total	304,200	30,289	(350)	334,139
Property and Equipment, Net	$ 240,388	$ 34,256	$ (13,226)	$ 261,418

The capital acquisitions' figures above are presented net of transfers from construction in progress to operating asset categories and sales and other dispositions. Depreciation expense related to Ventures and its related entities is included in other nonoperating income. Depreciation and amortization expense totaled approximately $28,115,000 and $28,244,000 for the years ended June 30, 2011 and 2010, respectively. The expense shown in the table above is net of decreases in accumulated depreciation for sales and other dispositions of capital assets. At June 30, 2011 and 2010, equipment under capital obligations had a cost of approximately $4,214,000 and $4,214,000 and accumulated amortization of approximately $2,134,000 and $1,414,000, respectively.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 5 ACCOUNTS RECEIVABLE AND ACCRUED EXPENSES

Accounts receivable, accrued expenses and other liabilities consisted of the following at June 30, 2010 and 2009 (in $000's):

	2011	2010
Gross Receivables:		
Medicare	$ 38,810	$ 34,276
Medicaid	4,798	3,726
Managed Care	78,650	59,232
Self Pay	30,030	26,024
	152,288	123,258
Less:		
Contractual Allowances	(67,323)	(57,900)
Allowance for Doubtful Accounts	(9,722)	(7,912)
	$ 75,243	$ 57,446
Accrued Salaries, Wages and Withholdings	$ 26,518	$ 21,290
Accrued Paid Time Off	13,126	12,075
Reserve for Workers' Compensation Claims	1,541	1,743
Reserve for Employee Health Benefit Claims	1,840	2,135
Reserve for Medical Malpractice Claims	2,355	1,247
Other	4,036	1,038
	$ 49,416	$ 39,528

NOTE 6 LONG-TERM DEBT

A summary of long-term debt and changes in long-term debt for the years ended June 30, 2011 and 2010 is as follows (in $000's):

	June 30, 2009	Borrowings	Payments and Discount Amortization	June 30, 2010	Borrowings	Payments and Discount Amortization	June 30, 2011
Bonds Payable:							
Series 1998	$ 79,672	$ -	$ (5,966)	$ 73,906	$ -	$ (73,906)	$ -
Series 2010A	-	-	-	-	125,509	(95)	125,414
Tax-Exempt Financing	9,534	-	(6,303)	3,231	-	(3,231)	-
Construction Loan	7,328	24,216	-	31,544	2,445	(1,306)	32,683
Line of Credit	-	-	-	-	140	-	140
Obligations Under Capital Lease	3,054	413	(1,000)	2,467	-	(1,134)	1,333
	$ 99,788	$ 24,629	$ (13,269)	$ 111,148	$ 128,094	$ (79,672)	$ 159,570

Bonds Payable
In March 1998, Rex issued $124,215,000 Hospital Revenue Bonds (1998 Bonds) through the North Carolina Medical Care Commission (the "Commission") under a Master Indenture and other related agreements. The proceeds were used to refund a portion of the Series 1993 Bonds and to finance certain capital projects.

NOTE 6 LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)
In October 2010, Rex issued $122,965,000 Series 2010A Health Care Facilities Revenue and Revenue Refunding Bonds (2010A Bonds) through the Commission. The proceeds were used to refund the outstanding 1998 Bonds, fund costs of construction and equipment related to the relocation of Rex's power plant, pay construction period interest, and pay for issuance costs for the 2010A Bonds.

The 2010A Bonds mature annually in amounts ranging from $1,000,000 to $8,130,000 and bear interest at rates between 2.00% and 5.00% for amounts maturing between 2011 and 2030. Under the agreements, the Obligated Group must also maintain a defined level of income available for debt service. As of June 30, 2011, Rex believed that the Obligated Group was in compliance with all debt covenants.

The 2010A Bonds are secured by a pledge of and a lien on the accounts receivable and the proceeds thereof derived from the ownership and operation of the Obligated Group. In the Master Indenture agreements for the 2010A Bonds, the Obligated Group includes Rex and the Hospital. Under the terms of the Master Indenture agreement for the 2010A Bonds, the Obligated Group is subject to certain financial covenants including but not limited to limitations on the transfer or sale of the Obligated Group's assets, limitations on the incurrence of additional indebtedness, maintenance of adequate insurance coverage on property, and maintenance of its tax-exempt status. Under the agreements, the Obligated Group must also maintain a defined level of income available for debt service. Rex believes the Obligated Group is in compliance with all debt covenants at June 30, 2011.

As a result of the early extinguishment of the 1998 Bonds, Rex incurred a loss of approximately $1,947,000 during 2011. The loss has been deferred and is being amortized over the remaining life of the 1998 Bonds. At June 30, 2011, accumulated amortization of the deferred loss was approximately $166,000.

Tax-Exempt Equipment Financing
In December 2005, Rex entered into a tax-exempt equipment financing arrangement through the Commission for $30,000,000. The proceeds were used in connection with a lease-purchase financing of various capital equipment. The remaining outstanding balance was repaid in full during 2011.

Construction Loan
Ventures entered into a construction loan agreement with Wellness, HT, Retail and MOB as "Co-Borrowers" to fund the construction of the Wakefield campus. The loan bears interest at the BBA LIBOR daily floating rate plus 1.45% (1.64% and 1.78% at June 30, 2011 and 2010, respectively) and required interest only payments through April 2011. Beginning May 2011, all net cash flow from the Rex CDP properties will be applied to the outstanding principal balance of the construction loan through December 2011. Beginning in January 2012, 50% of the net cash flow from properties will be applied to the outstanding principal balance of the construction loan until the note matures and all outstanding balances are due in March 2012.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 6 LONG-TERM DEBT (CONTINUED)

Construction Loan (Continued)
Proceeds from the loan are drawn for specific projects in the Wakefield development and are allocated to the appropriate Co-Borrower for each project. Repayments of the loan will be made primarily using proceeds from lease rental payments from various lessees (See Note 9). The total maximum amount allowable under the loan is approximately $38,360,000, of which, approximately $32,683,000 and $31,544,000 is outstanding at June 30, 2011 and 2010, respectively (in $000's):

	2011	2010
Rex Wakefield Wellness, LLC	$ 7,282	$ 7,547
Rex CDP Ventures, LLC	2,286	5,342
Rex CDP Ventures-HT, LLC	2,201	2,369
Rex CDP Ventures- Retail, LLC	3,372	-
Wakefield Rex Investors MOB, LLC	17,542	16,286
	$ 32,683	$ 31,544

The loan is collateralized by the real property. Each of the four individual Co-Borrowers are jointly and severally liable for repayment of the loan and is guaranteed by Enterprises.

Lines of Credit
During the year ended June 30, 2009, the Hospital entered into a note agreement for a short-term revolving line of credit with a financial institution for an amount up to $50,000,000 to support short-term normal operating expenses and to enhance liquidity. The line of credit is collateralized by the Hospital's accounts receivable. Interest is due and payable monthly at the monthly London Inter-Bank Offered Rate ("LIBOR") plus 1.25 percent. The outstanding principal amount along with any accrued interest will be due upon the maturity date of March 31, 2012. The Hospital has not drawn any proceeds on this line of credit, thus, at June 30, 2011 and 2010, there was no outstanding balance.

During 2011, the Surgery Center entered into a note agreement for a short-term revolving line of credit with a financial institution for an amount up to $1,250,000 to support short-term normal operating expense and to enhance liquidity. The line of credit is collateralized by certain assets of the Surgery Center. Interest is due and payable monthly at 3.0%. The outstanding principal amount along with any accrued interest will be upon maturity date of March 8, 2012. At June 30, 2011, the Surgery Center has drawn approximately $140,000.

Equipment Loan
During the year ended June 30, 2011, the Surgery Center entered into a note agreement with a financial institution for an amount up to $1,000,000 to support purchases of equipment. Surgery Center had not made any draws on the note at June 30, 2011 and has until September 8, 2011 to draw advances. The note bears interest at one month-LIBOR (.187% at June 30, 2011) + 1.75%, with a minimum floor of 3.0%. Monthly payments are interest only through September 8, 2011, with monthly principal and interest payments from October 8, 2011 through September 8, 2018. The note is collateralized by certain assets of the Surgery Center.

NOTE 6 LONG-TERM DEBT (CONTINUED)

Obligations Under Capital Lease
Rex has entered into non-cancellable capital lease obligations for several pieces of equipment as of June 30, 2011 which expire at various dates through 2015.

Total future debt service requirements subsequent to June 30, 2011 are as follows (in $000's):

	Bonds	Construction Loan	Obligations Under Capital Lease	Line of Credit	Interest	Total
Year Ending June 30:						
2012	$ 3,120	$ 32,683	$ 908	$ 140	$ 6,586	$ 43,437
2013	4,645	-	404	-	6,443	11,492
2014	4,835	-	20	-	5,118	9,973
2015	4,980	-	1	-	4,945	9,926
2016	5,175	-	-	-	4,716	9,891
2017-2021	29,675	-	-	-	19,765	49,440
2022-2026	33,655	-	-	-	12,650	46,305
2027- 2031	36,880	-	-	-	4,794	41,674
	122,965	32,683	1,333	140	65,017	222,138
Unamortized Bond Premium, Net	4,230	-	-	-	-	4,230
Deferred Loss on Refunding, Net	(1,781)	-	-	-	-	(1,781)
	$ 125,414	$ 32,683	$ 1,333	$ 140	$ 65,017	$ 224,587

NOTE 7 RELATED PARTY TRANSACTIONS

UNCHCS provides certain services to Rex. Rex paid UNCHCS approximately $4,785,000 and $4,087,000 for such services during the years ended June 30, 2011 and 2010, respectively. UNCHCS paid Rex approximately $587,000 and $238,000 for such services during the years ended June 30, 2011 and 2010, respectively.

Under a management agreement effective January 1, 2000, UNCHCS assumed responsibility for the management and day-to-day operations of Rex Home Services, Inc. During the years ended June 30, 2011 and 2010, this agreement resulted in approximately $948,000 and $1,098,000, respectively, paid to UNCHCS.

During 2011, Rex contributed approximately $4,209,000 to UNCHCS to help fund working capital needs at Triangle Physicians Network, LLC ("TPN"), of which UNCHCS is the sole member. TPN provides health care to patients throughout the Triangle and surrounding counties in North Carolina. Rex also contributed $1,400,000 and $1,200,000 during the years ended June 30, 2011 and 2010, respectively, to the UNCHCS Enterprise Fund to support the ongoing health care mission of UNCHCS.

Net payables due to UNCHCS were approximately $83,000 and $240,000 as of June 30, 2011 and 2010, respectively, and are included in accrued expenses and other liabilities in the accompanying combined balance sheets.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)

The Hospital paid QTS (an equity investment, discussed in Note 2) approximately $1,395,000 and $1,343,000 for laundry services during the years ended June 30, 2011 and 2010, respectively.

The Hospital paid Rex Cary MOB, LLC (an equity investment discussed in Note 2) approximately $764,000 and $820,000 in rent expenditures for the use of surgical and office suites during the years ended June 30, 2011 and 2010, respectively.

Rex MOB Partners, LLC (a cost based investment discussed in Note 2) paid the Hospital approximately $293,000 and $134,000 for rent during the years ended June 30, 2011 and 2010, respectively.

NOTE 8 EMPLOYEE BENEFITS

Rex Employees' Retirement Plan
The Hospital sponsors the Rex Employees' Retirement Plan (the "Plan"), a single-employer defined benefit retirement plan available to eligible employees. The benefit formula is based on the highest five consecutive years of an employee's compensation during the 10 plan years preceding retirement.

During the year ended June 30, 2009, the Hospital amended the Plan to (1) reduce early retirement benefits by increasing the retirement age from 62 to 65, and (2) freeze access to the Plan for eligible employees hired after February 1, 2009. In addition, the Hospital revised certain actuarial assumptions to (1) change the amortization period for gains and losses from 10 to 30 years and (2) change the asset valuation method from 20% to 30% above and below market value.

Funding amounts for the Plan are based upon actuarial calculations. The Plan utilized the projected unit-credit method to determine the annual contributions. The Hospital contributed approximately $7,475,000 and $6,141,000 to the Plan in 2011 and 2010, respectively. There are no employee contributions to the Plan.

Plan assets held in trust on behalf of the Plan participants consisted primarily of equity securities, U.S. Treasury securities and corporate bonds at June 30, 2011 and 2010. The actuarial value of Plan assets was determined by using a five-year moving average method.

The following table shows the trend in Rex's annual pension cost (APC), percentage of APC contributed, and net pension asset (in $000's):

	Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
Fiscal Year Ending:			
June 30, 2011	$ (7,475)	100.00 %	$ -
June 30, 2010	(6,141)	100.00	-
June 30, 2009	(6,283)	100.00	-

NOTE 8 EMPLOYEE BENEFITS (CONTINUED)

As of January 1, 2011, the most recent actuarial valuation date, the Plan was 84.1% funded. The actuarial accrued liability for benefits was approximately $188,633,000 and the actuarial value of assets was approximately $158,693,000 resulting in an unfunded actuarial accrued liability of approximately $29,940,000. The covered payroll was approximately $190,434,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.7%.

The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Combined Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The following assumptions were used in the January 1, 2011 and 2010 actuarial variations:

Inflation Rate	3.00%
Investment Rate of Return	8.00%
Projected Salary Increases	3.75%

Tax Deferred Annuity Retirement Plan
The Hospital sponsors a defined contribution retirement plan covering substantially all employees. The Hospital 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. Employer contributions totaled approximately $5,705,000 and $5,402,000 for the years ended June 30, 2011 and 2010, respectively.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Commitments
The Hospital has entered into certain agreements, in connection with ongoing development and support of its electronic medical records system. Future minimum payments subsequent to June 30, 2011 are approximately $468,000 in 2012.

The Hospital has entered into a lease with Wellness to lease the wellness center. In addition, the Hospital entered into a lease with MOB for part of the medical office building. Rex has certain other noncancelable operating leases for the rental of office space and equipment. Future rent payments under these leases subsequent to June 30, 2011 are as follows (in $000's):

Year Ending June 30:	Wellness Center	Medical Office Building	Office Space and Equipment	Total
2012	$ 798	$ 2,157	$ 5,540	$ 8,495
2013	798	2,189	3,960	6,947
2014	835	2,221	2,401	5,457
2015	862	2,253	2,109	5,224
2016	862	2,286	1,780	4,928
2017-2021	4,497	9,812	7,916	22,215
2022-2026	4,846	9,206	4,008	18,060
2027-2029	2,429	5,339	-	7,768
	$ 15,917	$ 35,463	$ 27,714	$ 79,094

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Total rental expense, including rental expense under noncancelable leases, was approximately $10,559,000 and $8,626,000 for the years ended June 30, 2011 and 2010, respectively.

Contingencies
The Hospital self-insures a portion of its workers' compensation exposure up to $350,000 per claim. An accrual for the self-insurance program is established to provide for estimated claims and losses and applicable legal expenses for claims incurred through June 30, 2011 but not reported. This accrual was determined by an actuary and totaled approximately $1,541,000 and $1,743,000 at June 30, 2011 and 2010, respectively. The accrual is included in accrued expenses and other liabilities in the accompanying combined balance sheets. Commercial insurance has been obtained for coverage in excess of the self-insured amounts.

The Hospital self-insures a portion of its employee health benefits exposure up to $200,000 per incident. An accrual for the self-insurance program is established to provide for estimated claims and losses and applicable legal expenses for claims incurred through June 30, 2011 but not reported. This accrual was determined by an actuary and totaled approximately $1,840,000 and $2,135,000 at June 30, 2011 and 2010, respectively. The accrual is included in accrued expenses and other liabilities in the accompanying balance sheets. Commercial insurance has been obtained for coverage in excess of the self-insured amounts.

Rex is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on Rex's financial position or results of operations.

During 2004, the Hospital entered into an agreement whereby patients without insurance that meet contractually specified criteria can apply for medical loans from a third-party lender. Under this medical loan program, approved patients owe the third-party lender and the Hospital receives payment and recognizes revenue at the time medical services are provided. The Hospital is then contingently obligated to repurchase accounts receivable balances once the borrower does not make three scheduled monthly payments. Total accounts which the Hospital could possibly be required to repurchase were approximately $283,000 and $409,000 at June 30, 2011 and 2010, respectively. The Hospital establishes a reserve for accounts it believes it will have to repurchase based on historical experience with this program. The Hospital reserved approximately $28,000 and $49,000 for potential recourse that was included in the net accounts receivable, at June 30, 2011 and 2010, respectively.

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management believes Rex is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed.

NOTE 10 COMMUNITY BENEFITS

In addition to providing care without charge, or at amounts less than established rates to certain patients identified as qualifying for charity care, Rex also recognizes its responsibility to provide health care services and programs for the benefit of the community, at no cost or at reduced rates. Rex 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 Rex Healthcare Emergency Response Team provides emergency aid and medical treatment at special events in the Wake County area. Rex 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 statements of revenues, expenses and changes in net assets.

SUPPLEMENTARY INFORMATION

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINING BALANCE SHEET
JUNE 30, 2011
(IN $000's)

	Obligated Group	Nonobligated Group	Eliminations	Combined Rex Healthcare, Inc. and Subsidiaries
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 89,903	$ 6,524	$ -	$ 96,427
Patient Accounts Receivable, Net	63,497	11,746	-	75,243
Other Receivables	30,679	196	(24,886)	5,989
Inventories	9,584	518	-	10,102
Prepaid Expenses and Other Current Assets	5,995	820	-	6,815
Total Current Assets	199,658	19,804	(24,886)	194,576
ASSETS LIMITED AS TO USE	201,711	4,409	-	206,120
CAPITAL ASSETS, NET	228,353	39,772	-	268,125
OTHER ASSETS				
Investment in Affiliates	3,485	5,004	(2,907)	5,582
Deferred Debt Issuance Costs, Net	1,405	-	-	1,405
Other Assets	939	4,418	(1,252)	4,105
	5,829	9,422	(4,159)	11,092
Total Assets	$ 635,551	$ 73,407	$ (29,045)	$ 679,913
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	$ 4,028	$ 32,823	$ -	$ 36,851
Vendor Accounts Payable	29,211	5,692	(4,194)	30,709
Accrued Expenses and Other Liabilities	46,761	23,347	(20,692)	49,416
Estimated Third-Party Settlements	24,435	205	-	24,640
Total Current Liabilities	104,435	62,067	(24,886)	141,616
LONG-TERM DEBT, Net of Current Maturities	122,719	-	-	122,719
NON-CONTROLLING INTEREST	-	-	1,170	1,170
OTHER NONCURRENT LIABILITIES	2,195	-	(1,252)	943
Total Liabilities	229,349	62,067	(24,968)	266,448
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	101,606	6,199	(4,077)	103,728
Restricted	1,010	2,949	-	3,959
Unrestricted	303,586	2,192	-	305,778
Total Net Assets	406,202	11,340	(4,077)	413,465
Total Liabilities and Net Assets	$ 635,551	$ 73,407	$ (29,045)	$ 679,913

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011
(IN $000's)

	Obligated Group	Nonobligated Group	Eliminations	Rex Healthcare, Inc. and Subsidiaries
OPERATING REVENUES				
Net Patient Service Revenue	$ 565,866	$ 42,411	$ -	$ 608,277
Other Operating Revenues	18,407	1,933	-	20,340
Total Operating Revenues	584,273	44,344	-	628,617
OPERATING EXPENSES				
Salaries	220,502	26,562	-	247,064
Employee Benefits	64,200	4,588	-	68,788
Medical Supplies and Other Expenses	224,204	11,644	(2,622)	233,226
Depreciation and Amortization	25,150	563	-	25,713
Interest	4,969	1	-	4,970
Total Operating Expenses	539,025	43,358	(2,622)	579,761
OPERATING INCOME (LOSS)	45,248	986	2,622	48,856
NONOPERATING INCOME (LOSS)				
Investment Income (Loss), Net	26,780	1,077	-	27,857
Other, Net	1,462	(465)	(2,622)	(1,625)
Nonoperating Income (Loss), Net	28,242	612	(2,622)	26,232
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	73,490	1,598	-	75,088
CONTRIBUTIONS TO RELATED PARTY	(5,609)	-	-	(5,609)
INCOME APPLICABLE TO NON-CONTROLLING INTEREST	-	-	(420)	(420)
OTHER	-	3,657	(3,657)	-
CHANGE IN NET ASSETS	67,881	5,255	(4,077)	69,059
Net Assets - Beginning of Year	338,321	6,085	-	344,406
NET ASSETS - END OF YEAR	$ 406,202	$ 11,340	$ (4,077)	$ 413,465

REX HEALTHCARE, INC. AND SUBSIDIARIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR REX EMPLOYEES' RETIREMENT PLAN
(UNAUDITED)
JUNE 30, 2011
(IN $000's)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2011	$ 158,693	$ 188,633	$ 29,940	84.13 %	$ 190,434	15.72 %
January 1, 2010	149,019	171,627	22,608	86.83	199,427	11.34
January 1, 2009	140,562	155,914	15,352	90.15	173,000	8.87
January 1, 2008	139,324	151,747	12,423	91.81	152,626	8.14
January 1, 2007	123,721	136,052	12,331	90.94	140,917	8.75

The surplus actuarial accrued liability is being amortized over a ten-year period on an open basis using the level-dollar method.

REX HEALTHCARE, INC. AND SUBSIDIARIES

COMBINED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

REX HEALTHCARE, INC. AND SUBSIDIARIES
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YEARS ENDED JUNE 30, 2010 AND 2009

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LarsonAllen LLP

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Rex Healthcare, Inc. and Subsidiaries
Raleigh, North Carolina

We have audited the accompanying combined balance sheets of Rex Healthcare, Inc. and Subsidiaries ("Rex") for the years ended June 30, 2010 and 2009 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of Rex's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects the combined financial position of Rex Healthcare, Inc. and Subsidiaries as of June 30, 2010 and 2009, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 2 through 7 and the Schedule of Funding Progress on page 36 are both supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements of Rex, taken as a whole. The accompanying combining schedules on pages 32 through 35 are presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities. Accordingly, we do not express an opinion on the financial position, results of operations or changes in net assets of the individual entities. However, such information has been subjected to the auditing procedures applied in our audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

LarsonAllen LLP
LarsonAllen LLP

Charlotte, North Carolina
September 13, 2010

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009

Overview

The Management's Discussion and Analysis section of the Rex Healthcare, Inc. and Subsidiaries ("Rex") annual financial report is designed to provide a general overview of the financial position and operating results as of and for the fiscal years ended June 30, 2010 and 2009. This discussion and analysis should be read in conjunction with the combined financial statements and related notes which follow this discussion and analysis.

Rex Healthcare, Inc. is a private, not-for-profit health care organization located in Raleigh, North Carolina, and a member of the University of North Carolina Health Care System. The flagship facility is Rex Hospital, Inc., a 433-bed community hospital. Rex has a 115-year history of providing excellent health services. Rex Hospital, Inc. provides comprehensive care, including emergency, general surgery, orthopedics, oncology, vascular, cardiac, gynecology, and obstetric services on its main campus. Rex Hospital, Inc. reaches beyond the hospital setting to provide long-term care and sub-acute rehabilitation in two skilled nursing centers – a 120-bed center in Raleigh and a 107-bed facility in Apex. In Cary, Rex offers outpatient surgery, urgent care, diagnostics and a wellness center. At its Wakefield campus, Rex provides outpatient surgery, a full cancer center with medical and radiation oncology services, urgent care, diagnostics, family medicine and a wellness center. At its Knightdale campus, Rex provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. In addition, Rex has a fourth medically supervised wellness center in Garner. Rex operates a home health service, outpatient rehab in three locations, and a senior health center in an underserved market in downtown Raleigh. Rex also provides radiation oncology services in Johnston County.

Current Year Events

Rex Healthcare had a successful fiscal year 2010. Significant time was spent on planning for the future. Certificate of need applications were filed for major additions/renovations to Rex's main campus in Raleigh, including a cancer hospital, heart and vascular center and surgical services. Rex Healthcare of Wakefield and Rex Healthcare of Knightdale celebrated one-year anniversaries by exceeding expectations at both campuses.

Physician alignment was a priority at Rex Healthcare during the past fiscal year. Three new groups were created under Rex Physicians, LLC – Rex Surgical Specialists, Rex Heart & Vascular Specialists and Rex Thoracic Specialists.

Rex continued to be recognized with significant accolades. *Modern Healthcare* magazine named Rex one of the top 100 places to work in health care (9th top hospital). Professional Research Consultants (PRC) nationally recognized Rex Healthcare for its shining achievements in patient service and awarded Three East the Five Star Performer Award for Best Overall Quality of Care, scoring in the top 10% of hospitals. Rex was also awarded the Four Star Award in two areas, Patient Satisfaction and Executive Leadership in co-worker satisfaction. The 2010 Patient Satisfaction Award, specific to outpatient services and outpatient surgery, was the third consecutive year of achievement. This year's Executive Leadership Award recognized Rex's team in the top 25% of PRC leadership teams in the country. Additionally, leaders in Rex Hematology Oncology presented best practice strategies to consistently meet patients' needs at the annual national PRC meeting.

Current Year Events (Continued)

The National Research Corporation (NRC) named Rex Healthcare a Consumer Choice Award winner in 2009. Rex was designated a Bariatric Center of Excellence in 2010 by the American Society for Metabolic and Bariatric Surgery (ASMBS). Rex Hospital was the only Wake County hospital that ranked above the national average for heart attack patient survival rates, according to Hospital Compare.

Rex was also recognized nationally by HealthGrades in 2010 with numerous awards including the Distinguished Hospital Award for Clinical Excellence, the Patient Safety Excellence Award and the Outstanding Patient Experience Award. Rex was also one of the top hospitals to receive Excellence Awards for bariatric surgery and emergency medicine.

Finally, Rex's A+ bond rating was affirmed with a stable outlook by Standard & Poor's. This occurred while the outlook for the not-for-profit health care industry was negative.

Using this Financial Report

Rex's financial statements report information of Rex using accounting methods similar to those used by private-sector health organizations. These statements offer short and long-term financial information about its activities.

Balance Sheet

The balance sheet includes all of Rex's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Rex's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of Rex and assessing the liquidity and financial flexibility of Rex.

Statement of Revenues, Expenses and Changes in Net Assets

Revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of Rex's operations over the past year and can be used to determine whether Rex has successfully recovered all of its costs through its fees and other sources of revenue, profitability and credit worthiness.

Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities. It also provides answers to such questions as where cash comes from, what cash was used for and what the change in the cash balance was during the reporting period.

Notes to the Combined Financial Statements

Notes to the combined financial statements are designed to give the reader additional information concerning Rex and further supports the statements noted above.

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009

Financial Analysis

The statement of revenues, expenses and changes in net assets reports the net assets of Rex and the changes affecting them. Rex's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, increases or decreases in Rex's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will also need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation.

Condensed Combined Balance Sheets

The following condensed combined balance sheets show the combined financial position at June 30, 2010, 2009, and 2008 (in $000's):

	2010	2009	2008
ASSETS			
Current Assets	$ 143,526	$ 112,477	$ 102,176
Capital Assets, Net	261,418	240,388	220,788
Noncurrent Assets	136,265	120,875	149,675
Total Assets	$ 541,209	$ 473,740	$ 472,639
LIABILITIES			
Long-Term Debt, Including Current Portion	$ 111,148	$ 99,788	$ 101,923
Other Liabilities	85,655	76,487	62,718
Total Liabilities	196,803	176,275	164,641
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	150,270	140,600	118,865
Restricted	4,123	4,525	4,513
Unrestricted	190,013	152,340	184,620
Total Net Assets	344,406	297,465	307,998
Total Liabilities and Net Assets	$ 541,209	$ 473,740	$ 472,639

Current assets increased $31,049 (27.6%) and $10,301 (10.1%) in 2010 and 2009, respectively. The increases result from improved reimbursement associated with renegotiated payor contracts and disciplined expense control.

Noncurrent assets increased $15,390 (12.7%) in 2010, as investment earnings resulted in the recovery of a portion of portfolio value lost during the bear market of 2008 and 2009. Fiscal year 2009 saw a decrease in noncurrent assets of $28,800 (19.2%).

Financial Analysis (Continued)

During 2010 and 2009, long-term debt increased $11,360 (11.4%) and decreased $2,135 (2.1%), respectively. In each year regularly scheduled payments on the Series 1998 Revenue Bonds and the Tax-Exempt Lease Financing resulted in decreases to long-term debt. The increase in 2010 is the net result of such debt repayments and the assumption of an additional $24,216 of indebtedness in conjunction with our acquisition of full ownership of our suburban campus in the Wakefield community. The decrease in fiscal year 2009 is the net result of such debt repayments and the incurrence of an additional $7,328 of indebtedness in conjunction with the development of our suburban campus in the Wakefield development.

Net assets increased $46,941 (15.8%) as a result of strong operating performance and investment earnings. Net assets decreased $10,533 (3.4%) during 2009, primarily the result of investment losses. Investment income contributed $15,243 and ($28,084) in 2010 and 2009, respectively, to the increase (decrease) in net assets. For further information on this change, see the following statement of revenues, expenses and changes in net assets.

Capital Assets

Rex's investment in capital assets consisted of the following at June 30, 2010, 2009 and 2008 (in $000's):

	2010	2009	2008
Land and Land Improvements	$ 49,679	$ 42,816	$ 39,733
Buildings and Improvements	264,540	235,763	212,329
Equipment	273,734	260,626	238,322
Total Capital Assets	587,953	539,205	490,384
Accumulated Depreciation	(334,139)	(304,200)	(280,704)
Total Capital Assets, Net	253,814	235,005	209,680
Construction in Progress	7,604	5,383	11,108
Total Capital Assets	$ 261,418	$ 240,388	$ 220,788

The increase in Rex's investment in capital assets in 2010 and 2009 represents purchases of capital assets, net of disposals and depreciation expense, combined with the capital assets of Rex CDP Ventures, LLC and subsidiaries which were acquired by Rex during fiscal year 2010. During 2010, Rex's major routine capital investments included two replacement linear accelerators, new inpatient beds and a replacement cardiac catheterization lab. Rex continued to invest in information technology with enhancements to the electronic medical record system.

During 2009, Rex invested in the development of suburban campuses in the Wakefield community and in Knightdale. The Wakefield campus offers a wide range of diagnostic and treatment services including primary care, laboratory, radiology, oncology and outpatient surgery services. The Knightdale campus offers a selection of primary care, laboratory and radiology services. Rex also continued to invest in enhancements to the electronic medical record system and purchased a second daVinci Robotic Surgery System, a linear accelerator, a 64-slice CT scanner. Rex also upgraded its video surgical equipment to digital technology.

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009

Financial Analysis (Continued)

Condensed Combined Statements of Revenues, Expenses and Changes in Net Assets

While the combined balance sheets show the change in financial position of net assets, the following combined statements of revenues, expenses and changes in net assets provides answers to the nature and source of these changes for the years ended June 30, 2010, 2009 and 2008 (in $000's):

	2010	2009	2008
Operating Revenues	$ 571,001	$ 513,126	$ 469,461
Operating Expenses	535,228	492,560	455,403
Operating Income	35,773	20,566	14,058
Nonoperating Income (Loss)	10,987	(31,099)	(7,141)
Distributions and Other	181	-	-
Increase (Decrease) in Net Assets	46,941	(10,533)	6,917
Net Assets, Beginning of Period	297,465	307,998	301,081
Net Assets, End of Period	$ 344,406	$ 297,465	$ 307,998

Operating Income

The increase in operating revenues in 2010 and 2009 is primarily the result of increased reimbursement resulting from renegotiated payor contracts. In addition, Rex recognized $2,860 in operating revenues related to the North Carolina Medicaid Reimbursement Initiative Program in 2010 compared to $2,390 in 2009. The increases in operating expenses in each year are the result of changes in patient volumes, inflation and expansion of services offered, mitigated by coordinated cost control measures. The increase in operating income is the net result of all these factors.

Nonoperating Income

Nonoperating income consisted of the following for the years ended June 30, 2010, 2009 and 2008 (in $000's):

	2010	2009	2008
Interest Income	$ 471	$ 1,326	$ 2,098
Dividend Income	1,885	2,051	2,608
Realized Gains (Losses), Net	12,425	(12,591)	1,705
Net Change in Unrealized Gains (Losses) on Investments	751	(18,628)	(11,742)
Brokerage Fees	(597)	(515)	(500)
Income from Investments in Affiliates	308	273	306
Total Investment Income (Loss)	15,243	(28,084)	(5,525)
Other	(4,256)	(3,015)	(1,616)
Total Nonoperating Income (Loss)	$ 10,987	$ (31,099)	$ (7,141)

Financial Analysis (Continued)

In 2010, investment income increased significantly as the overall financial markets rebounded. The gains occurred across all investment classes and markets. Investment income decreased precipitously in 2009, the direct result of the overall global investment climate and economic recession. The investment losses Rex experienced are not unique. Substantial losses were experienced across all asset classes and markets.

Finance Contact

Rex's financial statements are designed to present users with a general overview of Rex's finances and to demonstrate Rex's accountability. If you have any questions about this report or need additional financial information, inquiries may be sent to:

Chief Financial Officer
Rex Healthcare, Inc.
4420 Lake Boone Trail
Raleigh, North Carolina 27607

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 64,571	$ 36,475
Patient Accounts Receivable, Net of Allowance for Uncollectible Accounts of Approximately $7,557 in 2010 and $7,459 in 2009	57,446	53,642
Other Receivables	5,637	5,555
Inventories	9,983	10,027
Prepaid Expenses and Other Current Assets	5,889	6,778
Total Current Assets	143,526	112,477
ASSETS LIMITED AS TO USE	126,692	111,958
CAPITAL ASSETS, NET	261,418	240,388
OTHER ASSETS		
Investments in Affiliates	5,321	4,254
Deferred Debt Issuance Costs, Net	1,531	1,515
Other Assets	2,721	3,148
Total Other Assets	9,573	8,917
Total Assets	$ 541,209	$ 473,740
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 11,844	$ 13,077
Vendor Accounts Payable	29,498	33,522
Accrued Expenses and Other Liabilities	39,528	32,929
Estimated Third-Party Payor Settlements	15,758	9,490
Total Current Liabilities	96,628	89,018
LONG-TERM DEBT, Net of Current Maturities	99,304	86,711
OTHER NONCURRENT LIABILITIES	871	546
Total Liabilities	196,803	176,275
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	150,270	140,600
Restricted	4,123	4,525
Unrestricted	190,013	152,340
Total Net Assets	344,406	297,465
Total Liabilities and Net Assets	$ 541,209	$ 473,740

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009
(IN $000's)

	2010	2009
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Uncollectible Accounts of Approximately $22,867 in 2010 and $27,392 in 2009)	$ 552,635	$ 496,857
Other Operating Revenues	18,366	16,269
Total Operating Revenues	571,001	513,126
OPERATING EXPENSES		
Salaries	226,298	209,037
Employee Benefits	59,098	50,450
Medical Supplies and Other Expenses	218,681	203,932
Depreciation and Amortization	26,725	24,268
Interest	4,426	4,873
Total Operating Expenses	535,228	492,560
OPERATING INCOME	35,773	20,566
NONOPERATING INCOME (LOSS)		
Investment Income (Loss), Net	15,243	(28,084)
Other, Net	(4,256)	(3,015)
Nonoperating Income (Loss), Net	10,987	(31,099)
EXCESS OF REVENUES AND GAINS OVER (UNDER) EXPENSES AND LOSSES	46,760	(10,533)
DISTRIBUTIONS AND OTHER	181	-
Net Assets - Beginning of Year	297,465	307,998
NET ASSETS - END OF YEAR	$ 344,406	$ 297,465

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009
(IN $000's)

	2010	2009
OPERATING ACTIVITIES		
Receipts from Third-Party Payors and Patients	$ 554,717	$ 509,687
Payments to and on Behalf of Employees	(279,058)	(258,215)
Payments to Suppliers	(225,543)	(205,696)
Other Receipts	16,654	20,194
Net Cash Provided by Operating Activities	66,770	65,970
INVESTING ACTIVITIES		
Purchases and Sales of Investments, Net	(13,806)	9,692
Cash from Acquisition of Remaining Interest in Ventures	452	-
Investment Income (Loss)	14,492	(9,456)
Other Nonoperating Loss	(4,075)	(2,918)
Net Cash Used in Investing Activities	(2,937)	(2,682)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(17,895)	(36,868)
Cash Received from Disposal of Capital Assets	-	1,337
Cash Paid for Financing Costs	(125)	-
Proceeds from Issuance of Capital Debt	-	7,328
Principal Paid on Capital Debt	(13,089)	(12,127)
Interest Paid on Capital Debt	(4,451)	(4,895)
Net Cash Used in Financing Activities	(35,560)	(45,225)
INCREASE IN CASH AND CASH EQUIVALENTS	28,273	18,063
Cash and Cash Equivalents - Beginning of Year	38,011	19,948
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 66,284	$ 38,011
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO COMBINED BALANCE SHEETS:		
Cash and Cash Equivalents in Current Assets	$ 64,571	$ 36,475
Cash and Cash Equivalents in Assets Limited as to Use	1,713	1,536
Total Cash and Cash Equivalents	$ 66,284	$ 38,011

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009
(IN $000's)

	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 35,773	$ 20,469
Interest Expense Considered Capital Financing Activity	4,426	4,873
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Provision for Uncollectible Accounts	22,867	27,392
Depreciation and Amortization	28,298	24,344
Loss on Disposal of Assets	85	739
Changes in Assets and Liabilities:		
Patient and Other Receivables, Net	(27,053)	(19,031)
Accounts Payable and Accrued Expenses	(524)	959
Estimated Third-Party Payor Settlements	6,268	6,566
Other Assets and Liabilities, Net	(3,370)	(341)
Net Cash Provided by Operating Activities	$ 66,770	$ 65,970
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Net Change in Unrealized Gains (Losses) on Investments	$ 751	$ (18,628)
Additions to Capital Assets Included in Current Liabilities	$ 2,592	$ 6,100
Capital Assets Acquired through Capital Lease Obligations	$ 413	$ 2,625

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY

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 continued development of acute care and non-hospital programs.

Rex's sole member is the University of North Carolina Health Care System ("UNCHCS"). UNCHCS appoints eight of the thirteen seats on Rex's Board of Trustees. Additionally, UNCHCS reviews and approves Rex's annual operating and capital budgets. As required by accounting principles generally accepted in the United States of America, the combined financial statements of Rex present the financial position and results of operations of the parent entity and its blended component units which are described below:

Rex Hospital, Inc. – Rex Hospital, Inc. (the "Hospital"), located in Raleigh, North Carolina, is a 433-bed hospital. The Hospital provides inpatient, outpatient and emergency services primarily to the residents of Wake County, North Carolina. The Hospital operates on its main campus Rex Cancer Center, Rex Women's Center and Rex Rehabilitation and Nursing Care Center of Raleigh, a 120-bed nursing facility. The Hospital provides outpatient surgery, urgent care and diagnostics at its Cary, North Carolina campus. At its Wakefield campus, Rex provides urgent care, family medicine and diagnostics. During 2009, Rex expanded the services offered at its Wakefield campus to include outpatient surgery, oncology and wellness services. Also during 2009, Rex developed its Knightdale campus which provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. Rex also operates Rex Rehabilitation and Nursing Care Center of Apex, a 107-bed nursing facility located in Apex, North Carolina.

Rex Holdings, LLC - Rex formed and became the sole member of Rex Holdings, LLC ("Holdings"), a single member limited liability company. Holdings was formed to hold membership interest in various limited liability companies. During fiscal year 2010, there was no activity related to this entity.

Rex Physicians, LLC - Holdings formed and became the sole member of Rex Physicians LLC ("Physicians"), a single member limited liability company which has elected to be treated as a taxable corporation. Physicians was formed to operate specialty physician practices serving the residents of Wake County and surrounding areas. Physicians currently operates physician practices in the areas of general surgery, heart and vascular services, and thoracic surgery.

Rex Enterprises Company, Inc. – Rex Enterprises Company, Inc. ("Enterprises") is a North Carolina for-profit corporation organized to hold investments in various affiliates and to promote the development of real property in support of the mission of Rex.

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY (CONTINUED)

Rex CDP Ventures, LLC ("Ventures"), is a limited liability company organized to own and develop real estate in the Wakefield community of northern Wake County. Prior to June 15, 2010, Enterprises owned a 50% interest in Ventures and accounted for this investment using the equity method of accounting. Enterprises' investment in Ventures totaled approximately $1,232,000 at June 30, 2009. On June 15, 2010, Enterprises purchased the remaining 50% interest in Ventures from Wakefield Rex Investors, LLC and accordingly began combining the financial position and results of Ventures in the combined financial statements. At June 30, 2010, Ventures was the sole member of the following limited liability companies:

Rex Wakefield Wellness, LLC - Enterprises formed and became the sole member of Rex Wakefield Wellness, LLC ("Wellness"), a single member limited liability company. Wellness was created to develop a wellness center building on the Wakefield campus of the Hospital. The Hospital leases the building from Wellness. On June 15, 2010, Enterprises contributed its membership interest in Wellness to Ventures.

Rex CDP Ventures - HT, LLC - Ventures formed and became the sole member of Rex CDP Ventures - HT, LLC ("HT"), a single member limited liability company. HT was formed to develop a retail unit of the Wakefield campus of the Hospital.

Wakefield Rex Investors MOB, LLC - Wakefield Rex Investors, LLC, formed and became the sole member of Rex Wakefield Investors MOB, LLC ("MOB") a single member limited liability company. MOB was formed to develop a medical office building on the Wakefield campus of the Hospital. On June 15, 2010, Wakefield Rex Investors, LLC contributed its ownership interest in MOB to Ventures.

Rex Healthcare Foundation, Inc. – Rex Healthcare Foundation, Inc. (the "Foundation") 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.

Rex Home Services, Inc. – The Hospital owns Rex Home Services, Inc. ("Home Services"), a North Carolina not-for-profit corporation, organized to provide home health services primarily to the residents of Wake County, North Carolina.

Smithfield Radiation Oncology, LLC – Smithfield Radiation Oncology, LLC ("SRO") is a limited liability company organized to own and operate a linear accelerator. The Hospital is the sole member of SRO.

The financial statements include the accounts of Rex, the Hospital, Enterprises, Physicians, the Foundation, Home Services and SRO. All significant intercompany transactions and balances have been eliminated in combination.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

As a result of the transfer of the membership interest to UNCHCS, an agency of the State of North Carolina, Rex is subject to the application of accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). In 1993, GASB issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting* (the Statement), which provides guidance on how GASB pronouncements affect government entities that use business-type accounting and financial reporting. The provisions of the Statement were effective for periods beginning after December 15, 1993. As is allowable under the Statement, Rex has elected to follow the GASB hierarchy exclusively regarding authoritative literature issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments

Investments in marketable debt and equity securities with readily determinable fair values, including assets whose use is limited, are measured at fair value in the accompanying balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating income (loss) in the accompanying combined financial statements. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in Affiliates

Enterprises own a 50% interest in Quality Textile Services, Inc. ("QTS"), a Raleigh, North Carolina company that provides laundry services to local hospitals. Enterprises exercises significant influence over QTS; however, it does not control it through a majority voting interest. This investment is accounted for using the equity method of accounting; accordingly, Enterprises' investment has been adjusted for its share of QTS's operations. Enterprises' equity in the net income of this affiliate totaled approximately $27,000 and $42,000 for the years ended June 30, 2010 and 2009, respectively, and is included in net nonoperating income. Enterprises received no cash distributions from QTS during 2010 or 2009. Enterprises' investment in QTS totaled approximately $2,299,000 and $2,272,000 as of June 30, 2010 and 2009, respectively. Separate financial statements for QTS are not publicly available.

Enterprises owns a 32.5% interest in Rex Cary MOB, LLC, a company that in July 2003, built and began leasing a medical office building in Cary, North Carolina. Enterprises exercises significant influence over Rex Cary MOB, LLC; however, it does not control it through a majority voting interest. This investment is accounted for using the equity method of accounting; accordingly, Enterprises' investment has been adjusted for its share of Rex Cary MOB, LLC's operations. Enterprises' equity in the net income of this affiliate totaled approximately $281,000 and $231,000 for the years ended June 30, 2010 and 2009, respectively, and is included in net nonoperating income. Additionally, Enterprises received cash distributions from Rex Cary MOB, LLC totaling approximately $131,000 and $121,000 during 2010 and 2009, respectively. Enterprises' investment in Rex Cary MOB, LLC totaled approximately $599,000 and $450,000 as of June 30, 2010 and 2009, respectively. Separate financial statements for Rex Cary MOB, LLC are not publicly available.

Enterprises owns less than a 5% interest in Rex MOB Partners, LLC, a company that operates a multi-tenant medical office building in Raleigh, North Carolina on land leased from the Hospital. This investment is accounted for using the cost method of accounting. Enterprises' investment in Rex MOB Partners, LLC totaled approximately $300,000 as of June 30, 2010 and 2009. Separate financial statements for Rex MOB Partners, LLC are not publicly available.

Capital Assets

Capital asset acquisitions are recorded at cost and include interest on funds used to finance the acquisition or construction of major capital projects. Assets under capital lease are stated at the present value of the minimum lease payments at the inception of the lease. Depreciation is provided on both straight-line and accelerated methods over the estimated useful lives of the depreciable assets which is generally 5 to 15 years for equipment, 5 to 15 years for building improvements, and 30 to 40 years for buildings.

Assets under capital leases and leasehold improvements are depreciated over the estimated useful life or the related lease term, whichever is shorter; generally periods ranging from 5 to 7 years. Depreciation of assets under capital leases and leasehold improvements is included in depreciation and amortization expense in the accompanying statements of revenues, expenses and changes in net assets.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Debt Issuance Costs

Deferred debt issuance costs are amortized over the term of the related bond issuance under a method which approximates the effective interest method over the life of the bonds. Amortization of deferred debt issuance costs totaled approximately $109,000 for both years ended June 30, 2010 and 2009. Cumulative amortization of deferred debt issuance costs totaled approximately $1,312,000 and $1,203,000 as of June 30, 2010 and 2009, respectively.

Other Assets

Other assets consisted of the following at June 30, 2010 and 2009 (in $000's):

	2010	2009
Goodwill	$ 1,862	$ 1,993
Other Assets	859	1,155
Total	$ 2,721	$ 3,148

The excess of purchase price over the fair values of identifiable net assets acquired has been allocated to goodwill. Management periodically evaluates the carrying value and remaining amortization periods of unamortized amounts based on an analysis of estimated undiscounted operating earnings from the operations of each specific business. Any events or circumstances occurring during the year or future years that might have an impact on such carrying value or remaining amortization periods are considered. Other than amortization, no adjustments have been made to the carrying value of the goodwill as of June 30, 2010.

Proprietary Fund Accounting

Rex utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Net Assets

In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, net assets are categorized as invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt is intended to reflect the portion of net assets that are associated with non-liquid capital assets less outstanding debt related to capital assets. Restricted net assets are assets generated from revenues that have third-party limitation on their use. Unrestricted net assets have no third-party restrictions on use.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Restricted net assets included the following at June 30, 2010 and 2009 (in $000's):

	2010	2009
Restricted Net Assets:		
Expendable:		
Donations to Foundation for Various Scholarships, Lectureships and Buildings	$ 386	$ 499
Donations to Rex for Various Supplies, Equipment and Patient Charity Care	3,306	2,932
Certificate of Deposit Maintained with North Carolina Insurance Department for Workers' Compensation Self-Insurance Program	-	818
Total Expendable:	3,692	4,249
Nonexpendable Restricted Net Assets:		
Donations to Foundation for Endowments	431	276
Total Restricted Net Assets	$ 4,123	$ 4,525

Net Patient Service Revenue

Net 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 certain insurance carriers, health maintenance organizations and preferred provider organizations, which provide for payments that are generally less than established billing rates. Contractual adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in the future as final settlements are determined.

Medicare and Medicaid Programs

The Hospital renders care to patients covered by the Medicare and Medicaid programs. Services rendered to Medicare program beneficiaries and inpatient services rendered to Medicaid program beneficiaries are paid primarily at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors and cover both operating and capital costs. Outpatient services rendered to Medicaid beneficiaries are reimbursed based on a percentage of actual costs incurred. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by fiscal intermediaries. Final settlements under the Medicare and Medicaid programs are based on regulations established by the respective programs and as interpreted by fiscal intermediaries. The Hospital's classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission are subject to review by an independent peer review organization.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medicare and Medicaid Programs (Continued)

Accounts receivable and patient service revenue relating to these programs are stated at estimated net realizable amounts in the accompanying combined financial statements. The Hospital's Medicare cost reports have been audited through June 30, 2007. During 2010, the Hospital filed the 2009 Medicare cost report, resulting in a tentative cash settlement of approximately $171,000. During 2009, the Hospital filed the 2008 Medicare cost report, resulting in a tentative cash settlement of approximately $169,000. For the years ended June 30, 2010 and 2009, net patient service revenue decreased by approximately $2,486,000 and $1,901,000, respectively, as a result of changes in estimates related to various third-party accruals and reserves.

The Hospital receives disproportionate share funds from Medicaid under the North Carolina Medicaid Reimbursement Initiative Program (the "Program"). The Hospital recognized approximately $2,860,000 and $2,390,000 of disproportionate share funds as net patient service revenue during the years ended June 30, 2010 and 2009, respectively. Amounts reported as estimated third-party reserves at June 30, 2010 and 2009 included approximately $1,318,000 and $780,000, respectively, related to funds received from the Program during years 2004 to 2010. Management continues to evaluate the settlement process related to the Program and records amounts in estimated third-party reserves in accordance with this evaluation.

In addition, proposed regulations by the Centers for Medicare and Medicaid Services published in the Federal Register could have resulted in the elimination of the Program effective September 1, 2007; however, Congress approved in 2007 and 2008, moratoriums that postponed any regulations which could have resulted in the elimination of the Program, the latest of which had an expiration date of April 1, 2009. The American Recovery and Reinvestment Tax Act of 2009, passed by Congress in February 2009, states that it is the sense of Congress that the Secretary of Health and Human Services should not promulgate as final, regulations published in the Federal Register as described above. Management is uncertain how this directive will affect the future of the Program. Accordingly, any future payments beyond June 30, 2010 are uncertain.

Other Payors

Rex has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Rex under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Rex provides services primarily to residents of Wake and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to large numbers of patients served and formalized agreements with third-party payors. Rex has significant accounts receivable whose collectibility is dependent upon the performance of certain governmental programs, primarily Medicare. Management does not believe there are significant credit risks associated with these governmental programs. The aggregate mix of accounts receivable from patients and third-party payors was as follows at June 30, 2010 and 2009:

	2010	2009
Medicare	28 %	25 %
Medicaid	3	4
Managed Care	48	52
Self Pay	21	19
Total	100 %	100 %

Charity Care

Rex provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because Rex does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or accounts receivable in the accompanying financial statements. Rex maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The amount of charity care provided, based on charges foregone, was approximately $44,000,000 and $45,000,000 for the years ended June 30, 2010 and 2009, respectively.

Functional Expenses

Rex does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since Rex receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Income

Rex classifies all revenues and expenses earned or incurred in the course of providing health care to patients as operating activities.

Nonoperating Income (Loss)

Nonoperating income (loss) consists primarily of investment income and other miscellaneous income and expense items. Activities related to Ventures and its affiliates are included in other nonoperating income (loss). Nonoperating income (loss) consisted of the following for the years ended June 30, 2010 and 2009 (in $000's):

	2010	2009
Interest Income	$ 471	$ 1,326
Dividend Income	1,885	2,051
Realized Gains (Losses), Net	12,425	(12,591)
Net Change in Unrealized Gains (Losses) on Investments	751	(18,628)
Brokerage Fees	(597)	(515)
Income from Investments in Affiliates	308	273
Total Investment Income (Loss)	15,243	(28,084)
Other	(4,256)	(3,015)
Total Nonoperating Income (Loss)	$ 10,987	$ (31,099)

Capitalized Interest

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during the years ended June 30, 2010 or 2009.

Risk Management

Rex is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits; and medical malpractice (see Note 10). Commercial insurance and stop loss coverage is purchased for claims arising from such matters, subject to various deductibles.

Tax-Exempt Status

Rex, the Hospital, the Foundation, and Home Services are exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code. Enterprises is a taxable corporation that has net operating loss carryforwards. Physicians is a single member limited liability company that has elected to be taxed as a for-profit corporation. Physicians currently has a net operating loss. Accordingly, no provision for income taxes has been reflected in these combined financial statements.

Rex is the sole member of SRO, a single member limited liability corporation. Enterprises is the sole member of Ventures, a single member limited liability corporation. As such, SRO and Ventures are considered disregarded entities for tax purposes.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the 2009 combined financial statements have been reclassified to conform to the 2010 presentation with no effect on previously reported excess of revenues and gains over expenses and losses or net assets.

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS

Assets Limited as to Use

At June 30, 2010 and 2009, Rex had the following investments, all of which were held by custodians that are agents of Rex (in $000's):

	2010	2009
Cash and Cash Equivalents	$ 1,713	$ 1,536
Certificates of Deposit	300	868
Mutual Funds	80,346	23,466
Equities	7,010	33,034
Alternative Investments	28,254	22,674
Common Trust Funds	9,069	30,380
	$ 126,692	$ 111,958

As of June 30, 2010, all of these investments had maturities of one year or less.

Interest rate risk – Rex has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The policy requires that the duration of the portfolio shall not exceed six years and its average maturity shall range between two and six years.

Credit risk – Rex's investment policy allows it to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the United States government; (ii) obligations issued by an approved agency or corporation wholly-owned by the United States government; (iii) interest-bearing time deposits, certificates of deposit or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Company money; and (iv) corporate notes and bonds.

Alternative investments are investments in the common stock of limited investment companies that offer a pattern of returns different from that of the overall market and occasionally have lesser levels of liquidity. Examples of alternative investments include non-publicly traded companies, real estate and hedge funds.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Assets Limited as to Use (Continued)

Concentration of credit risk – Rex limits the amount it may invest in any single issuer. Fixed income holdings in a single issuer (excluding obligations of the United States Government, its agencies and government sponsored entities) shall be limited to 5 percent of the portfolio measured at market value at the time of purchase. Treasuries, agencies and government-sponsored entities have no issuer limits. Securities rated under "A-" are limited to 3% per issuer.

Custodial credit risk – At year end, Rex's investments were not exposed to custodial credit risk.

The carrying amount of deposits and investments included in the combined balance sheets are as follows at June 30, 2010 and 2009 (in $000's):

	2010	2009
Carrying Amount:		
Deposits	$ 66,284	$ 38,011
Investments	124,979	110,422
	$ 191,263	$ 148,433
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	$ 64,571	$ 36,475
Assets Limited as to Use:		
Restricted by Contributors and Grantors	4,123	3,707
North Carolina Department of Insurance	-	818
Funds Held in Escrow	470	-
Designated for Long-Term Investment	122,099	107,433
	$ 191,263	$ 148,433

All investments in securities are on deposit with Rex's fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. Rex's ownership of these securities is identified through the internal records of the fiduciary agent. Certain of these securities are optionally callable at par by the issuer on specified dates.

NOTE 4 CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

A summary of changes in the historical cost of capital assets and accumulated depreciation and amortization related to capital assets are as follows (in $000's):

For the year ended June 30, 2010:

	June 30, 2009	Transfers/ Additions	Transfers/ Retirements	June 30, 2010
PROPERTY AND EQUIPMENT				
Land	$ 27,634	$ 6,741	$ -	$ 34,375
Land Improvements	15,182	122	-	15,304
Buildings and Improvements	235,763	28,777	-	264,540
Equipment	260,626	13,579	(471)	273,734
Construction in Progress	5,383	15,326	(13,105)	7,604
Total	544,588	64,545	(13,576)	595,557
ACCUMULATED DEPRECIATION				
Land Improvements	5,432	619	-	6,051
Buildings	99,402	13,905	10	113,317
Equipment	199,366	15,765	(360)	214,771
Total	304,200	30,289	(350)	334,139
Property and Equipment, Net	$240,388	$ 34,256	$ (13,226)	$261,418

For the year ended June 30, 2009:

	June 30, 2008	Transfers/ Additions	Transfers/ Retirements	June 30, 2009
PROPERTY AND EQUIPMENT				
Land	$ 28,189	$ 453	$ (1,008)	$ 27,634
Land Improvements	11,544	3,638	-	15,182
Buildings and Improvements	212,329	24,700	(1,266)	235,763
Equipment	238,322	22,435	(131)	260,626
Construction in Progress	11,108	27,318	(33,043)	5,383
Total	501,492	78,544	(35,448)	544,588
ACCUMULATED DEPRECIATION				
Land Improvements	5,038	394	-	5,432
Buildings	90,581	9,142	(321)	99,402
Equipment	185,085	14,381	(100)	199,366
Total	280,704	23,917	(421)	304,200
Property and Equipment, Net	$220,788	$ 54,627	$ (35,027)	$240,388

The capital acquisitions' figures above are presented net of transfers from construction in progress to operating asset categories and sales and other dispositions. Depreciation and amortization expense totaled approximately $27,678,000 and $24,344,000 for the years ended June 30, 2010 and 2009, respectively. Depreciation expense related to Ventures and related entities is included in other nonoperating income, net. The expense shown in the table above is net of decreases in accumulated depreciation for sales and other dispositions of capital assets. At June 30, 2010 and 2009, equipment under capital obligations had a cost of approximately $4,214,000 and $4,198,000, respectively, and accumulated amortization of approximately $1,414,000 and $1,174,000, respectively.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at June 30, 2010 and 2009 (in $000's):

	2010	2009
Accrued Salaries, Wages and Payroll-Related Withholdings	$ 21,290	$ 15,961
Accrued Paid Time Off	12,075	11,066
Reserve for Workers' Compensation Claims	1,743	1,418
Reserve for Employee Health Benefit Claims	2,135	1,955
Reserve for Medical Malpractice Claims	1,247	1,085
Other	1,038	1,444
	$ 39,528	$ 32,929

NOTE 6 LONG-TERM DEBT

A summary of long-term debt and changes in long-term debt for the years ended June 30, 2010 and 2009 is as follows (in $000's):

	June 30, 2008	Borrowings	Payments and Discount Amortization	June 30, 2009	Borrowings	Payments and Discount Amortization	June 30, 2010
Bonds Payable: Series 1998	$ 85,573	$ -	$ (5,701)	$ 79,872	$ -	$ (5,966)	$ 73,906
Tax-Exempt Financing	15,629	-	(6,095)	9,534	-	(6,303)	3,231
Construction Loan	-	7,328	-	7,328	24,216	-	31,544
Obligations Under Capital Lease	721	2,625	(292)	3,054	413	(1,000)	2,467
	$ 101,923	$ 9,953	$ (12,088)	$ 99,788	$ 24,629	$ (13,269)	$ 111,148

Series 1998 Bonds Payable
In March 1998, Rex issued $124,215,000 Hospital Revenue Bonds (Series 1998 Bonds) through the North Carolina Medical Care Commission (the "Commission") under a Master Indenture and other related agreements. The proceeds were used to refund a portion of the Series 1993 Bonds and to finance certain capital projects. The Series 1998 Bonds mature annually in amounts ranging from $3,425,000 to $8,415,000 and bear interest at rates between 4.63% and 5.00% for amounts maturing between 2008 and 2023.

The Series 1998 Bonds are secured by a pledge of and a lien on the accounts receivable and the proceeds thereof derived from the ownership and operation of the Obligated Group. In the Master Indenture agreements for the Series 1998 Bonds, the Obligated Group includes Rex and the Hospital.

Under the terms of the Master Indenture agreement for the series 1998 Bonds, the Obligated Group is subject to certain financial covenants including but not limited to

NOTE 6 LONG-TERM DEBT (CONTINUED)

Series 1998 Bonds Payable (Continued)
limitations on the transfer or sale of the Obligated Group's assets, limitations on the incurrence of additional indebtedness, maintenance of adequate insurance coverage on property, and maintenance of its tax-exempt status. Under the agreements, the Obligated Group must also maintain a defined level of income available for debt service. As of June 30, 2009 and 2008, Rex believed that the Obligated Group was in compliance with all debt covenants.

Series 2010A and 2011 Bonds
Subsequent to June 30, 2010, Rex expects to issue Series 2010A and Series 2011 tax-exempt bonds as follows:

Series 2010A Bonds
$122,000,000 Series 2010A fixed rate health care facilities revenue and revenue refunding bonds. The proceeds will be used to refund the outstanding balance of the Series 1998 Bonds, fund the relocation and replacement of its central energy plant, and to reimbursement itself for routine capital expenditures. The Series 2010A Bonds are subject to mandatory redemption beginning in 2011 through 2040.

Series 2011 Bonds
Series 2011 health care facilities revenue bonds. The proceeds will be used to fund the renovation and expansion of Rex's existing cancer hospital. The Series 2011 Bonds are subject to mandatory redemption beginning in 2011 through 2030. The amount has not yet been determined.

Rex expects to incur a loss on early extinguishment of debt of approximately $3,487,000 in connection with the refunding transaction described above. This amount will be deferred and amortized over the remaining life of the Series 1998 Bonds.

Tax-Exempt Equipment Financing
In December 2005, Rex entered into a tax-exempt equipment financing arrangement through the Commission for $30,000,000. The proceeds were used in connection with a lease-purchase financing of various capital equipment. This amount matures quarterly in amounts ranging from approximately $1,455,000 to $1,623,000 for amounts maturing between 2008 and 2011 and bears interest at a fixed rate of 3.37%.

Construction Loan
Ventures entered into a construction loan agreement with Wellness, HT and MOB as "Co-Borrowers" to fund the construction of the Wakefield campus. The loan bears interest at the BBA LIBOR daily floating rate plus 1.45% (1.78% at June 30, 2010) and requires interest only payments through April 2011. At that point, under the terms of a loan modification, all net cash flow from the Rex CDP properties will be applied to the outstanding principal balance of the construction loan through December 2010. Beginning in January 2011, 50% of the net cash flow from properties will be applied to the outstanding principal balance of the construction loan until the note becomes due in March 2012. In addition to these payments, monthly principal and interest payments begin in May 2011, with a final balloon payment due and payable on March 31, 2012.

NOTE 6 LONG-TERM DEBT (CONTINUED)

Construction Loan (Continued)
Proceeds from the loan are drawn for specific projects in the Wakefield development and are allocated to the appropriate Co-Borrower for each project. Repayments of the loan will be made primarily using proceeds from lease rental payments from various lessees (See Note 10). The total maximum amount allowable under the loan is $38,360,707, of which, approximately $31,544,000 was outstanding at June 30, 2010 (in $000's):

Rex Wakefield Wellness, LLC	$ 7,547
Rex CDP Ventures, LLC	5,342
Rex CDP Ventures-HT LLC	2,369
Wakefield Rex Investors MOB, LLC	16,286
	$ 31,544

The loan is collateralized by the real property. Each of the four individual Co-Borrowers are jointly and severally liable for repayment of the loan. The loan is guaranteed by Enterprises.

Obligations Under Capital Lease
Rex has entered into non-cancellable capital lease obligations for several pieces of equipment as of June 30, 2009 which expire at various dates through 2015.

Total future debt service requirements subsequent to June 30, 2010 are as follows (in $000's):

	Bonds	Tax-Exempt Financing	Construction Loan	Obligations Under Capital Lease	Interest	Total
Year Ending June 30:						
2011	$ 6,305	$ 3,231	$ 1,175	$ 1,133	$ 4,395	$ 16,239
2012	6,590	-	30,369	908	4,555	42,422
2013	6,915	-	-	404	3,076	10,395
2014	7,265	-	-	20	2,730	10,015
2015	7,625	-	-	2	2,367	9,994
2016-2020	27,220	-	-	-	6,542	33,762
2021-2023	12,495	-	-	-	1,270	13,765
Total Payments	74,415	$ 3,231	$ 31,544	$ 2,467	$ 24,935	$ 136,592
Unamortized Bond Discount	(509)	-	-	-	-	(509)
Total Debt Service	$ 73,906	$ 3,231	$ 31,544	$ 2,467	$ 24,935	$ 136,083

NOTE 7 LINE OF CREDIT

During the year ended June 30, 2009, the Hospital entered into a note agreement for a short-term revolving line of credit with a financial institution for an amount up to $50,000,000 to support short-term normal operating expenses and to enhance liquidity. The line of credit is collateralized by the Hospital's accounts receivable. Interest is due and payable monthly at the monthly London Inter-Bank Offered Rate ("LIBOR") plus 1.25 percent. The outstanding principal amount along with any accrued interest will be due upon the maturity date of March 31, 2011. The Hospital has not drawn any proceeds on this line of credit, thus, at June 30, 2010, there was no outstanding balance.

NOTE 8 RELATED PARTY TRANSACTIONS

UNCHCS provides certain administrative, management, legal and contracting services to Rex. Rex paid UNCHCS approximately $4,087,000 and $2,439,000 for such services during the years ended June 30, 2010 and 2009, respectively. UNCHCS paid Rex approximately $238,000 and $413,000 for such services during the years ended June 30, 2010 and 2009, respectively.

Under a management agreement effective January 1, 2000, UNCHCS assumed responsibility for the management and day-to-day operations of Rex Home Services, Inc. In return, UNCHCS receives the full amount of any net profit from Rex Home Services, Inc. or reimburses Rex Home Services, Inc. for the full amount of any net loss from such operations. During the years ended June 30, 2010 and 2009, this agreement resulted in approximately $1,098,000 and $2,027,000, respectively, paid to UNCHCS.

The preceding and other transactions resulted in net payables due to UNCHCS of approximately $240,000 and $840,000 as of June 30, 2010 and 2009, respectively, which is included in accrued expenses and other liabilities in the accompanying combined balance sheets.

The Hospital paid QTS (an equity investment, discussed in Note 2) approximately $1,343,000 and $1,310,000 for laundry services during the years ended June 30, 2010 and 2009, respectively.

The Hospital paid Rex Cary MOB, LLC (an equity investment discussed in Note 2) approximately $820,000 and $790,000 in rent expenditures for the use of surgical and office suites during the years ended June 30, 2010 and 2009, respectively.

Rex MOB Partners, LLC (a cost based investment discussed in Note 2) paid the Hospital approximately $134,000 and $260,000 for rent during the years ended June 30, 2010 and 2009, respectively.

NOTE 9 EMPLOYEE BENEFITS

Rex Employees' Retirement Plan
The Hospital sponsors the Rex Employees' Retirement Plan (the "Plan"), a single-employer defined benefit retirement plan available to eligible employees. The benefit formula is based on the highest five consecutive years of an employee's compensation during the 10 plan years preceding retirement.

During the year ended June 30, 2009, the Hospital amended the Plan to (1) reduce early retirement benefits by increasing the retirement age from 62 to 65, and (2) freeze access to the Plan for eligible employees hired after February 1, 2009. In addition, the Hospital revised certain actuarial assumptions to (1) change the amortization period for gains and losses from 10 to 30 years and (2) change the asset valuation method from 20% to 30% above and below market value. The impact of the Plan amendments and the changes in actuarial assumptions reduced the annual pension cost by approximately $4,850,000 for the year ended June 30, 2009.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 9 EMPLOYEE BENEFITS (CONTINUED)

Funding amounts for the Plan are based upon actuarial calculations. The Plan utilized the projected unit-credit method to determine the annual contributions. The Hospital contributed approximately $6,141,000 and $6,283,000 to the Plan in 2010 and 2009, respectively. There are no employee contributions to the Plan.

Plan assets held in trust on behalf of the Plan participants consisted primarily of equity securities, U.S. Treasury securities and corporate bonds at June 30, 2010 and 2009. The actuarial value of Plan assets was determined by using a five-year moving average method.

The following table shows the trend in Rex's annual pension cost (APC), percentage of APC contributed, and net pension asset (in $000's):

	Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
Fiscal Year Ending:			
June 30, 2010	$ (6,141)	100.00 %	$ -
June 30, 2009	(6,283)	100.00	-
June 30, 2008	(5,950)	100.00	-

As of January 1, 2010, the most recent actuarial valuation date, the Plan was 86.8% funded. The actuarial accrued liability for benefits was approximately $171,627,000 and the actuarial value of assets was approximately $149,019,000 resulting in an unfunded actuarial accrued liability of approximately $22,608,000. The covered payroll was approximately $192,666,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.87%.

The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Combined Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The following assumptions were used in the January 1, 2010 and 2009 actuarial variations:

Inflation Rate	3.00%
Investment Rate of Return	8.00%
Projected Salary Increases	3.75%

Tax Deferred Annuity Retirement Plan
The Hospital sponsors a defined contribution retirement plan covering substantially all employees. The Hospital 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. Employer contributions totaled approximately $5,402,000 and $5,215,000 for the years ended June 30, 2010 and 2009, respectively. Participant contributions totaled approximately $13,648,000 and $13,191,000 for the years ended June 30, 2010 and 2009, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Commitments

The Hospital has entered into certain agreements, in connection with ongoing development and support of its electronic medical records system. Future minimum payments are as follows at June 30, 2010 (in $000's):

Year Ending June 30:	
2011	$ 110
2012	468
	$ 578

In connection with the Wakefield development (see Note 6), the Hospital has entered into a lease with Wellness to lease the wellness center. In addition, the Hospital entered into a lease with MOB for part of the medical office building. Rex has certain other noncancelable operating leases for the rental of office space and equipment. Future rent payments under these leases subsequent to June 30, 2010 are as follows (in $000's):

Year Ending June 30:	Wellness Center	Medical Office Building	Office Space and Equipment	Total
2011	$ 798	$ 1,518	$ 5,162	$ 7,478
2012	798	1,545	4,400	6,743
2013	798	1,573	3,285	5,656
2014	835	1,602	2,100	4,537
2015	862	1,630	1,808	4,300
2016-2020	4,418	8,605	7,882	20,905
2021-2025	4,771	9,249	5,580	19,600
2026-2029	3,434	7,162	-	10,596
	$ 16,714	$ 32,884	$ 30,217	$ 79,815

Total rental expense, including rental expense under noncancelable leases, was approximately $8,626,000 and $5,627,000 for the years ended June 30, 2010 and 2009, respectively.

Contingencies

The Hospital self-insures a portion of its workers' compensation exposure up to $350,000 per claim. An accrual for the self-insurance program is established to provide for estimated claims and losses and applicable legal expenses for claims incurred through June 30, 2009 but not reported. This accrual was determined by an actuary and totaled approximately $1,743,000 and $1,418,000 at June 30, 2010 and 2009, respectively. The accrual is included in accrued expenses and other liabilities in the accompanying combined balance sheets. Commercial insurance has been obtained for coverage in excess of the self-insured amounts.

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Hospital self-insures a portion of its employee health benefits exposure up to $200,000 per incident. An accrual for the self-insurance program is established to provide for estimated claims and losses and applicable legal expenses for claims incurred through June 30, 2010 but not reported. This accrual was determined by an actuary and totaled approximately $2,135,000 and $1,955,000 at June 30, 2010 and 2009, respectively. The accrual is included in accrued expenses and other liabilities in the accompanying balance sheets. Commercial insurance has been obtained for coverage in excess of the self-insured amounts.

Rex is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on Rex's financial position or results of operations.

During 2004, the Hospital entered into an agreement whereby patients without insurance that meet contractually specified criteria can apply for medical loans from a third-party lender. Under this medical loan program, approved patients owe the third-party lender and the Hospital receives payment and recognizes revenue at the time medical services are provided. The Hospital is then contingently obligated to repurchase accounts receivable balances once the borrower does not make three scheduled monthly payments. Total accounts which the Hospital could possibly be required to repurchase were approximately $409,000 and $557,000 at June 30, 2010 and 2009, respectively. The Hospital establishes a reserve for accounts it believes it will have to repurchase based on historical experience with this program. The Hospital reserved approximately $49,000 and $59,000 for potential recourse that was included in the net accounts receivable, at June 30, 2010 and 2009, respectively.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

Management believes Rex is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed.

NOTE 11 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, Rex also recognizes its responsibility to provide health care services and programs for the benefit of the community, at no cost or at reduced rates. Rex 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 Rex Healthcare Emergency Response Team provides emergency aid and medical treatment at special events in the Wake County area. Rex 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 statements of revenues, expenses and changes in net assets.

CHATHAM HOSPITAL, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2011 AND 2010

CHATHAM HOSPITAL, INC.
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LarsonAllen LLP

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Chatham Hospital, Inc.
Siler City, North Carolina

We have audited the accompanying balance sheets of Chatham Hospital, Inc. (the "Hospital') as of June 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2011 and 2010, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 2011, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Accordingly, we express no such opinion. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LarsonAllen LLP

LarsonAllen LLP

Charlotte, North Carolina
August 30, 2011

Overview

The Management's Discussion and Analysis section of Chatham Hospital, Inc.'s annual financial report is designed to provide a general overview of the financial position and operating results for the years ended June 30, 2011 and 2010. This analysis should be read in conjunction with the financial statements and related notes which follow this discussion and analysis.

Chatham Hospital, Inc. (the "Hospital") is a private, not-for-profit health care organization located in Siler City, North Carolina. The facility is a 25-bed critical access hospital. The Hospital has a 70-year history of providing quality health services. The Hospital provides comprehensive care, including emergency, general surgery, intensive care, lab, CT, MRI, nuclear medicine, pharmacy, cardio-pulmonary, cardiac rehabilitation, physical therapy, and diabetes education on its campus.

Current Year Events

The economic downturn continued to hit Chatham County hard during the year ended June 30, 2011. Inpatient utilization and payer mix have declined resulting in lower than anticipated revenues. Growing pains, negatively impacting cash flow, were experienced with the implementation of a new Meditech Module for Billing/Patient Accounts Receivable as of July 1, 2010. Additionally, a large bad debt write-off was taken as a result of the cleanup of old patient accounts receivable in conjunction with the system conversion.

Despite these challenging conditions, positive things are happening at the Hospital. A newly constructed 31,000 square foot Medical Office Building opened in February 2011. The Hospital's diabetes education, physical therapy, cardiac rehabilitation, business office and information services departments are permanently housed there. Tenants leasing clinic space in the building include Chatham Primary Care, an ENT physician group and a podiatrist. Subsequent to year end, a UNC General Surgery Clinic was started one day a week with procedures to be performed at the Hospital. Also housed within the Medical Office Building are crew quarters for a University of North Carolina Health Care System ("UNCHCS") helicopter based at the Hospital.

Another service enhancement strategy aimed at increasing medical admissions is the development of a seven-day per week hospitalist program. The Hospital has historically only had hospitalist coverage on the weekends. Community physicians have remarked they sometimes refer patients for admission to other area hospitals because they are unable to take time away from their office practices to make hospital rounds. Responding to this need, the Hospital began a seven-day a week hospitalist program in July 2011 utilizing UNC HCS physicians. Additionally, a UNC HCS cardiologist will be on-site four days a week performing consults and providing medical direction for the Cardiac Rehabilitation program.

The eighteen-month Hospital Information Systems implementation continued with the go live of Laboratory, Emergency Department, Pharmacy, Surgical Services, Imaging, Cardiopulmonary, Nursing Documentation, Order Entry and Health Information Management modules during 2011. Upcoming modules scheduled for implementation include Physician Order Entry, Electronic Medical Records, and Data Repository.

CHATHAM HOSPITAL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

Using this Financial Report

The Hospital's financial statements report information by using accounting methods similar to those used by private-sector health organizations. These statements offer short-term and long-term financial information about its activities.

Balance Sheet

The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

Statement of Revenues, Expenses and Changes in Net Assets

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of the Hospital operation over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its fees and other sources of revenue, profitability and credit worthiness.

Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities. It also provides answers to such questions as where cash comes from, what cash was used for and what the change in the cash balance was during the reporting period.

Notes to the Financial Statements

Notes to the financial statements are designed to give the reader additional information concerning the Hospital and further supports the statements noted above.

Financial Analysis

The statement of revenues, expenses and changes in net assets reports the net assets of the Hospital and the changes affecting them. The Hospital's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation.

Condensed Balance Sheets

The following condensed balance sheets show the financial position of the Hospital at June 30, 2011, 2010 and 2009:

	2011	2010	2009
ASSETS			
Current Assets	$ 10,513,916	$ 14,021,322	$ 10,920,488
Capital Assets, Net	29,863,383	25,999,023	26,346,238
Noncurrent Assets	5,500,033	10,330,843	7,621,092
Total Assets	$ 45,877,332	$ 50,351,188	$ 44,887,818
LIABILITIES			
Long-Term Debt, Including Current Portion	$ 30,019,382	$ 32,904,236	$ 34,037,218
Other Liabilities	2,912,567	3,633,399	4,672,188
Total Liabilities	32,931,949	36,537,635	38,709,406
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,265,453	(1,948,366)	101,841
Restricted	78,840	608,276	426,980
Unrestricted	8,601,090	15,153,643	5,649,591
Total Net Assets	12,945,383	13,813,553	6,178,412
Total Liabilities and Net Assets	$ 45,877,332	$ 50,351,188	$ 44,887,818

Current assets decreased approximately $3,507,000 (25%) from the prior year. The current year decrease results from a decrease in investments which were used to fund the construction of the new Medical Office Building and a decrease in net patient accounts receivable associated with a clean-up of old accounts in conjunction with the system conversion.

In 2010, current assets increased approximately $3,101,000 (28%) over 2009. The 2010 increase resulted from an increase in net accounts receivable, estimated third-party settlements, release by HUD of the bond escrow trust fund, and capital contribution by UNCHCS, sole member of the Hospital.

In 2011, our long-term debt decreased by approximately $2,885,000 due to payment in full of a $2 million note payable to UNC Hospitals, regular bond payments and amortization of the bond premium. In 2010, our long-term debt decreased by approximately $1,133,000 due to payments on the debt and amortization of the bond premium

Net assets decreased $868,000 (6%) during 2011 primarily due to the reductions noted above mitigated by the capital contributed by UNCHCS. For further information on this change, see the following statement of revenues, expenses and changes in net assets.

CHATHAM HOSPITAL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

Capital Assets

The Hospital's investment in capital assets consisted of the following at June 30, 2011, 2010 and 2009:

	2011	2010	2009
Land	$ 444,983	$ 444,983	$ 444,983
Buildings and Improvements	31,886,468	26,927,322	25,871,462
Equipment and Fixtures	7,407,701	6,395,861	5,859,560
Total Capital Assets	39,739,152	33,768,166	32,176,005
Accumulated Depreciation	(9,875,769)	(7,769,143)	(5,829,767)
Total Capital Assets, Net	$ 29,863,383	$ 25,999,023	$ 26,346,238

The increase in the Hospital's investment in capital assets in 2011 and 2010 represents purchases of capital assets, net of disposals and depreciation expense, primarily the Meditech Hospital Information System and the newly completed Medical Office Building.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

While the balance sheet shows the financial position of the Hospital, the following statements of revenues, expenses and changes in net assets provide answers to the nature and source of these changes for the years ended June 30, 2011, 2010 and the nine-month period ended June 30, 2009:

	2011	2010	2009 (nine-months)
Operating Revenues	$ 17,249,347	$ 19,897,957	$ 15,244,538
Operating Expenses	23,968,018	21,985,841	15,796,373
Operating Loss	(6,718,671)	(2,087,884)	(551,835)
Non-Operating Income	350,301	251,388	184,932
Deficit of Revenues Under Expenses	(6,368,370)	(1,836,496)	(366,903)
Other Changes in Net Assets	5,500,200	9,471,637	478,488
Increase (Decrease) in Net Assets	(868,170)	7,635,141	111,585
Net Assets - Beginning of Year	13,813,553	6,178,412	6,066,827
Net Assets - End of Year	$ 12,945,383	$ 13,813,553	$ 6,178,412

Operating Loss

Gross patient revenues were approximately $41,341,000, $43,777,000 and $33,228,000 for the years ended June 30, 2011, 2010 and the nine-month period ended June 30, 2009, respectively. Under GASB, bad debts are presented as a deduction from revenues. Other significant changes in operating expenses in 2011 include an increase of 24.4% in supplies (mostly non-capital equipment to furnish the new Medical Office Building); an increase of 23.0% in contracted services (mostly clinical and administrative services purchased from UNCHCS); an increase of 4.7% in salaries and wages; and, an increase of 6.0% in benefits.

Operating revenues and expenses consisted of the following for the years ended June 30, 2011, 2010 and the nine-month period ended June 30, 2009:

	2011	2010	2009 (nine-months)
Operating Revenues	$ 17,249,347	$ 19,897,957	$ 15,244,538
Salaries and Wages	10,809,174	10,298,842	7,415,764
Medical Supplies and Other	9,445,528	7,870,237	5,498,452
Depreciation and Amortization	2,181,249	2,084,101	1,321,064
Interest	1,366,057	1,306,274	1,132,500
Other	166,010	426,387	428,593
	23,968,018	21,985,841	15,796,373
Operating Loss	$ (6,718,671)	$ (2,087,884)	$ (551,835)

Non-Operating Revenues

Non-operating revenues consisted of the following for the years ended June 30, 2011, 2010 and the nine-month period ended June 30, 2009:

	2011	2010	2009 (nine-months)
Investment Income	$ 169,958	$ 140,114	$ 117,907
Physician's Office Rental, Net	144,745	69,205	29,998
Noncapital Grants and Contributions	34,009	29,000	34,771
Other	1,589	13,069	2,256
Total Non-Operating Revenues	$ 350,301	$ 251,388	$ 184,932

Other Changes in Net Assets

Other changes in net assets in the current year include contributed capital from UNCHCS of $5,500,000. In 2010, other changes in net assets include capital contributions of approximately $488,000 and contributed capital from UNCHCS of approximately $8,984,000 (approximately $6,744,000 for the construction of the new medical office building and approximately $2,240,000 for the remaining commitment for future development of health care services as specified in the July 2008 Acquisition Agreement).

Finance Contact

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have any questions about this report, or need additional financial information, inquiries may be sent to: Chief Financial Officer, Chatham Hospital, Inc., 475 Progress Boulevard, Siler City, North Carolina 27344.

ASSETS	2011	2010
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,320,459	$ 2,719,595
Restricted Assets Held by Trustee Under Indenture Agreement	-	918,540
Investments	605,709	2,564,155
Patient Accounts Receivable (Net of Allowance for Estimated Uncollectibles of Approximately $5,790,000 in 2011 and $4,571,000 in 2010)	3,878,973	5,516,232
Other Receivables	358,183	279,220
Unconditional Promises to Give	70,451	95,525
Estimated Third-Party Payor Settlements	1,896,655	1,442,337
Inventories	316,159	408,101
Prepaid Expenses	67,347	77,617
Total Current Assets	10,513,916	14,021,322
UNCONDITIONAL PROMISES TO GIVE, LESS CURRENT PORTION, NET	8,389	37,665
RESTRICTED ASSETS		
Held by Trustee Under Indenture Agreement, Less Current Portion	4,421,452	4,038,307
Internally Designated for Capital Improvement	-	5,108,684
CAPITAL ASSETS, NET	29,863,383	25,999,023
DEFERRED FINANCING COSTS, NET	1,038,511	1,113,134
OTHER ASSETS	31,681	33,053
	35,363,416	36,329,866
Total Assets	$ 45,877,332	$ 50,351,188
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 750,000	$ 770,000
Accounts Payable	1,015,964	1,702,667
Accrued Expenses	1,896,603	1,930,732
Total Current Liabilities	3,662,567	4,403,399
LONG-TERM DEBT, Less Current Portion	29,269,382	32,134,236
Total Liabilities	32,931,949	36,537,635
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	4,265,453	(1,948,366)
Restricted:		
Expendable for Capital Improvements	78,840	608,276
Unrestricted	8,601,090	15,153,643
Total Net Assets	12,945,383	13,813,553
Total Liabilities and Net Assets	$ 45,877,332	$ 50,351,188

See accompanying Notes to Financial Statements.

CHATHAM HOSPITAL, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of Approximately $8,725,000 in 2011 and $8,601,000 in 2010)	$ 16,492,271	$ 19,150,679
Change in Estimate in Third-Party Payor Settlements	622,318	653,897
Other Operating Revenue	134,758	93,381
Total Operating Revenues	17,249,347	19,897,957
OPERATING EXPENSES		
Salaries and Wages	8,618,317	8,231,044
Employee Benefits	2,190,857	2,067,798
Medical Supplies and Other Expenses	9,445,528	7,870,237
Depreciation and Amortization	2,181,249	2,084,101
Interest Expense	1,366,057	1,306,274
Other	166,010	426,387
Total Operating Expenses	23,968,018	21,985,841
OPERATING LOSS	(6,718,671)	(2,087,884)
NON-OPERATING REVENUES		
Investment Income	169,958	140,114
Physician's Office Rental, Net	144,745	69,205
Noncapital Gains and Contributions	34,009	29,000
Other	1,589	13,069
Total Non-Operating Revenues, Net	350,301	251,388
Deficit of Revenues Under Expenses	(6,368,370)	(1,836,496)
Capital Contributions	200	487,591
Capital Contributed from Sole Member	5,500,000	8,984,046
INCREASE (DECREASE) IN NET ASSETS	(868,170)	7,635,141
Net Assets, Beginning of Year	13,813,553	6,178,412
NET ASSETS - END OF YEAR	$ 12,945,383	$ 13,813,553

See accompanying Notes to Financial Statements.

CHATHAM HOSPITAL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Patients and Third-Party Payors	$ 18,297,530	$ 17,896,021
Payments to Employees for Services and Benefits	(10,830,684)	(10,202,659)
Payments to Suppliers and Contractors	(10,327,890)	(8,862,275)
Other Operating Payments	(1,565,734)	(1,336,572)
Net Cash Used in Operating Activities	(4,426,778)	(2,505,485)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Grants and Contributions	34,009	29,000
Other	146,334	82,274
Net Cash Provided by Noncapital Financing Activities	180,343	111,274
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collections on Unconditional Promises to Give	54,350	87,000
Purchases of Capital Assets	(5,685,734)	(1,592,162)
Capital Contributions	200	487,591
Capital Contributed from Sole Member	5,500,000	8,984,046
Principal Payments on Long-Term Debt	(2,794,000)	(959,421)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(2,925,184)	7,007,054
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Change in Assets Held by Trustee Under Indenture Agreement	5,644,079	(2,272,709)
Realized Investment Income	227,363	180,567
Net Change in Investments	1,901,041	(1,921,469)
Net Cash Provided by (Used in) Investing Activities	7,772,483	(4,013,611)
NET INCREASE IN CASH	600,864	599,232
Cash and Cash Equivalents - Beginning of Year	2,719,595	2,120,363
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,320,459	$ 2,719,595

See accompanying Notes to Financial Statements.

CHATHAM HOSPITAL, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (6,718,671)	$ (2,087,884)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	2,106,626	1,939,377
Amortization of Deferred Financing Costs	74,623	144,723
Amortization of Bond Premium	(90,854)	(173,561)
Provision for Bad Debts	8,725,194	8,601,164
Change in Discount on and Provision for Uncollectible Unconditional Promises to Give	-	-
Net Changes in Operating Assets and Liabilities:		
Patient Accounts Receivable	(7,087,935)	(9,658,071)
Other Receivables	(78,943)	476,270
Inventories	91,942	(46,634)
Prepaid Expenses	11,642	132,179
Accounts Payable	(971,955)	(1,057,310)
Accrued Expenses	(34,129)	75,910
Estimated Third-Party Payor Settlements	(454,318)	(851,648)
Net Cash Used in Operating Activities	$ (4,426,778)	$ (2,505,485)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	$ 1,378,676	$ 1,325,011
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of Capital Assets Included in Accounts Payable	$ 285,252	$ -

See accompanying Notes to Financial Statements.

CHATHAM HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Chatham Hospital, Inc. (the "Hospital"), located in Siler City, North Carolina, is a nonprofit critical access hospital providing general short-term medical and surgical patient services. The University of North Carolina Health Care System ("UNCHCS") is the sole corporate member of Chatham Hospital, Inc.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

Basis of Accounting

The accompanying financial statements are prepared and presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as recommended in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to health care organizations.

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply to provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts whose use is limited.

Investments

Investments consist of mutual funds and certificates of deposit with original maturities over three months. The mutual funds are recorded at fair market value.

NOTE 1 NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Receivables

Patient accounts receivable are reported at estimated net realizable amounts from patients and responsible third-party payors. Amounts owed to the Hospital are reported net of allowances for contractual adjustments and uncollectible accounts. Specific patient balances are written off at the time they are determined to be uncollectible. The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. In this regard, the Hospital has implemented a standardized approach to estimate and review the collectibility of its receivables based on patient receivable aging trends. Historical collection and payor reimbursement experience is an integral part of the estimation process related to determining allowance for contractual adjustments and uncollectible accounts. In addition, the Hospital assesses the current state of its billing functions in order to identify any known collection or reimbursement issues to determine the impact, if any, on its reserve estimates, which involve judgment. Revisions in reserve estimates are recorded as an adjustment to net patient service revenue or as provision for uncollectible accounts.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Market is considered to be replacement cost or net realizable value.

Capital Assets

Capital assets are recorded at cost. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Donated property and equipment are recorded at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements, and 3 to 25 years for equipment and fixtures.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs for major renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, the asset and related accumulated depreciation accounts are relieved and any gain or loss is credited or charged to non-operating revenues and expenses.

Deferred Financing Costs

Deferred financing costs on long-term debt are being amortized using the effective interest method over the life of the related long-term debt.

Restricted Assets

Restricted assets include assets that are held by trustees under indenture agreements and assets that are internally designated for capital improvements.

CHATHAM HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Compensated Absences

The vacation policy of the Hospital provides for the accumulation of up to 500 hours earned vacation leave with such leave being fully vested when earned and after 90 days of employment.

Net Assets

Net assets of the Hospital are classified into the following components:

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation plus any unspent funds from outstanding borrowings and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Resources

Resources restricted by donor-imposed stipulations are used before unrestricted resources.

Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals, governments, and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenues. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

NOTE 1 NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Income Taxes

The Hospital is incorporated as a nonprofit organization under the laws of the state of North Carolina and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 INVESTMENTS AND RESTRICTED ASSETS

Investments are stated at fair value and are comprised of the following at June 30, 2011 and 2010:

	2011	2010
Mutual Funds	$ 506,408	$ 475,086
Money Market Funds	-	1,999,000
Certificates of Deposit	99,301	90,069
	$ 605,709	$ 2,564,155

As of June 30, 2011 and 2010, the Hospital has certain investments held by a trustee which include investments restricted for the construction of capital assets and debt service fund in accordance with the 2007 bond issue. Assets are invested in money market funds and are stated at fair value. The composition of restricted assets at June 30, 2011 and 2010 is set forth in the following table:

	2011	2010
Held by Trustee Under Indenture Agreement		
Restricted for the Construction of Capital Assets	$ -	$ 918,540
Mortgage Reserve Fund	1,003,983	605,217
Debt Service Reserve Fund	3,417,469	3,433,090
	4,421,452	4,956,847
Less Current Portion	-	(918,540)
Total	$ 4,421,452	$ 4,038,307
Internally Designated for Capital Improvement	$ -	$ 5,108,684

NOTE 2 INVESTMENTS AND RESTRICTED ASSETS (CONTINUED)

Interest Rate Risk – The Hospital has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Hospital's investment policy allows it to invest in (i) interest bearing time deposits, certificates of deposit or other approved forms of deposits, (ii) corporate notes and bonds and (iii) equity securities.

Investment income is comprised of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Interest and Dividends	$ 81,231	$ 110,012
Realized Gains, Net	57,405	40,453
Unrealized Gains (Losses), Net	31,322	(10,351)
	$ 169,958	$ 140,114

NOTE 3 ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Patient Accounts Receivable

The Hospital provides services primarily to the residents of Chatham County and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and the formalized agreements with third-party payors. The Hospital has significant accounts receivable for which collectibility is dependent upon the performance of certain governmental programs, primarily Medicare and Medicaid. Management does not believe there are significant credit risks associated with these governmental programs. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of patient receivables. The allowance is based on historical collection experience and a review of the current status of existing receivables.

The mix of receivables from patients and third-party payors as of June 30, 2011 and 2010 is as follows:

	2011	2010
Medicare	$ 2,114,831	$ 5,523,729
Medicaid	425,042	537,831
Blue Cross	418,334	706,779
Other Third-Party Payors	935,832	327,183
Patients	7,665,699	6,349,234
Gross Patient Accounts Receivable	11,559,738	13,444,756
Less Contractual Allowances	(1,890,793)	(3,357,085)
Less Allowance for Estimated Uncollectibles	(5,789,972)	(4,571,439)
	$ 3,878,973	$ 5,516,232

NOTE 3 ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND ACCRUED EXPENSES (CONTINUED)

Accounts Payable and Accrued Expenses

Accounts payable (including accrued expenses) reported as current liabilities by the Hospital as of June 30, 2011 and 2010 is as follows:

	2011	2010
Payable to Suppliers	$ 897,087	$ 1,083,804
Payable to UNCHCS	118,877	618,863
Payable to Employees (Including Payroll Taxes)	1,306,344	1,327,854
Bond Interest Expense Payable	590,259	602,878
Total Accounts Payable and Accrued Expenses	$ 2,912,567	$ 3,633,399

NOTE 4 UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recorded after discounting to the present value the expected future cash flows. The following is a summary of unconditional promises to give as of June 30, 2011 and 2010:

	2011	2010
Receivable in Less than One Year	$ 105,675	$ 95,525
Receivable in One to Five Years	10,000	74,500
	115,675	170,025
Less Discounts to Net Present Value (at 4.9%)	(1,611)	(7,035)
Less Allowance for Uncollectible Promises to Give	(35,224)	(29,800)
Unconditional Promises to Give, Net	$ 78,840	$ 133,190

NOTE 5 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Hospital is classified as a critical access hospital where inpatient acute and non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

NOTE 5 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicare (continued)

The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Approximately 61% and 56% of the Hospital's net patient service revenue was derived from Medicare for the years ended June 30, 2011 and 2010, respectively.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid for at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by Medicaid. Approximately 11% and 9% of the Hospital's net patient service revenue was derived from Medicaid for the years ended June 30, 2011 and 2010, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

At June 30, 2011 audits or desk reviews of reimbursements for fiscal year 2007 and prior years have been completed for both Medicare and Medicaid. The amount included on the balance sheet for estimated third-party payor settlements is based upon tentative settlements for the prior year and an estimated settlement for the year ended June 30, 2011.

Prior to 2006, the Hospital participated in a voluntary Medicaid disproportionate share program (the "Program"). The Program allowed the Hospital to receive additional annual Medicaid funding. Prior to 2001, funding was received prior to final approval of the Program by the Centers for Medicare and Medicaid Services ("CMS") and was subject to final settlement by the state of North Carolina once approved by CMS. In general, the Hospital's policy was to defer 25% of receipts, until CMS approved the Program, at which time the Hospital recognized the portion deferred as revenue. Payments under this program required regulatory approval prior to disbursement and were subject to audit by the fiscal intermediary. During 2006, the state of North Carolina reached a final settlement with the Hospital for the Program years 1997 through 2002. In accordance with the terms of the settlement, the Hospital was not required to refund any of the amounts received that related to those years, and the Hospital recognized all deferred balances relating to those years as income in 2006. During 2008, a final settlement for 2003 was reached with no repayment required.

NOTE 5 NET PATIENT SERVICE REVENUE (CONTINUED)

Due to the fact that the payments in connection with the Program for the years 2004 through 2006 are still subject to final settlement by the state of North Carolina, refunding of the amounts received may be required. No reserve was considered necessary by management at June 30, 2011 and 2010.

The Hospital also has payment arrangements with certain commercial insurance carriers.

A summary of gross and net patient service revenue for the years ended June 30, 2011 and 2010 follows:

	2011	2010
Gross Patient Service Revenue	$ 41,341,037	$ 43,776,940
Less Provision for:		
Contractual Adjustments	(16,123,572)	(16,025,097)
Provision for Bad Debts	(8,725,194)	(8,601,164)
Net Patient Service Revenue	$ 16,492,271	$ 19,150,679

NOTE 6 CAPITAL ASSETS

Capital assets for the years ended June 30, 2011 and 2010 are as follows:

	Balance June 30, 2010	Additions	Transfers/ Retirements	Balance June 30, 2011
Non-Depreciable Assets				
Land	$ 444,983	$ -	$ -	$ 444,983
Construction-in-Progress	1,419,740	4,959,146	(6,378,886)	-
Depreciable Assets				
Buildings and Improvements	25,507,582	-	6,378,886	31,886,468
Equipment and Fixtures	6,395,861	1,011,840	-	7,407,701
	33,768,166	5,970,986	-	39,739,152
Less Accumulated Depreciation	(7,769,143)	(2,106,626)	-	(9,875,769)
Capital Assets, Net	$ 25,999,023	$ 3,864,360	$ -	$ 29,863,383

	Balance June 30, 2009	Additions	Transfers/ Retirements	Balance June 30, 2010
Non-Depreciable Assets				
Land	$ 444,983	$ -	$ -	$ 444,983
Construction-in-Progress	315,954	1,103,786	-	1,419,740
Depreciable Assets				
Buildings and Improvements	25,498,119	9,463	-	25,507,582
Equipment and Fixtures	5,916,948	478,913	-	6,395,861
	32,176,004	1,592,162	-	33,768,166
Less Accumulated Depreciation	(5,829,767)	(1,939,377)	-	(7,769,143)
Capital Assets, Net	$ 26,346,237	$ (347,215)	$ -	$ 25,999,023

NOTE 7 LONG-TERM DEBT

On February 8, 2007, the Hospital issued FHA Insured North Carolina Medical Care Commission (the "Commission") Mortgage Revenue Bonds, Series 2007 of $30,540,000. The bonds were issued pursuant to the Health Care Facilities Finance Act, Chapter 131A of the General Statutes of North Carolina, as amended, and a trust indenture dated as of February 1, 2007, between the Commission and The Bank of New York Trust Company, N.A., as trustee. Concurrently with the issuance of the bonds, the Commission entered into a loan agreement dated February 1, 2007.

To provide a source of repayment of such loan, the Hospital executed a Deed of Trust Note dated February 8, 2007. Payment made pursuant to the Loan Agreement and on the Series 2007 Note, together with funds available under the indenture, are required to be sufficient to pay the principal, premium, and interest on the bonds as they become due and payable. The bonds will be limited obligations of the Commission, payable solely from money received from the Hospital pursuant to the terms of the Loan Agreement and the Series 2007 Note, from payment of the FHA mortgage Insurance Benefit in the event of a default with respect to the Series 2007 Note and from amounts deposited in certain funds and accounts pursuant to the Indenture.

The Hospital's obligations under the Loan Agreement and the Series 2007 Note are secured by: 1) a deed of trust and assignment of rents, profits and income, dated February 8, 2007, granting to a deed of trust trustee named therein, for the benefit of the Trustee, a first lien on the Hospital's interest in certain real property, and 2) a Security Agreement granting a security interest in certain personal property of the Hospital. The Department of Housing and Urban Development (HUD), acting by and through FHA, insures the advances of funds secured by the mortgage pursuant to the Section 242 of Title II of the National Housing Act, as amended. The Hospital has entered into an FHA Regulatory Agreement, a building loan agreement with the trustee, and certain other documents delivered to FHA and the Trustee, as beneficiary under the mortgage, relating to the FHA security.

The bonds are subject to mandatory sinking fund requirements prior to their due dates. There are certain covenants associated with the Series 2007 bonds that are outlined in the master trust indenture, loan agreement, and regulatory agreement. The most restrictive of these covenants requires maintenance of a long-term debt service coverage ratio, as defined, of greater than 1.2. Management acknowledges the Hospital was in violation of certain covenants and requirements of those agreements at June 30, 2011. In accordance with the agreements, the Hospital is in the process of complying with such covenants and requirements by taking corrective action. The Hospital engaged a consultant with Critical Access Hospital expertise to assist in preparation of the Medicare and Medicaid cost report. In addition, the Hospital is consulting with expert personnel within the UNC Health Care System to improve operations. Management believes these actions will produce results to bring the Hospital in compliance with the covenants. Accordingly, the debt is classified as long-term in the balance sheet at June 30, 2011.

NOTE 7 LONG-TERM DEBT (CONTINUED)

At the time of the February 2007 bond issue, the University of North Carolina Hospitals ("UNCH") loaned the Hospital approximately $1,999,000 to use as a collateral cash escrow for HUD. The note required monthly payments of approximately $37,000, including simple interest at prime plus 1% (3.25% at June 30, 2011) for 60 months once HUD terminated the escrow and released the collateral cash escrow to the Hospital. The escrow was terminated by HUD in March 2010; however, UNCH amended the agreement with the Hospital to defer the commencement of required repayments until fiscal year 2012. During the year ended June 30, 2011, the Hospital early retired the $1,999,000 note payable with proceeds from a contribution received from UNCHCS.

Long-term debt consisted of the following as of June 30, 2011 and 2010:

	2011	2010
North Carolina Medical Care Commission FHA-Insured Mortgage Revenue Bonds, Series 2007; Serial and Term Bonds with Principal Maturing in Varying Annual Amounts through Fiscal Year 2034, and Interest Paid Semi-Annually at Rates Ranging from 4.00% to 5.25%.	$ 28,755,000	$ 29,550,000
Promissory Note to University of North Carolina Hospitals	-	1,999,000
	28,755,000	31,549,000
Plus Unamortized Premium	1,264,382	1,355,236
Less Current Portion	(750,000)	(770,000)
	$ 29,269,382	$ 32,134,236

A schedule of changes in the Hospital's long-term debt for the years ended June 30, 2011 and 2010 follows:

	Balance June 30, 2010	Additions	Retirements, Net	Balance June 30, 2011	Amounts Due Within One Year
Notes Payable	$ 1,999,000	$ -	$ (1,999,000)	$ -	$ -
Bonds Payable	29,550,000	-	(795,000)	28,755,000	750,000
Total	$ 31,549,000	$ -	$ (2,794,000)	$ 28,755,000	$ 750,000

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amounts Due Within One Year
Notes Payable	$ 2,003,421	$ -	$ (4,421)	$ 1,999,000	$ -
Bonds Payable	30,505,000	-	(955,000)	29,550,000	770,000
Total	$ 32,508,421	$ -	$ (959,421)	$ 31,549,000	$ 770,000

NOTE 7 LONG-TERM DEBT (CONTINUED)

Maturities of long-term debt as of June 30, 2011 are as follows:

Period Ending June 30,	Bonds	Interest
2012	$ 750,000	$ 1,412,462
2013	720,000	1,380,768
2014	755,000	1,346,168
2015	785,000	1,311,199
2016	830,000	1,274,812
2017-2021	4,715,000	5,795,528
2022-2026	5,985,000	4,548,964
2027-2031	7,705,000	2,788,952
2032-2034	6,510,000	587,625
	$ 28,755,000	$ 20,446,478

On August 17, 2010, the Department of Housing and Urban Development granted final endorsement of the Hospital's Loan Agreement and Series 2007 Note for mortgage insurance under the National Housing Act, as amended, by the Federal Housing Administration, an organizational unit of the United States Department of Housing and Urban Development. Upon final endorsement, the mortgage interest rate was reduced to a permanent rate of 4.8%, a final mortgage amortization schedule created, and remaining construction funds of approximately $639,000 were released to the Hospital for purchase of outstanding equipment.

NOTE 8 LEASE OBLIGATIONS

The Hospital leases equipment under operating leases with various lease terms. Rent expense for the years ended June 30, 2011 and 2010 was approximately $139,000.

The following is a summary of future minimum lease payments for operating leases that have initial or remaining non-cancelable terms in excess of one year subsequent to June 30, 2011:

Fiscal Years Ending:	
2012	$ 138,863
2013	138,863
Total Minimum Lease Payments	$ 277,726

NOTE 9 RESTRICTED NET ASSETS

Restricted net assets consisted of the following at June 30, 2011 and 2010:

	2011	2010
"The New Chatham Hospital, Inc." to Support Construction and Equipment for the New Hospital	$ 78,840	$ 608,276

NOTE 10 RETIREMENT PLAN

The Hospital maintains a defined contribution pension plan covering substantially all employees who have completed 1,000 hours of service during the plan year and are employed by the Hospital on the last day of the plan year (June 30). Employer contributions to the plan are solely at the discretion of the Board of Trustees. Contributions of approximately $83,000 have been paid and approximately $10,000 has been accrued as of June 30, 2011. Contributions for year ended June 30, 2010 were approximately $65,000.

NOTE 11 PROFESSIONAL LIABILITY INSURANCE

The Hospital is insured under claims-made policies for the purpose of providing professional and patient care liability insurance. These policies cover only malpractice claims reported to the insurance carrier during the policy term. Coverage includes a $3,000,000 policy on professional liability limited to $1,000,000 per case and an excess coverage policy for specified aggregate amounts in excess of the basic coverage. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. Although the amount of damages is uncertain, the amount could be substantial. In addition, incidents occurring through June 30, 2011, may result in the assertion of a claim. In the opinion of the Hospital's management, any liability that might be determined upon ultimate resolution of these claims will be covered by insurance or an estimate of the losses has been accrued and will not have a material effect on the Hospital's financial position.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during their terms, but reported subsequently, would be uninsured. Management anticipates that such coverage will be renewed or replaced with equivalent insurance as they expire.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Laboratory Services

The Hospital has a contract with a laboratory company to provide on-site and off-site clinical laboratory services. Fees charged to the Hospital are based on a fixed fee plus reimbursement of variable expenses. For the years ended June 30, 2011 and 2010, approximately $514,000 and $446,000, respectively, was paid under this contract. Of these amounts, approximately $93,000 and $136,000 was accrued in accounts payable on the balance sheet at June 30, 2011 and 2010, respectively.

NOTE 13 CONCENTRATIONS OF CREDIT RISK

The Hospital maintains deposits at various financial institutions covered by federal depository insurance ("FDIC"). At various times throughout the year, the Hospital may maintain amounts in excess of the FDIC insured limits.

NOTE 14 CHARITY CARE

The amount of charges forgone for services and supplies furnished under the Hospital's charity-care policy aggregated approximately $422,000 and $224,000 for the years ended June 30, 2011 and 2010, respectively.

NOTE 15 RELATED PARTY TRANSACTIONS

Effective July 15, 2008, the Hospital restated its Articles of Incorporation providing that UNCHCS shall be the sole corporate member of the Hospital. As part of the acquisition agreement, UNCHCS assumed control of the Hospital's liabilities in the amount of $34,700,000. During the period ended September 30, 2008, UNCHCS paid the Hospital $2,000,000 as a closing payment to the agreement, and committed to additional future payments of $9,300,000 to develop or facilitate the development of health care services in Chatham County over the next seven years. Use of the committed payments is to be presented to and approved by the Hospital Board of Trustees.

Effective March 18, 2008, the Hospital entered into an agreement with UNCHCS for the transfer of $1,000,000 to the Hospital to support the provision of indigent care services in Chatham County. The agreement provided that funds be used to insure continued financial stability of the Hospital and service to patients without regard to ability to pay or payor source.

During the year ended June 30, 2011, UNCHCS made a one-time financial assistance grant of $5.5 million to the Hospital.

NOTE 15 RELATED PARTY TRANSACTIONS (CONTINUED)

Physician Services

Effective January 1, 2008 the Hospital entered into a two-year contract with the University of North Carolina at Chapel Hill, School of Medicine ("UNC-CH"), and UNCHCS to provide for the recruitment and employment of a full-time physician at the Hospital. For the years ended June 30, 2011 and 2010, the Hospital incurred expenses of approximately $0 and $200,000 under this contract, respectively.

Hospitalists

The Hospital has a contract with UNC-CH to provide weekend hospitalists. Coverage will be provided for admissions, subsequent hospital care and discharges. The one-year contract was effective through June 30, 2011 with fees for these services to be paid monthly of approximately $17,500. For the years ended June 30, 2011 and 2010, the Hospital incurred expenses of approximately $210,000 and $192,000, respectively.

Emergency Room

The Hospital has a contract with UNC-CH to provide emergency room physicians. For the years ended June 30, 2011 and 2010, approximately $1,247,000 and $1,096,000, respectively, was paid to the UNC-CH under this contract.

Hospital Management Services

Effective August 1, 2006, the Hospital entered into a five-year contract with UNCH which includes executive staffing and assistance with operations and planning. Additionally, the Hospital has entered into various other administrative and clinical services agreements with UNCH. Total costs incurred during the years ended June 30, 2011 and 2010 were approximately $1,096,000 and $820,000, respectively. Of these amounts, approximately $108,000 and $683,000 is included in accounts payable on the accompanying balance sheets at June 30, 2011 and 2010, respectively.

CHATHAM HOSPITAL, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2010 AND THE
NINE MONTHS ENDED JUNE 30, 2009

CHATHAM HOSPITAL, INC.
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NINE MONTHS ENDED JUNE 30, 2009

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LarsonAllen LLP

CPAs, Consultants & Advisors
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Chatham Hospital, Inc.
Siler City, North Carolina

We have audited the accompanying balance sheet of Chatham Hospital, Inc. (the "Hospital") as of June 30, 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the nine-month period ended June 30, 2009 were audited by other auditors whose report dated October 27, 2009 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chatham Hospital, Inc. as of June 30, 2010 and the results of its operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2010, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulation, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Accordingly, we express no such opinion. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LarsonAllen LLP

LarsonAllen LLP

Charlotte, North Carolina
November 3, 2010

Overview

The Management's Discussion and Analysis section of Chatham Hospital, Inc.'s annual financial report is designed to provide a general overview of the financial position and operating results for the year ended June 30, 2010 and the nine-month period ended June 30, 2009. This analysis should be read in conjunction with the financial statements and related notes which follow this discussion and analysis.

Chatham Hospital, Inc. (the "Hospital") is a private, not-for-profit health care organization located in Siler City, North Carolina. The facility is a 25-bed critical access hospital. The Hospital has a 70-year history of providing quality health services. The Hospital provides comprehensive care, including emergency, general surgery, lab, CT, MRI, nuclear medicine, pharmacy, cardio-pulmonary and intensive care on its campus. The Hospital reaches beyond the hospital setting to provide diabetes education, physical therapy, and cardiac rehabilitation in temporary leased space located in Siler City Business Park approximately 3.5 miles from the main campus.

Current Year Events

The year ended June 30, 2010 continued to be a time of transition. New executive staff included a permanent Chief Financial Officer and Human Resources Officer. Other new Director staff included Directors of Pharmacy, Cardiopulmonary, Nursing and Materials Management. The Hospital has contracted with an MD Anesthesiologist to provide professional anesthesiology services beginning June 1, 2010. Having an MD Anesthesiologist supervising the provision of Anesthesiology Services relieves the surgeon from that additional responsibility, and should encourage specialty physicians to perform procedures here.

An eighteen-month Hospital Information Systems implementation process was begun with a new Payroll System and a new General Ledger System going live on April 1, 2010. Following close behind was the go live of a new Accounts Payable/Materials Management System on July 1, 2010. In addition, July 1, 2010 saw the go live of new Meditech Hospital Information System Modules for Billing/Patient Accounts Receivable, Community Wide Scheduling and Registration. Other clinical modules including Laboratory, Emergency Department, Pharmacy, Surgical Services, Physician Order Entry, and Health Information Management will be going live during fiscal 2011.

Construction also began on a new 31,219 square foot Medical Office Building on the Hospital campus which is expected to be completed by January 2011. The Medical Office building will provide consolidated space for the permanent location of diabetes education, physical therapy, cardiac rehabilitation and business office. Chatham Primary Care will be leasing clinic space in the building. Additional clinic space is available for specialty care physicians to lease on a rotating basis. Discussions are currently underway with Plastic Surgeons, GI Proceduralists, ENT Specialists and Orthopaedic Surgeons. The vision is for these specialists to hold clinic one day a week and perform procedures in the Hospital's operating or procedure rooms one day a week. Also housed within the Medical Office Building are crew quarters for a UNC Health Care System helicopter based at the Hospital.

The Hospital's continued focus on quality initiatives has resulted in significant improvements in scores for Core Measures for pneumonia and heart failure and patient satisfaction scores remain high.

CHATHAM HOSPITAL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010 AND THE NINE MONTHS ENDED JUNE 30, 2009

Using this Financial Report

The Hospital's financial statements report information by using accounting methods similar to those used by private-sector health organizations. These statements offer short-term and long-term financial information about its activities.

Balance Sheet

The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

Statement of Revenues, Expenses and Changes in Net Assets

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of the Hospital operation over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its fees and other sources of revenue, profitability and credit worthiness.

Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities. It also provides answers to such questions as where cash comes from, what cash was used for and what the change in the cash balance was during the reporting period.

Notes to the Financial Statements

Notes to the financial statements are designed to give the reader additional information concerning the Hospital and further supports the statements noted above.

Financial Analysis

The statement of revenues, expenses and changes in net assets reports the net assets of the Hospital and the changes affecting them. The Hospital's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation.

Condensed Balance Sheet

The following condensed balance sheet shows the financial position of the Hospital at June 30, 2010 and 2009:

	2010	2009
ASSETS		
Current Assets	$ 14,021,322	$ 10,920,488
Capital Assets, Net	25,999,023	26,346,238
Noncurrent Assets	10,330,843	7,621,092
Total Assets	$ 50,351,188	$ 44,887,818
LIABILITIES		
Long-Term Debt, Including Current Portion	$ 32,904,236	$ 34,037,218
Other Liabilities	3,633,399	4,672,188
Total Liabilities	36,537,635	38,709,406
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	(1,948,366)	101,841
Restricted	608,276	426,980
Unrestricted	15,153,643	5,649,591
Total Net Assets	13,813,553	6,178,412
Total Liabilities and Net Assets	$ 50,351,188	$ 44,887,818

Current assets increased approximately $3,101,000 (28%) from the prior year. The current year increase results from an increase in net accounts receivable, estimated third-party settlements, release by HUD of the bond escrow trust fund, and capital contribution by the University of North Carolina Health Care System ("UNCHCS"), sole member of the Hospital.

In 2010, our long-term debt decreased by approximately $1,133,000 due to payments on the debt and amortization of the bond premium.

Net assets increased $7,635,000 (124%) during 2010 primarily due to the capital contributed by UNCHCS. For further information on this change, see the following statement of revenues, expenses and changes in net assets.

CHATHAM HOSPITAL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010 AND THE NINE MONTHS ENDED JUNE 30, 2009

Capital Assets

The Hospital's investment in capital assets consisted of the following at June 30, 2010 and 2009:

	2010	2009
Land	$ 444,983	$ 444,983
Buildings and Improvements	26,975,248	25,871,462
Equipment	6,347,936	5,859,560
Total Capital Assets	33,768,167	32,176,005
Accumulated Depreciation	(7,769,144)	(5,829,767)
Total Capital Assets, Net	$ 25,999,023	$ 26,346,238

The decrease in the Hospital's investment in capital assets in 2010 represents purchases of capital assets, net of disposals and depreciation expense, primarily the Meditech Hospital Information System and Construction in Progress for the Medical Office Building.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

While the balance sheet shows the financial position of the Hospital, the following statement of revenues, expenses and changes in net assets provides answers to the nature and source of these changes for the year ended June 30, 2010 and the nine months ended June 30, 2009:

	2010	2009
Operating Revenues	$ 19,897,957	$ 15,244,538
Operating Expenses	21,985,841	15,796,373
Operating Loss	(2,087,884)	(551,835)
Non-Operating Income	251,388	184,932
Deficit of Revenues Under Expenses before Other Changes	(1,836,496)	(366,903)
Other Changes in Net Assets	9,471,637	478,488
Increase in Net Assets	7,635,141	111,585
Net Assets - Beginning of Year	6,178,412	6,066,827
Net Assets - End of Year	$ 13,813,553	$ 6,178,412

Operating Loss

Gross patient revenues were approximately $43,777,000 and $33,228,000 for the year ended June 30, 2010 and the nine-month period ended June 30, 2009, respectively. Under GASB, bad debts are presented as a deduction from revenues. Other significant changes in operating expenses include an increase in salaries and wages of 39%, benefits of 40% and medical supplies and other expense of 43%.

Operating revenues and expenses consisted of the following for the year ended June 30, 2010 and the nine months ended June 30, 2009:

	2010	2009
Operating Revenues	$ 19,897,957	$ 15,244,538
Salaries and Wages	10,298,842	7,415,764
Medical Supplies and Other	7,870,237	5,498,452
Depreciation and Amortization	2,084,101	1,321,064
Interest	1,306,274	1,132,500
Other	426,387	428,593
	21,985,841	15,796,373
Operating Loss	$ (2,087,884)	$ (551,835)

Non-Operating Revenues

Non-operating revenues consisted of the following for the year ended June 30, 2010 and the nine months ended June 30, 2009:

	2010	2009
Investment Income	$ 140,114	$ 117,907
Physician's Office Rental, Net	69,205	29,998
Noncapital Grants and Contributions	29,000	34,771
Other	13,069	2,256
Total Non-Operating Revenues	$ 251,388	$ 184,932

Other Changes in Net Assets

Other changes in net assets include capital contributions of approximately $488,000 and contributed capital from UNCHCS of approximately $8,984,000 (approximately $6,744,000 for the construction of the new medical office building and approximately $2,240,000 for the remaining commitment for future development of health care services as specified in the July 2008 Acquisition Agreement).

Finance Contact

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have any questions about this report, or need additional financial information, inquiries may be sent to: Chief Financial Officer, Chatham Hospital, Inc., 475 Progress Boulevard, Siler City, North Carolina 27344.

ASSETS	2010	2009
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,719,595	$ 2,120,363
Restricted Assets Held by Trustee Under Indenture Agreement	918,540	1,582,345
Investments	2,564,155	683,139
Patient Accounts Receivable (Net of Allowance for Estimated Uncollectibles of Approximately $4,571,000 in 2010 and $2,909,000 in 2009)	5,516,232	4,459,325
Other Receivables	279,220	755,490
Unconditional Promises to Give	95,525	100,485
Estimated Third-Party Payor Settlements	1,442,337	648,078
Inventories	408,101	361,467
Prepaid Expenses	77,617	209,796
Total Current Assets	14,021,322	10,920,488
UNCONDITIONAL PROMISES TO GIVE, LESS CURRENT PORTION, NET	37,665	119,705
RESTRICTED ASSETS		
Held by Trustee Under Indenture Agreement, Less Current Portion	4,038,307	6,210,477
Internally Designated for Capital Improvement	5,108,684	-
CAPITAL ASSETS, NET	25,999,023	26,346,238
DEFERRED FINANCING COSTS, NET	1,113,134	1,257,857
OTHER ASSETS	33,053	33,053
	36,329,866	33,967,330
Total Assets	$ 50,351,188	$ 44,887,818
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 770,000	$ 633,421
Accounts Payable	1,702,667	2,759,977
Accrued Expenses	1,930,732	1,854,822
Estimated Third-Party Payor Settlements	-	57,389
Total Current Liabilities	4,403,399	5,305,609
LONG-TERM DEBT, Less Current Portion	32,134,236	33,403,797
Total Liabilities	36,537,635	38,709,406
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	(1,948,366)	101,841
Restricted:		
Expendable for Capital Improvements	608,276	220,190
Expendable for Health Care Programs	-	206,790
Unrestricted	15,153,643	5,649,591
Total Net Assets	13,813,553	6,178,412
Total Liabilities and Net Assets	$ 50,351,188	$ 44,887,818

See accompanying Notes to Financial Statements.

CHATHAM HOSPITAL, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010 AND THE NINE MONTHS ENDED JUNE 30, 2009

	2010	2009
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of Approximately $8,601,000 in 2010 and $3,573,000 in 2009)	$ 19,150,679	$ 15,214,779
Other Operating Revenue	93,381	112,788
Change in Estimate in Third-Party Payor Settlements	653,897	(83,029)
Total Operating Revenues	19,897,957	15,244,538
OPERATING EXPENSES		
Salaries and Wages	8,231,044	5,936,374
Employee Benefits	2,067,798	1,479,390
Medical Supplies and Other Expenses	7,870,237	5,498,452
Depreciation and Amortization	2,084,101	1,321,064
Interest Expense	1,306,274	1,132,500
Other	426,387	428,593
Total Operating Expenses	21,985,841	15,796,373
OPERATING LOSS	(2,087,884)	(551,835)
NON-OPERATING REVENUES		
Investment Income	140,114	117,907
Physician's Office Rental, Net	69,205	29,998
Noncapital Gains and Contributions	29,000	34,771
Other	13,069	2,256
Total Non-Operating Revenues, Net	251,388	184,932
Deficit of Revenues Under Expenses	(1,836,496)	(366,903)
Capital Contributions	487,591	162,534
Capital Contributed from Sole Member	8,984,046	315,954
INCREASE IN NET ASSETS	7,635,141	111,585
Net Assets, Beginning of Year	6,178,412	6,066,827
NET ASSETS - END OF YEAR	$ 13,813,553	$ 6,178,412

See accompanying Notes to Financial Statements.

CHATHAM HOSPITAL, INC.
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2010 AND THE NINE MONTHS ENDED JUNE 30, 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Patients and Third-Party Payors	$ 17,896,021	$ 12,719,309
Payments to Employees for Services and Benefits	(10,202,659)	(5,274,915)
Payments to Suppliers and Contractors	(8,862,275)	(9,108,718)
Other Operating Payments	(1,336,572)	(588,144)
Net Cash Used in Operating Activities	(2,505,485)	(2,252,468)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Grants and Contributions	29,000	34,771
Other	82,274	32,254
Net Cash Provided by Noncapital Financing Activities	111,274	67,025
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collections on Unconditional Promises to Give	87,000	71,750
Purchases of Capital Assets	(1,592,162)	(348,606)
Capital Contributions	487,591	162,534
Capital Contributed from Sole Member	8,984,046	315,954
Principal Payments on Long-Term Debt	(959,421)	(50,463)
Net Cash Provided by Capital and Related Financing Activities	7,007,054	151,169
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Change in Assets Held by Trustee Under Indenture Agreement	(2,272,709)	1,221,195
Realized Investment Income	180,567	117,907
Net Change in Investments	(1,921,469)	(11,095)
Net Cash Provided by Investing Activities	(4,013,611)	1,328,007
NET INCREASE (DECREASE) IN CASH	599,232	(706,267)
Cash and Cash Equivalents - Beginning of Year	2,120,363	2,826,630
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,719,595	$ 2,120,363

See accompanying Notes to Financial Statements.

CHATHAM HOSPITAL, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2010 AND THE NINE MONTHS ENDED JUNE 30, 2009

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (2,087,884)	$ (551,835)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	1,939,377	1,278,983
Amortization of Deferred Financing Costs	144,723	42,081
Amortization of Bond Premium	(173,561)	(51,106)
Provision for Bad Debts	8,601,164	3,573,430
Change in Discount on and Provision for Uncollectible Unconditional Promises to Give	-	(12,535)
Net Changes in Operating Assets and Liabilities:		
Patient Accounts Receivable	(9,658,071)	(5,142,219)
Other Receivables	476,270	(64,804)
Inventories	(46,634)	19,464
Prepaid Expenses	132,179	(112,721)
Accounts Payable	(1,057,310)	(854,013)
Accrued Expenses	75,910	661,459
Estimated Third-Party Payor Settlements	(851,648)	(843,652)
Conditional Asset Retirement Obligation	-	(195,000)
Net Cash Used in Operating Activities	$ (2,505,485)	$ (2,252,468)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	$ 1,325,011	$ 761,083
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of Capital Assets Included in Accounts Payable	$ -	$ 995,841

See accompanying Notes to Financial Statements.

CHATHAM HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Chatham Hospital, Inc. (the "Hospital"), located in Siler City, North Carolina, is a nonprofit critical access hospital providing general short-term medical and surgical patient services. The University of North Carolina Health Care System ("UNCHCS") is the sole corporate member of Chatham Hospital, Inc.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

Basis of Accounting

The accompanying financial statements are prepared and presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as recommended in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*, and other pronouncements applicable to health care organizations.

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply to provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts whose use is limited.

Investments

Investments consist of mutual funds and certificates of deposit with original maturities over three months. The mutual funds are recorded at fair market value.

NOTE 1 NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Receivables

Patient accounts receivable are reported at estimated net realizable amounts from patients and responsible third-party payors. Amounts owed to the Hospital are reported net of allowances for contractual adjustments and uncollectible accounts. Specific patient balances are written off at the time they are determined to be uncollectible. The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. In this regard, the Hospital has implemented a standardized approach to estimate and review the collectibility of its receivables based on patient receivable aging trends. Historical collection and payor reimbursement experience is an integral part of the estimation process related to determining allowance for contractual adjustments and uncollectible accounts. In addition, the Hospital assesses the current state of its billing functions in order to identify any known collection or reimbursement issues to determine the impact, if any, on its reserve estimates, which involve judgment. Revisions in reserve estimates are recorded as an adjustment to net patient service revenue or as provision for uncollectible accounts.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Market is considered to be replacement cost or net realizable value.

Capital Assets

Capital assets are recorded at cost. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Donated property and equipment are recorded at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements, 10 to 40 years for physician office properties, and 3 to 25 years for equipment and fixtures.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs for major renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, the asset and related accumulated depreciation accounts are relieved and any gain or loss is credited or charged to non-operating revenues and expenses.

Deferred Financing Costs

Deferred financing costs on long-term debt are being amortized using the effective interest method over the life of the related long-term debt.

Restricted Assets

Restricted assets include assets that are held by trustees under indenture agreements and assets that are internally designated for capital improvements.

NOTE 1 NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Compensated Absences

The vacation policy of the Hospital provides for the accumulation of up to 500 hours earned vacation leave with such leave being fully vested when earned and after 90 days of employment.

Net Assets

Net assets of the Hospital are classified into the following components:

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation plus any unspent funds from outstanding borrowings and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Resources

Resources restricted by donor-imposed stipulations are used before unrestricted resources.

Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals, governments, and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenues. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

NOTE 1 NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Income Taxes

The Hospital is incorporated as a nonprofit organization under the laws of the state of North Carolina and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 INVESTMENTS AND RESTRICTED ASSETS

Investments are stated at fair value and are comprised of the following at June 30, 2010 and 2009, respectively:

	2010	2009
Mutual Funds	$ 475,086	$ -
Money Market Funds	1,999,000	-
Certificates of Deposit	90,069	683,139
	$ 2,564,155	$ 683,139

The Hospital has certain investments held by a trustee which include investments restricted for the construction of capital assets and debt service fund in accordance with the 2007 bond issue. Assets are invested in money market funds and are stated at fair value. The composition of restricted assets at June 30, 2010 and 2009 is set forth in the following table:

	2010	2009
Held by Trustee Under Indenture Agreement		
Restricted for the Construction of Capital Assets	$ 918,540	$ 1,582,345
Mortgage Reserve Fund	605,217	219,114
Debt Service Reserve Fund	3,433,090	3,992,363
Collateral Cash Escrow	-	1,999,000
	4,956,847	7,792,822
Less Current Portion	(918,540)	(1,582,345)
Total	$ 4,038,307	$ 6,210,477
Internally Designated for Capital Improvement	$ 5,108,684	$ -

NOTE 2 INVESTMENTS AND RESTRICTED ASSETS (CONTINUED)

Interest Rate Risk – The Hospital has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Hospital's investment policy allows it to invest in (i) interest bearing time deposits, certificates of deposit or other approved forms of deposits, (ii) corporate notes and bonds and (iii) equity securities.

Investment income is comprised of the following for the year ended June 30, 2010 and the nine-month period ended June 30, 2009:

	2010	2009
Interest and Dividends	$ 110,012	$ 117,907
Realized Gains, Net	40,453	-
Unrealized Losses, Net	(10,351)	-
	$ 140,114	$ 117,907

NOTE 3 ACCOUNTS RECEIVABLE AND PAYABLES AND ACCRUED EXPENSES

Patient Accounts Receivable

The Hospital provides services primarily to the residents of Chatham County and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and the formalized agreements with third-party payors. The Hospital has significant accounts receivable for which collectibility is dependent upon the performance of certain governmental programs, primarily Medicare and Medicaid. Management does not believe there are significant credit risks associated with these governmental programs. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of patient receivables. The allowance is based on historical collection experience and a review of the current status of existing receivables.

The mix of receivables from patients and third-party payors as of June 30, 2010 is as follows:

	2010
Medicare	$ 5,523,729
Medicaid	537,831
Blue Cross	706,779
Other Third-Party Payors	327,183
Patients	6,349,234
Gross Patient Accounts Receivable	13,444,756
Less Contractual Allowances	(3,357,085)
Less Allowance for Estimated Uncollectibles	(4,571,439)
	$ 5,516,232

NOTE 3 ACCOUNTS RECEIVABLE AND PAYABLES AND ACCRUED EXPENSES (CONTINUED)

Accounts Payable and Accrued Expenses

Accounts payable (including accrued expenses) reported as current liabilities by the Hospital as of June 30, 2010 and 2009 are as follows:

	2010	2009
Payable to Suppliers	$ 1,083,804	$ 2,292,750
Payable to UNCHCS	618,863	468,863
Payable to Employees (Including Payroll Taxes)	1,327,854	1,231,671
Bond Interest Expense Payable	602,878	621,515
Total Accounts Payable and Accrued Expenses	$ 3,633,399	$ 4,614,799

NOTE 4 UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recorded after discounting to the present value the expected future cash flows. The following is a summary of unconditional promises to give as of June 30, 2010 and 2009:

	2010	2009
Receivable in Less than One Year	$ 95,525	$ 111,650
Receivable in One to Five Years	74,500	145,375
	170,025	257,025
Less Discounts to Net Present Value (at 4.9%)	(7,035)	(12,356)
Less Allowance for Uncollectible Promises to Give	(29,800)	(24,479)
Unconditional Promises to Give, Net	$ 133,190	$ 220,190

NOTE 5 NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimates for current year estimated third-party payor settlements and revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as cost report years are no longer subject to such audits, reviews, and investigations. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates.

CHATHAM HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 NET PATIENT SERVICE REVENUE (CONTINUED)

A summary of the payment arrangements with major third-party payors follows:

Medicare

The Hospital is a critical access hospital where inpatient acute and non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Approximately 34% and 35% of the Hospital's net patient service revenue was derived from Medicare for the year ended June 30, 2010 and the nine months ended June 30, 2009, respectively.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid for at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by Medicaid. Approximately 9% and 10% of the Hospital's net patient service revenue was derived from Medicaid for the year ended June 30, 2010 and the nine-month period ended June 30, 2009, respectively.

At June 30, 2010 audits or desk reviews of reimbursements for fiscal year 2006 and prior years have been completed for Medicaid and fiscal year 2007 and prior years have been completed for Medicare. The amount included on the balance sheet for estimated third-party payor settlements is based upon tentative settlements for the prior year and an estimated settlement for the year ended June 30, 2010.

Prior to 2006, the Hospital participated in a voluntary Medicaid disproportionate share program (the "Program"). The Program allowed the Hospital to receive additional annual Medicaid funding. Prior to 2001, funding was received prior to final approval of the Program by the Centers for Medicare and Medicaid Services ("CMS") and was subject to final settlement by the state of North Carolina once approved by CMS. In general, the Hospital's policy was to defer 25% of receipts, until CMS approved the Program, at which time the Hospital recognized the portion deferred as revenue. Payments under this program required regulatory approval prior to disbursement and were subject to audit by the fiscal intermediary. During 2006, the state of North Carolina reached a final settlement with the Hospital for the Program years 1997 through 2002. In accordance with the terms of the settlement, the Hospital was not required to refund any of the amounts received that related to those years, and the Hospital recognized all deferred balances relating to those years as income in 2006. During 2008, a final settlement for 2003 was reached with no repayment required.

NOTE 5 NET PATIENT SERVICE REVENUE (CONTINUED)

Due to the fact that the payments in connection with the Program for the years 2004 through 2006 are still subject to final settlement by the state of North Carolina, refunding of the amounts received may be required. No reserve was considered necessary by management at June 30, 2010 and 2009.

The Hospital also has payment arrangements with certain commercial insurance carriers.

A summary of gross and net patient service revenue for the year ended June 30, 2010 and the nine-month period ended June 30, 2009 follows:

	2010	2009
Gross Patient Service Revenue	$ 43,776,940	$ 33,227,975
Less Provision for:		
Contractual Adjustments	(16,025,097)	(14,439,766)
Provision for Bad Debts	(8,601,164)	(3,573,430)
Net Patient Service Revenue	$ 19,150,679	$ 15,214,779

NOTE 6 CAPITAL ASSETS

Capital assets for the year ended June 30, 2010 and the nine-month period ended June 30, 2009 are as follows:

	Balance September 30, 2009	Additions	Transfers/ Retirements	Balance June 30, 2010
Non-Depreciable Assets				
Land	$ 444,983	$ -	$ -	$ 444,983
Construction-in-Progress	315,954	1,103,786	-	1,419,740
Depreciable Assets				
Buildings and Improvements	25,203,761	-	-	25,203,761
Equipment and Fixtures	5,859,560	488,376	-	6,347,936
Physician Office Properties	351,747	-	-	351,747
	32,176,005	1,592,162	-	33,768,167
Less Accumulated Depreciation	(5,829,767)	(1,939,377)	-	(7,769,144)
Capital Assets, Net	$ 26,346,238	$ (347,215)	$ -	$ 25,999,023

	Balance September 30, 2008	Additions	Transfers/ Retirements	Balance June 30, 2009
Non-Depreciable Assets				
Land	$ 444,983	$ -	$ -	$ 444,983
Construction-in-Progress	-	315,954	-	315,954
Depreciable Assets				
Buildings and Improvements	24,270,012	933,749	-	25,203,761
Equipment and Fixtures	5,764,816	94,744	-	5,859,560
Physician Office Properties	351,747	-	-	351,747
	30,831,558	1,344,447	-	32,176,005
Less Accumulated Depreciation	(4,550,784)	(1,278,983)	-	(5,829,767)
Capital Assets, Net	$ 26,280,774	$ 65,464	$ -	$ 26,346,238

NOTE 7 LONG-TERM DEBT

On February 8, 2007, the Hospital issued FHA Insured North Carolina Medical Care Commission (the "Commission") Mortgage Revenue Bonds, Series 2007 of $30,540,000. The bonds were issued pursuant to the Health Care Facilities Finance Act, Chapter 131A of the General Statutes of North Carolina, as amended, and a trust indenture dated as of February 1, 2007, between the Commission and The Bank of New York Trust Company, N.A., as trustee. Concurrently with the issuance of the bonds, the Commission entered into a loan agreement dated February 1, 2007.

To provide a source of repayment of such loan, the Hospital executed a Deed of Trust Note dated February 8, 2007. Payment made pursuant to the Loan Agreement and on the Series 2007 Note, together with funds available under the indenture, are required to be sufficient to pay the principal, premium, and interest on the bonds as they become due and payable. The bonds will be limited obligations of the Commission, payable solely from money received from the Hospital pursuant to the terms of the Loan Agreement and the Series 2007 Note, from payment of the FHA mortgage Insurance Benefit in the event of a default with respect to the Series 2007 Note and from amounts deposited in certain funds and accounts pursuant to the Indenture.

The Hospital's obligations under the Loan Agreement and the Series 2007 Note are secured by: 1) a deed of trust and assignment of rents, profits and income, dated February 8, 2007, granting to a deed of trust trustee named therein, for the benefit of the Trustee, a first lien on the Hospital's interest in certain real property, and 2) a Security Agreement granting a security interest in certain personal property of the Hospital. The Department of Housing and Urban Development (HUD), acting by and through FHA, insures the advances of funds secured by the mortgage pursuant to the Section 242 of Title II of the National Housing Act, as amended. The Hospital has entered into an FHA Regulatory Agreement, a building loan agreement with the trustee, and certain other documents delivered to FHA and the Trustee, as beneficiary under the mortgage, relating to the FHA security.

The bonds are subject to mandatory sinking fund requirements prior to their due dates. There are certain covenants associated with the Series 2007 bonds that are outlined in the master trust indenture, loan agreement, and regulatory agreement. The most restrictive of these covenants requires maintenance of a long-term debt service coverage ratio, as defined, of greater than 1.2. Management acknowledges the Hospital was in violation of certain covenants and requirements of those agreements at June 30, 2010. In accordance with the agreements, the Hospital is in the process of complying with such covenants and requirements by taking corrective action. The Hospital engaged a consultant with Critical Access Hospital expertise to assist in preparation of the Medicare and Medicaid cost report. In addition, the Hospital is consulting with expert personnel within the UNC Health Care System to improve operations. Management believes these actions will produce results to bring the Hospital in compliance with the covenants. Accordingly, the debt is classified as long-term in the balance sheet at June 30, 2010.

NOTE 7 LONG-TERM DEBT (CONTINUED)

At the time of the February 2007 bond issue, the University of North Carolina Hospitals ("UNCH") loaned the Hospital approximately $1,999,000 to use as a collateral cash escrow for HUD. The note requires monthly payments of approximately $37,000, including simple interest at prime plus 1% (4.25% at June 30 2010) for 60 months once HUD terminated the escrow and released the collateral cash escrow to the Hospital. The escrow was terminated by HUD in March 2010 however UNCH amended the agreement with the Hospital to defer the commencement of required repayments until fiscal year 2012. Accordingly, it has been classified as a long-term obligation as of June 30, 2010.

Long-term debt consists of the following as of June 30, 2010 and 2009:

	2010	2009
North Carolina Medical Care Commission FHA-Insured Mortgage Revenue Bonds, Series 2007; Serial and Term Bonds with Principal Maturing in Varying Annual Amounts through Fiscal Year 2033, and Interest Paid Semi-Annually at Rates Ranging from 4.00% to 5.25%.	$ 29,550,000	$ 30,505,000
Promissory Note to University of North Carolina Hospitals	1,999,000	1,990,000
Note Payable in Monthly Installments of $1,603 Including Interest at the Bank's Prime Rate	-	13,421
	31,549,000	32,508,421
Plus Unamortized Premium	1,355,236	1,528,797
Less Current Portion	(770,000)	(633,421)
	$ 32,134,236	$ 33,403,797

A schedule of changes in the Hospital's long-term debt for the years ended June 30, 2010 and 2009 follows:

	Balance September 30, 2009	Additions	Retirements, Net	Balance June 30, 2010	Amounts Due Within One Year
Notes Payable	$ 2,003,421	$ -	$ (4,421)	$ 1,999,000	$ -
Bonds Payable	30,505,000	-	(955,000)	29,550,000	770,000
Total	$ 32,508,421	$ -	$ (959,421)	$ 31,549,000	$ 770,000

	Balance September 30, 2008	Additions	Retirements	Balance September 30, 2009	Amounts Due Within One Year
Notes Payable	$ 2,018,884	$ -	$ (15,463)	$ 2,003,421	$ 13,421
Bonds Payable	30,540,000	-	(35,000)	30,505,000	620,000
Total	$ 32,558,884	$ -	$ (50,463)	$ 32,508,421	$ 633,421

NOTE 7 LONG-TERM DEBT (CONTINUED)

Maturities of long-term debt as of June 30, 2010 are as follows:

Period Ending June 30,	Bonds	Note Payable	Interest
2011	$ 770,000	$ -	$ 1,446,643
2012	685,000	335,467	1,484,441
2013	720,000	381,155	1,444,100
2014	755,000	397,673	1,392,982
2015	785,000	414,907	1,340,779
2016-2020	4,520,000	469,798	6,006,739
2021-2025	5,690,000	-	4,839,521
2026-2030	7,370,000	-	3,181,127
2031-2034	8,255,000	-	980,224
	$ 29,550,000	$ 1,999,000	$ 22,116,556

The schedule above assumes repayment of the promissory note to the University of North Carolina Hospitals beginning in 2012 under the repayment terms noted above.

On August 17, 2010, the Department of Housing and Urban Development granted final endorsement of the Hospital's Loan Agreement and Series 2007 Note for mortgage insurance under the National Housing Act, as amended, by the Federal Housing Administration, an organizational unit of the United States Department of Housing and Urban Development. Upon final endorsement, the mortgage interest rate was reduced to a permanent rate of 4.8%, a final mortgage amortization schedule created, and remaining construction funds of approximately $639,000 were released to the Hospital for purchase of outstanding equipment.

NOTE 8 LEASE OBLIGATIONS

The Hospital leases equipment under operating leases with various lease terms. Rent expense for the years ended June 30, 2010 and 2009 was approximately $106,000 and $91,000, respectively.

The following is a summary of future minimum lease payments for operating leases that have initial or remaining noncancelable terms in excess of one year subsequent to June 30, 2010:

Fiscal Years Ending:	
2011	$ 106,304
2012	106,304
2013	106,304
Total Minimum Lease Payments	$ 318,912

NOTE 9 RESTRICTED NET ASSETS

Restricted net assets consisted of the following at June 30, 2010 and 2009:

	2010	2009
"The New Chatham Hospital, Inc." to Support Construction and Equipment for the New Hospital	$ 608,276	$ 220,190
Indigent Care	-	206,790
	$ 608,276	$ 426,980

NOTE 10 RETIREMENT PLAN

The Hospital maintains a defined contribution pension plan covering substantially all employees who have completed 1,000 hours of service during the plan year and are employed by the Hospital on the last day of the plan year (September 30). Employer contributions to the plan are solely at the discretion of the Board of Trustees. Contributions of approximately $32,000 have been paid and approximately $55,000 has been accrued as of June 30, 2010. Contributions for the nine-month period ended June 30, 2009 were approximately $74,000.

NOTE 11 PROFESSIONAL LIABILITY INSURANCE

The Hospital is insured under claims-made policies for the purpose of providing professional and patient care liability insurance. These policies cover only malpractice claims reported to the insurance carrier during the policy term. Coverage includes a $3,000,000 policy on professional liability limited to $1,000,000 per case and an excess coverage policy for specified aggregate amounts in excess of the basic coverage. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. Although the amount of damages is uncertain, the amount could be substantial. In addition, incidents occurring through June 30, 2010, may result in the assertion of a claim. In the opinion of the Hospital's management, any liability that might be determined upon ultimate resolution of these claims will be covered by insurance or an estimate of the losses has been accrued and will not have a material effect on the Hospital's financial position.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during their terms, but reported subsequently, would be uninsured. Management anticipates that such coverage will be renewed or replaced with equivalent insurance as they expire.

CHATHAM HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 12 COMMITMENTS AND CONTINGENCIES

Laboratory Services

The Hospital has a contract with a laboratory company to provide on-site and off-site clinical laboratory services. Fees charged to the Hospital are based on a fixed fee plus reimbursement of variable expenses. For the year ended June 30, 2010 and the nine-month period ended June 30, 2009, approximately $446,000 and $473,000, respectively, was paid under this contract. Of these amounts, approximately $136,000 and $62,000 was accrued in accounts payable on the balance sheet at June 30, 2010 and 2009, respectively.

Architectural Fees

On January 30, 2009 the Hospital signed a contract with an architectural firm to provide professional services related to the planned construction of a new medical office building with a contract cost of approximately $592,000. As of June 30, 2010, approximately $397,000 has been expended under this contract.

NOTE 13 CONCENTRATIONS OF CREDIT RISK

The Hospital maintains deposits at various financial institutions covered by federal depository insurance ("FDIC"). At various times throughout the year, the Hospital may maintain amounts in excess of the FDIC insured limits.

NOTE 14 CHARITY CARE

The amount of charges forgone for services and supplies furnished under the Hospital's charity-care policy aggregated approximately $224,000 and $451,000 for the year ended June 30, 2010 and the nine-month period ended June 30, 2009, respectively.

NOTE 15 RELATED PARTY TRANSACTIONS

Effective July 15, 2008, the Hospital restated its Articles of Incorporation providing that UNCHCS shall be the sole corporate member of the Hospital. As part of the acquisition agreement, UNCHCS assumed control of the Hospital's liabilities in the amount of $34,700,000. During the period ended September 30, 2008, UNCHCS paid the Hospital $2,000,000 as a closing payment to the agreement, and committed to additional future payments of $9,300,000 to develop or facilitate the development of health care services in Chatham County over the next seven years. Use of the committed payments is to be presented to and approved by the Hospital Board of Trustees.

Effective March 18, 2008, the Hospital entered into an agreement with UNCHCS for the transfer of $1,000,000 to the Hospital to support the provision of indigent care services in Chatham County. The agreement provided that funds be used to insure continued financial stability of the Hospital and service to patients without regard to ability to pay or payor source.

NOTE 15 RELATED PARTY TRANSACTIONS (CONTINUED)

Physician Services

Effective January 1, 2008 the Hospital entered into a two-year contract with the University of North Carolina at Chapel Hill, School of Medicine ("UNC-CH"), and UNCHCS to provide for the recruitment and employment of a full-time physician at the Hospital. For the year ended June 30, 2010 and the nine-month period ended June 30, 2009, the Hospital incurred expenses of approximately $200,000 and $469,000 under this contract, respectively.

Hospitalists

The Hospital has a contract with UNC-CH to provide weekend hospitalists. Coverage will be provided for admissions, subsequent hospital care and discharges. The one-year contract was effective through June 30, 2010 with fees for these services to be paid monthly of approximately $17,500. For the year ended June 30, 2010 and the nine-month period ended June 30, 2009, the Hospital incurred expenses of approximately $192,000 and $175,000, respectively, under this contract of which approximately $0 and $7,000 is included in accounts payable on the balance sheet of the Hospital at June 30, 2010 and 2009, respectively.

Emergency Room

The Hospital has a contract with UNC-CH to provide emergency room physicians. For the years ended June 30, 2010 and the nine-month period ended June 30, 2009, approximately $1,096,000 and $614,000, respectively, was paid to the UNC-CH under this contract.

Hospital Management Services

Effective August 1, 2006, the Hospital entered into a five-year contract with UNCH to provide a CEO and a CFO to manage the day-to-day operations of the Hospital. In addition to the salaries of the CEO and CFO, the Hospital paid UNCH a management fee of $150,000 for the first-year term of the contract. This fee will increase each subsequent year by a percentage equal to the increase in the consumer price index as published by the Bureau of Labor Statistics. The management fee for the year ended June 30, 2010 and the nine-month period ended June 30, 2009 amounted to approximately $158,000 and $118,000, respectively. Total costs incurred during the year ended June 30, 2010 and the nine-month period ended June 30, 2009 amounted to approximately $676,000 and $339,000, respectively. Of these amounts, approximately $627,000 and $88,000 is included in accounts payable on the balance sheet at June 30, 2010 and 2009, respectively.

UNCH provides services related to the Hospital's sleep studies. For the years ended June 30, 2010 and 2009, the Hospital incurred expenses of approximately $60,000 and $47,000, respectively, of which approximately $60,000 and $7,000, is included in accounts payable on the balance sheet of the Hospital at June 30, 2010 and 2009, respectively.

Tab 3

Provide a statement of the profit (or other measure of annual performance) for Rex. The statement should explain cash (or cash equivalents) earned during the fiscal year and other additional assets held. The statement should also explain where the data can be found on the audit report (provided under a prior question).

Index	Entity	Description
3.01	Rex	The income statement is a statement of profit. The cash flow statement identifies cash earned during a fiscal year. The balance sheet identifies assets and liabilities. All are included in the financial statements included as part of the audit. However, Rex's audit and financial statements are privileged and confidential.

Tab 4

Provide the organizational documents such as articles of incorporation, bylaws, and other agreements creating the Enterprise Fund.

Index	Entity	Description
04.01	UNC HCS	Organizing Memorandum of Understanding and other original documents

Provide a listing of all transfers of cash or property into and from the Enterprise Fund for the most recent two years.

Index	Entity	Description
04.02	UNC HCS	FY10 Detail
04.02	UNC HCS	FY11 Detail

Provide complete copies of two most recent annual financial statements for the Enterprise Fund.

Index	Entity	Description
04.03	UNC HCS	FY10 HCS and EF account - Income Statement and Balance Sheet
04.03	UNC HCS	FY11 HCS and EF account - Income Statement and Balance Sheet

Provide a listing of the assets of the Enterprise Fund.

Index	Entity	Description
04.04	UNC HCS	The Enterprise Fund is held in the Short-Term Investment Fund (STIF) with the NC State Treasurer. The assets are basically cash, with limited money market and other highly-liquid, low-risk investments.

Provide a statement explaining the governance of the Enterprise Fund including who makes decisions to distribute its assets.

Index	Entity	Description
04.05	UNC HCS	The cash flows of the Enterprise Fund (EF) are integral parts of entity-level budgets approved by UNC Health Care's Board of Directors. EF assesments (cash In-flows) as well as EF allocations (cash out-flows) are explicitly budgeted. Individual SOM departments, and hospital service-lines request EF funds from UNC Health Care's Chief Financial Officer (CFO). Requests are recommended based upon departmental need, organizational fit and priority of the requested activity. Final decisions to distribute EF assets are made by UNC Health Care's Chief Executive Offiver (CEO), upon the recommendation of UNC Health Care's CFO. Occasionally, off-cycle allocations are necessary. Requests are directed to UNC Health Care's CFO. Final decisions to destribute assets are made by UNC Health Care's CEO.

Identify the location of the Enterprise Fund including who has authority over its accounts.

Index	Entity	Description
04.06	UNC HCS	The Enterprise Fund is held in the Short-Term Investment Fund (STIF) with the NC State Treasurer. UNC Health Care's CFO has signing authority over this account.

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding ("MOU") made effective the 1st day of July 2005 ("Effective Date"), among the University of North Carolina Health Care System ("UNC HCS"), the University of North Carolina Hospitals ("UNCH"), the University of North Carolina at Chapel Hill ("UNC-CH"), for its Administration in the School of Medicine (the "School") and its UNC Physicians & Associates ("UNC P&A"), and Rex Healthcare, Inc. ("Rex").

RECITALS

WHEREAS, UNC HCS is an affiliated enterprise of The University of North Carolina established by the North Carolina General Assembly to provide patient care, facilitate the education of physicians and other health care providers, conduct research collaboratively with the health sciences schools of UNC-CH, and render other services designed to promote the health and well-being of the citizens of North Carolina; and

WHEREAS, UNC HCS has a vision to be the nation's leading public academic health care system; and

WHEREAS, The Board of Directors of UNC HCS has authorized and approved creation of an Enterprise Fund financed by its key components to support UNC HCS' statutory mission and vision as the nation's leading public academic health care system; and

WHEREAS, UNC HCS key components include: UNCH; the clinical patient care programs established or maintained by the UNC-CH School of Medicine and UNC P&A; Rex and other UNC HCS entities as they may be acquired; and

WHEREAS, the key components of UNC HCS desire to provide financing for the Enterprise Fund in support of UNC HCS' vision.

NOW, THEREFORE, in consideration of the premises and of the following mutual promises, covenants, and conditions, UNC HCS, UNCH, UNC-CH and Rex agree as follows:

1. The UNC HCS Enterprise Fund is created to benefit UNC HCS by supporting its legislative mandate and vision as the nation's leading public academic health care system.

2. The UNC HCS Enterprise Fund will distribute funds to support the initiatives of UNC HCS as the Chief Executive Officer of UNC HCS, from time to time, deems appropriate.

3. The Enterprise Fund will be funded by monies transferred from UNCH, the School, UNC P&A, Rex, and other UNC HCS entities, as they may be acquired. The funding amounts are to be determined on an annual basis, or more often as necessary. Upon the establishment of annual funding amounts for each key component, the UNC HCS Chief Financial Officer will determine the frequency with which each UNC HCS key component will make contributions to the Enterprise Fund during a given fiscal year. Other sources of funding may be realized in the future.

4. This MOU is in no way intended to induce any party to it to (1) refer patients to any other party, (2) purchase or order items or services from any other party, (3) arrange for or recommend that others purchase or order items or services from any other party, or (4) violate the federal anti-kickback statute, Social Security Act § 1128B(b), or any federal or state law or regulation governing billing or claims submission.

5. The term of this MOU shall begin on the Effective Date and shall continue unless terminated by UNC HCS. In the event of such termination, any funds remaining unspent and uncommitted in the Enterprise Fund will be redistributed pro rata to the UNC HCS key components based upon their contributions for the fiscal year in which the termination is effective.

6. During the term of this MOU, each party shall comply with applicable federal, state and local laws and regulations.

7. Each party represents and warrants that it has never been, and shall never be, during the term of this MOU, excluded from participation in any federal health care program, as defined in 42 U.S.C. § 1320a-7b(f), or been debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded by any federal department or agency. No formal adverse action, as that term is defined in 42 U.S.C. § 1320a-7e(g), has occurred or is pending or threatened against either party.

8. This MOU shall be governed by and construed in accordance with the laws of the State of North Carolina.

9. This MOU represents the entire agreement of the parties with respect to the subject matter hereof, and supersedes all prior discussions, negotiations and agreements relating to the same subject matter, written or oral, between the parties hereto. This MOU may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same instrument.

10. This MOU may not be amended or revised except with the written consent of the parties hereto, and may not be assigned by either party except with the prior written consent of the other party.

IN WITNESS WHEREOF, the parties have hereunto signed this MOU in their official capacities on the day and year listed below.

FOR AND ON BEHALF OF
THE UNIVERSITY OF NORTH
CAROLINA HEALTH CARE SYSTEM

William L. Roper, M.D., M.P.H.
Chief Executive Officer
Date: 9.27.05

FOR AND ON BEHALF OF
THE UNIVERSITY OF NORTH
CAROLINA HOSPITALS

Todd L. Peterson
Executive Vice President & COO
Date: SEP 07 2005

FOR AND ON BEHALF OF
THE UNIVERSITY OF NORTH
CAROLINA AT CHAPEL HILL

William L. Roper, M.D., M.P.H.
Dean, School of Medicine and
Vice Chancellor for Medical Affairs
Date: 9.27.05

FOR AND ON BEHALF OF
REX HEALTHCARE, INC.

David W. Strong
President
Date: 9/12/05

UNC
HEALTH CARE

DATE: August 31, 2005

TO: Department Chairs
Leadership Team
President, Rex Healthcare

FROM: Bill Roper

RE: UNC Health Care System Enterprise Fund

As you know, we have created a UNC Health Care System Enterprise Fund (the Fund), the purpose of which is to benefit the System entities. For your perusal, distribution, and future action as appropriate, I am enclosing the Fund mission statement, Fund fiscal procedures, and application processing guidelines.

This Fund will be used for major priority initiatives of the UNC Health Care System.

For the fiscal year ending June 30, 2006, the Fund will contain $9,580,000. Based on recommendations from the Leadership Team, I am pleased to announce the following distributions:

Anesthesiology	$6,000,000
Gastrointestinal Medicine	200,000
Otolaryngology/HNS (OHNS)	75,000
Family Medicine	200,000
Medicine	100,000
Surgery	1,250,000
Pediatrics (Division of Pediatric Cardiology)	380,000

This leaves the remaining $1,375,000 in a contingency fund to be dispensed as needed.

UNC Health Care System Enterprise Fund

Mission Statement

Mission: The University of North Carolina Health Care System (UNCHCS) Enterprise Fund (the Fund) is created to benefit the UNC Health Care System. The Fund is being created to support the UNCHCS' vision to be the Nation's leading public academic health care system.

The UNCHCS Enterprise Fund will support the initiatives of the UNCHCS as the Chief Executive Officer of UNCHCS deems appropriate with the recommendations from the Leadership Team. The CEO will ultimately make the decisions on how the funds are to be distributed. The Chief Financial Officer of the UNCHCS will serve as Fund administrator.

The Enterprise Fund will be funded by monies being transferred from Rex Healthcare, The UNC School of Medicine, UNC Hospitals, UNC Physicians and Associates, and other UNCHCS entities as they are acquired. Other sources of funding may be realized in the future. The funding amounts are to be determined on an annual basis, or more often if necessary.

Approved: _____ _____

William L. Roper, CEO, UNC Health Care System — Date

UNC Health Care System Enterprise Fund
Fiscal Procedures

On at least an annual basis, each of the entities within the UNC Health Care System (HCS) will be informed of their required contribution to fund the Enterprise Fund. Initial contributions for the fiscal year ending June 30, 2006 total $9,580,000 and are allocated as follows:

Rex Healthcare	$ 500,000
UNC Hospitals	$ 8,080,000
UNC Physicians & Associates	$ 750,000
UNC School of Medicine	$ 250,000

Contributions are to be made on a quarterly basis. Invoices will be generated upon request.

Any department or program associated with the entities may apply for a distribution from the Fund by having the relevant department chair or hospital leader submit a request to the Chief Financial Officer of the UNC Health Care System. Applications for funds will be reviewed by the appropriate UNC Health Care System leaders (President of UNC Hospitals, President of UNC Physicians, Vice-Dean of UNC School of Medicine, President of Rex Healthcare, etc.) and by the Clinical Program Planning Committee. Final approval rests solely with the CEO of the UNC HCS. Applications should include a brief description of the program or department for which funds are requested, the reasons for the funds and the expected outcomes, and the amount of the funds requested.

Upon his final determination, the CEO will issue an award letter to the requesting party with a copy to the Director of HCS Reporting. Distributions to the entities will be made on a quarterly basis. The parties receiving the funding do not need to generate an invoice for this transfer; although they should notify the Director of HCS Reporting with information regarding how the funding transfer should be done, i.e., by check or electronically.

The Fund administrator will report on expenditures to the CEO and Leadership Team no later than April 15th to facilitate necessary entity contributions for the next fiscal year beginning July 1st.

After the end of each fiscal year, the entities will report on the use of the funds by August 31. This reporting will include:

1. A summary of the use of funds and whether any funds remain on hand at year end
2. Whether the program or department goals were met as stated in the application

The funds for the Enterprise Fund will be deposited into a bank account established with the State Treasurer under General Statute 116-36.1. Amounts transferred to and from the Enterprise Fund will be shown as transfers (in or out) in the non-operating section of the individual entity's interim financial statements. When the individual recipients utilize their respective distribution, the actual expenditures will be appropriately shown in their respective operating expense categories. Any cash that the Enterprise Fund has will be shown as an asset for the HCS balance sheet until it is actually transferred to one of the entities with a corresponding amount shown as net assets.

Approved: _____ _____

William L. Roper, CEO, UNC Health Care System — Date

UNC Health Care System Enterprise Fund
Application Processing Guidelines

1. Applications may be submitted by department chairs and hospital leaders from March 1st through May 31st to the Chief Financial Officer of the UNC Health Care System (HCS).

2. The HCS Leadership Team and Clinical Program Planning Committee review as appropriate.

3. HCS Chief Executive Officer approves application and generates an award letter to applicant with a copy to the Director of HCS Reporting.

4. Applicant contacts the Director of HCS Reporting to confirm receipt of letter and verify method for transferring funds.

5. Upon receipt of the approval letter, an initial transfer will be made for ¼ of the award and subsequent transfers will occur at the beginning of each quarter. The applicant does not need to invoice the Enterprise Fund.

6. After the end of each fiscal year, the award recipient will report on the use of the funds by August 31. This reporting will include:

   - A summary of the use of funds and whether any funds remain on hand at year end
   - Whether the program or department goals were met as stated in the application

Note: Director of HCS Reporting – Hunter Wagstaff
211 Friday Center Drive
Suite # 2016
Chapel Hill, 27517
919-966-4832
hwagstaf@unch.unc.edu

Approved: _____ _____

William L. Roper, CEO, UNC Health Care System — Date

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY10 Activity

Date	CMCS Trf/ Check #	Payor/Payee	Description	Deposit	Checks/ Transfers	Activity Description
7/1/2009		Balance b/f				
7/6/2009	CMCS	UNC P&A-Dept of Med	Nephrology Settlement-FY08		34,214.50	HCS Shared Exp
7/6/2009	CMCS	UNC P&A-Dept of Anesthesiology	Dr. Zvara's relocation exp reimb		63,315.84	HCS Shared Exp
7/14/2009	Deposit	Rex Healthcare	HCS Tax May 09	59,298.00		HCS Shared Exp
7/14/2009	45	Lawrence K Mandelkehr	Patient Safety Fund(employee recog)		50.00	Patient Safety
7/31/2009	46	Chatham Hospital, Inc	MOB Costs - FY09		315,953.99	HCS Shared Exp
7/31/2009	CMCS	UNC P&A	UNC P&A-HCS Tax June 09	908,059.00		HCS Shared Exp
7/31/2009	CMCS	UNC Hospitals	UNCH-Addl HCS Tax FY 09	1,424,304.00		HCS Shared Exp
7/31/2009	CMCS	UNC Hospitals-HCS Tax June 09	UNCH-HCS Tax June 09	2,740,149.00		HCS Shared Exp
7/31/2009	CMCS	UNC Hospitals	HO exp reimb-Jun 09		4,968,005.00	HCS Shared Exp
7/31/2009	CMCS	UNC P&A	HO exp reimb-Jun 09		61,455.00	HCS Shared Exp
7/31/2009		Interest Earned		18,086.43		Interest
8/4/2009	CMCS	UNC Hospitals	Chatham MOB	315,953.99		HCS Shared Exp
8/4/2009	CMCS	UNC P&A	Ent Fund Assess-Jul 09	341,667.00		Enterprise Fund
8/4/2009	CMCS	UNC Hospitals	Ent Fund Assess-Jul 09	1,836,784.00		Enterprise Fund
8/7/2009	CMCS	UNC SOM	Ent Fund Assess-Jul & Aug 09	50,000.00		Enterprise Fund
8/12/2009	Deposit	Rex Healthcare	Ent Fund Assess-Jul & Aug 09	100,000.00		Enterprise Fund
8/11/2009	47	Rex Hospitals	HO Exp Reimb		388.18	HCS Shared Exp
8/31/2009	CMCS	UNC P&A	HO exp reimb-Jul 09		62,329.00	HCS Shared Exp
8/31/2009	CMCS	UNC P&A	UNC P&A-HCS Tax July 09	846,326.00		HCS Shared Exp
8/31/2009	CMCS	UNC P&A	UNC P&A-HCS Tax June 09	356,076.00		HCS Shared Exp
8/31/2009	CMCS	UNC Hospitals	Ent Fund Assess-Aug 09	1,836,784.00		Enterprise Fund
8/31/2009	CMCS	UNC Hospitals	UNCH-HCS Tax July 09	2,915,156.00		HCS Shared Exp
8/31/2009	CMCS	UNC P&A	Ent Fund Allocation-Jul 09		2,293,992.00	Enterprise Fund
8/31/2009	CMCS	UNC P&A	Ent Fund Allocation-Aug 09		2,293,992.00	Enterprise Fund
8/31/2009	CMCS	UNC Hospitals	HO exp reimb-Jul 09		2,706,919.00	HCS Shared Exp
8/31/2009	48	Iliant Management Directions	CBC Cash Call-1st Qtr FY10		557,920.00	HCS Shared Exp
8/31/2009		Interest Earned		20,073.98		Interest
9/1/2009	CMCS	UNC P&A	Ent Fund Assess-Aug 09	341,667.00		Enterprise Fund
9/4/2009	Deposit	Chatham Hospital, Inc	Ent Fund Assess-Jul 09	417.00		Enterprise Fund
9/9/2009	Deposit	Rex Healthcare	HCS EF-RadOnc-Jul,Aug,Sep 09	150,000.00		Enterprise Fund
9/9/2009	Deposit	Rex Healthcare	HCS EF-RadOnc-FY09	582,114.00		Enterprise Fund
9/14/2009	CMCS	UNC SOM	Ent Fund Assess-Sep 09	25,000.00		Enterprise Fund
9/21/2009	Deposit	Rex Healthcare	HCS Tax FY09	54,476.00		HCS Shared Exp
9/21/2009	Deposit	Rex Healthcare	HCS Tax Jul & Aug 09	119,072.00		HCS Shared Exp
9/24/2009	Deposit	Chatham Hospital, Inc	Ent Fund Assess-Aug 09	417.00		Enterprise Fund
9/24/2009	Deposit	Chatham Hospital, Inc	Ent Fund Assess-Sep 09	417.00		Enterprise Fund
9/24/2009	Deposit	Chatham Hospital, Inc	Chatham Surgical loss reimb	50,000.00		HCS Shared Exp
9/28/2009	CMCS	UNC Hospitals	Ent Fund Assess-Sep 09	1,836,784.00		Enterprise Fund
9/28/2009	CMCS	UNC Hospitals	UNCH-HCS Tax Aug 09	2,916,623.00		HCS Shared Exp
9/29/2009	CMCS	UNC P&A	UNC P&A-HCS Tax Aug 09	795,742.00		HCS Shared Exp
9/29/2009	CMCS	UNC P&A	HO Exp Reimb - Aug 09		81,396.00	HCS Shared Exp
9/29/2009	CMCS	UNC Hospitals	HO Exp Reimb - Aug 09		3,248,655.00	HCS Shared Exp
9/29/2009	CMCS	UNC P&A	Ent Fund Allocation-Sep 09		2,293,992.00	Enterprise Fund
9/30/2009	CMCS	UNC P&A	Ent Fund Allocation-RadOnc FY09		582,114.00	Enterprise Fund
9/30/2008		Interest Earned		17,836.50		Interest

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY10 Activity

Date	CMCS Trf/ Check #	Payor/Payee	Description	Deposit	Checks/ Transfers	Activity Description
10/2/2009	CMCS	UNC P&A	Ent Fund Assess-Sep 09	341,667.00		Enterprise Fund
10/6/2009	Deposit	Rex Healthcare	HCS EF-RadOnc-Oct 09	50,000.00		Enterprise Fund
10/14/2009	CMCS	UNC SOM	Ent Fund Assess-Oct 09	25,000.00		Enterprise Fund
10/20/2009	Deposit	Rex Healthcare	Ent Fund Assess-Sep & Oct 09	100,000.00		Enterprise Fund
10/6/2009	49	Iliant Management Directions	Chatham Surgical loss reimb		50,000.00	HCS Shared Exp
10/20/2009	50	Piedmont Health Services	FY09 - final year on contract		750,000.00	HCS Shared Exp
10/27/2009	51	Iliant Management Directions	Cash Call - 2nd Qtr FY10		332,891.50	HCS Shared Exp
10/27/2009	52	Rex Healthcare	HO Exp Remb		485.35	HCS Shared Exp
10/27/2009	53	Triangle Physician Network, LLC	Cash Call - 2nd Qtr FY10		332,891.50	HCS Shared Exp
10/27/2009	CMCS	UNC P&A	UNC P&A-HCS Tax Sep 09	856,047.00		HCS Shared Exp
10/27/2009	CMCS	UNC Hospitals	Ent Fund Assess-Oct 09	1,836,784.00		Enterprise Fund
10/27/2009	CMCS	UNC Hospitals	UNCH-HCS Tax Sep 09	3,401,160.00		HCS Shared Exp
10/27/2009	CMCS	UNC P&A	HO Exp Reimb - Sep 09		62,786.00	HCS Shared Exp
10/27/2009	CMCS	UNC P&A	Ent Fund Allocation-Oct 09		2,293,992.00	Enterprise Fund
10/27/2009	CMCS	UNC Hospitals	HO Exp Reimb - Sep 09		3,774,986.00	HCS Shared Exp
10/30/2009		Interest Earned		20,283.51		Interest
11/2/2009	CMCS	UNC P&A	Ent Fund Assess-Oct 09	341,667.00		Enterprise Fund
11/17/2009	CMCS	UNC SOM	Ent Fund Assess-Nov 09	25,000.00		Enterprise Fund
11/18/2009	Deposit	Rex Healthcare	HCS EF-RadOnc-Nov 09	50,000.00		Enterprise Fund
11/18/2009	Deposit	Rex Healthcare	HCS EF-Nov 09	50,000.00		Enterprise Fund
11/18/2009	Deposit	Rex Healthcare	HCS Tax Sep 09	63,321.00		HCS Shared Exp
11/23/2009	CMCS	UNC Hospitals	Ent Fund Assess-Nov 09	1,836,784.00		Enterprise Fund
11/23/2009	CMCS	UNC Hospitals	UNCH-HCS Tax Oct 09	3,182,878.00		HCS Shared Exp
11/23/2009	CMCS	UNC Hospitals	UNCH-Mission Support FY09	6,449,808.00		Mission Support
11/23/2009	CMCS	UNC P&A	HO Exp Reimb - Oct 09		77,913.00	HCS Shared Exp
11/23/2009	CMCS	UNC P&A	GME Funding from Outreach Fund-FY10		2,000,000.00	GME Fund
11/23/2009	CMCS	UNC P&A	Ent Fund Allocation-Nov 09		2,310,325.00	Enterprise Fund
11/23/2009	CMCS	UNC Hospitals	HO Exp Reimb - Oct 09		4,401,724.00	HCS Shared Exp
11/23/2009	CMCS	UNC P&A	P&A Mission Support Allocation-FY09		4,831,038.00	Mission Support
11/24/2009	CMCS	UNC P&A	UNC P&A-HCS Tax Oct 09	891,393.00		HCS Shared Exp
11/24/2009	CMCS	UNC Hospitals	UNCH Mission Support -FY09	3,381,230.00		Mission Support
11/30/2009		Interest Earned		17,614.56		Interest
12/1/2009	CMCS	UNC P&A	Ent Fund Assess-Nov 09	341,667.00		Enterprise Fund
12/9/2009	CMCS	UNC SOM	Ent Fund Assess-Dec 09	25,000.00		Enterprise Fund
12/10/2009	Deposit	Rex Healthcare	HCS Tax Oct 09	64,480.00		HCS Shared Exp
12/17/2009	Deposit	Rex Healthcare	HCS EF-RadOnc-Dec 09	50,000.00		Enterprise Fund
12/17/2009	Deposit	Rex Healthcare	HCS EF-Dec 09	50,000.00		Enterprise Fund
12/17/2009	CMCS	UNC Hospitals	Ent Fund Assess-Dec 09	1,836,784.00		Enterprise Fund
12/17/2009	CMCS	UNC Hospitals	UNCH-HCS Tax Nov 09	2,773,409.00		HCS Shared Exp
12/17/2009	CMCS	UNC P&A	Patient Safety Fund(Dr. Carla Dupree)		38,488.42	Patient Safety
12/17/2009	CMCS	UNC P&A	HO Exp Reimb - Nov 09		50,078.00	HCS Shared Exp
12/17/2009	CMCS	UNC P&A	Ent Fund Allocation-Dec 09		2,310,325.00	Enterprise Fund
12/17/2009	CMCS	UNC Hospitals	HO Exp Reimb - Nov 09		3,436,451.00	HCS Shared Exp
12/17/2009	54	Triangle Physician Network, LLC	Cash Call - 3rd Qtr FY10		1,036,367.85	HCS Shared Exp
12/21/2009	CMCS	UNC P&A	UNC P&A-HCS Tax Nov 09	763,309.00		HCS Shared Exp
12/31/2009		Interest Earned		20,690.48		Interest
1/4/2010	CMCS	UNC P&A	Ent Fund Assess-Dec 09	341,667.00		Enterprise Fund
1/8/2010	CMCS	UNC SOM	Ent Fund Assess-Jan 10	25,000.00		Enterprise Fund
1/19/2010	55	Rex Healthcare	HO Exp Remb		3,082.00	HCS Shared Exp
1/22/2010	Deposit	Rex Healthcare	HCS EF-RadOnc-Jan 10	50,000.00		Enterprise Fund
1/22/2010	Deposit	Rex Healthcare	HCS EF-Jan 10	50,000.00		Enterprise Fund
1/22/2010	Deposit	Rex Healthcare	HCS Tax Nov 09	56,368.00		HCS Shared Exp
1/25/2010	wire trf	Medical Air, Inc	Aircraft Model Baron BE-58		492,720.00	Enterprise Fund
1/25/2010	Deposit	Rex Healthcare	HCS Tax Dec 09	64,507.00		HCS Shared Exp
1/27/2010	CMCS	UNC Hospitals	Ent Fund Assess-Jan 10	1,836,784.00		Enterprise Fund

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY10 Activity

Date	Check #	Payor/Payee	Description	Deposit	Checks/ Transfers	Activity Description
1/27/2010	CMCS	UNC Hospitals	UNCH-HCS Tax Dec 09	3,008,134.00		HCS Shared Exp
1/28/2010	CMCS	UNC Hospitals	Chatham MOB-part of $9.3M commitment	5,684,046.01		HCS Shared Exp
1/28/2010	56	Chatham Hospital, Inc	Chatham MOB-part of $9.3M commitment		5,684,046.01	HCS Shared Exp
1/28/2010	CMCS	UNC-SOM	Patient Safety Fund-Sarah Massie-S&B-1st&2ndqtrFY10		35,236.55	Patient Safety
1/28/2010	CMCS	UNC-SOM	Patient Safety Fund-Dr.Rosenstein-1st&2ndqtrFY10		50,000.00	Patient Safety
1/28/2010	CMCS	UNC P&A	HO Exp Reimb - Dec 09		53,857.00	HCS Shared Exp
1/28/2010	CMCS	UNC P&A	Ent Fund Allocation-Jan 10		2,310,325.00	Enterprise Fund
1/28/2010	CMCS	UNC Hospitals	HO Exp Reimb - Dec 09		3,631,837.00	HCS Shared Exp
1/28/2010	CMCS	UNC P&A	UNC P&A-HCS Tax Dec 09	865,487.00		HCS Shared Exp
1/31/2010		Interest Earned		19,227.49		Interest
2/2/2010	CMCS	UNC P&A	Ent Fund Assess-Jan 10	341,667.00		Enterprise Fund
2/10/2010	CMCS	UNC SOM	Ent Fund Assess-Feb 10	25,000.00		Enterprise Fund
2/19/2010	Deposit	Rex Healthcare	HCS EF-RadOnc-Feb 10	50,000.00		Enterprise Fund
2/19/2010	Deposit	Rex Healthcare	HCS EF-Feb 10	50,000.00		Enterprise Fund
2/23/2010	Deposit	Rex Healthcare	HCS Tax Jan 10	63,450.00		HCS Shared Exp
2/23/2010	CMCS	UNC P&A	UNC P&A-HCS Tax Jan 10	743,306.00		HCS Shared Exp
2/24/2010	CMCS	UNC Hospitals	Ent Fund Assess-Feb 10	1,836,784.00		Enterprise Fund
2/24/2010	CMCS	UNC Hospitals	UNCH-HCS Tax Jan 10	3,085,227.00		HCS Shared Exp
2/24/2010	CMCS	UNC P&A	HO Exp Reimb - Jan 10		55,962.00	HCS Shared Exp
2/24/2010	CMCS	UNC P&A	Ent Fund Allocation-Feb 10		2,310,325.00	Enterprise Fund
2/24/2010	CMCS	UNC Hospitals	HO Exp Reimb - Jan 10		2,792,179.00	HCS Shared Exp
2/25/2010	CMCS	UNC-SOM	Patient Safety Fund-FamMed-NP NCQA Support		16,000.00	Patient Safety
2/25/2010	CMCS	UNC-SOM	Patient Safety Fund-Arlene Davis-Ethics Education		12,000.00	Patient Safety
2/26/2010		Interest Earned		16,502.07		Interest
3/1/2010	CMCS	UNC P&A	Ent Fund Assess-Feb 10	341,667.00		Enterprise Fund
3/1/2010	CMCS	UNC P&A	Patient Safety Fund-Reimb for Paula Miller Health Fairs	25,000.00		Patient Safety
3/10/2010	CMCS	UNC SOM	Ent Fund Assess-Mar 10	25,000.00		Enterprise Fund
3/11/2010	57	Triangle Physician Network, LLC	Cash Call - 4th Qtr FY10		801,421.00	HCS Shared Exp
3/18/2010	Deposit	Rex Healthcare	HCS EF-RadOnc-Mar 10	50,000.00		Enterprise Fund
3/18/2010	Deposit	Rex Healthcare	HCS EF-Mar 10	50,000.00		Enterprise Fund
3/23/2010	Deposit	Rex Healthcare	HCS Tax Feb 10	63,641.00		HCS Shared Exp
3/24/2010	CMCS	UNC Hospitals	Ent Fund Assess-Mar 10	1,836,784.00		Enterprise Fund
3/24/2010	CMCS	UNC Hospitals	UNCH-HCS Tax Feb 10	3,224,673.00		HCS Shared Exp
3/24/2010	CMCS	UNC P&A	HO Exp Reimb - Feb 10		84,641.00	HCS Shared Exp
3/24/2010	CMCS	UNC Hospitals	HO Exp Reimb - Feb 10		2,826,106.00	HCS Shared Exp
3/24/2010	CMCS	UNC P&A	Ent Fund Allocation-Mar 10		2,985,325.00	Enterprise Fund
3/31/2010		Interest Earned		18,950.23		Interest
4/1/2010	CMCS	UNC P&A	Ent Fund Assess-Mar 10	341,667.00		Enterprise Fund
4/8/2010	CMCS	UNC SOM	Ent Fund Assess-Apr 10	25,000.00		Enterprise Fund
4/19/2010	Deposit	FirstHealth-UNCHCS, LLC	Distribution from SHO(acq costs refund)	450,000.00		HCS Shared Exp
4/21/2010	Deposit	Rex Healthcare	HCS EF-RadOnc-Apr 10	50,000.00		Enterprise Fund
4/21/2010	Deposit	Rex Healthcare	HCS EF-Apr 10	50,000.00		Enterprise Fund
4/23/2010	CMCS	UNC P&A	UNC P&A-HCS Tax Feb & Mar 10	1,745,878.00		HCS Shared Exp
4/26/2010	CMCS	UNC Hospitals	Ent Fund Assess-Apr 10	1,836,784.00		Enterprise Fund
4/26/2010	CMCS	UNC Hospitals	UNCH-HCS Tax Mar 10	3,763,032.00		HCS Shared Exp
4/26/2010	CMCS	UNC-SOM	Patient Safety Fund-Dr.Rosenstein-3rd qtrFY10		25,000.00	Patient Safety
4/26/2010	CMCS	UNC P&A	HO Exp Reimb - Mar 10		79,830.00	HCS Shared Exp
4/26/2010	CMCS	UNC Hospitals	HO Exp Reimb - Mar 10		3,571,739.00	HCS Shared Exp
4/27/2010	CMCS	UNC Hospitals	Repayment of acquisiton cost for SHO		450,000.00	HCS Shared Exp
4/28/2010	CMCS	UNC P&A	Ent Fund Allocation-Apr 10		2,310,325.00	Enterprise Fund
4/30/2010	CMCS	UNC Hospitals	Trf to HCS for Chatham MOB	1,059,516.00		HCS Shared Exp
4/30/2010	CMCS	UNC Hospitals	Est pay for FY10 Mission Support	5,000,000.00		Mission Support
4/30/2010	CMCS	UNC Hospitals	Enterprise Fund prepaid for FY11	20,000,000.00		Enterprise Fund
4/30/2010		Interest Earned		16,636.05		Interest

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY10 Activity

Date	CMCS Trf/ Check #	Payor/Payee	Description	Deposit	Checks/ Transfers	Activity Description
5/4/2010	CMCS	UNC P&A	Ent Fund Assess-Apr 10	341,667.00		Enterprise Fund
5/11/2010	59	Chatham Hospital, Inc	Chatham MOB-part of $9.3M commitment		1,059,516.00	HCS Shared Exp
5/11/2010	CMCS	UNC SOM	Ent Fund Assess-May 10	25,000.00		Enterprise Fund
5/19/2010	Deposit	Rex Healthcare	HCS EF-RadOnc-May 10	50,000.00		Enterprise Fund
5/19/2010	Deposit	Rex Healthcare	HCS EF-May 10	50,000.00		Enterprise Fund
5/19/2010	Deposit	Rex Healthcare	HCS Tax Mar 10	67,593.00		HCS Shared Exp
5/25/2010	Deposit	Rex Healthcare	HCS Tax Apr 10	65,304.00		HCS Shared Exp
5/25/2010	CMCS	UNC P&A	UNC P&A-HCS Tax Apr 10	869,475.00		HCS Shared Exp
5/25/2010	CMCS	UNC Hospitals	Ent Fund Assess-May 10	1,836,784.00		Enterprise Fund
5/25/2010	CMCS	UNC Hospitals	UNCH-HCS Tax Apr 10	3,321,354.00		HCS Shared Exp
5/25/2010	CMCS	UNC-SOM	Patient Safety Fund-Sarah Massie-S&B-3rdqtrFY10		12,684.67	Patient Safety
5/25/2010	CMCS	UNC P&A	HO Exp Reimb - Apr 10		123,298.00	HCS Shared Exp
5/25/2010	CMCS	UNC P&A	Ent Fund Allocation-May 10		2,310,325.00	Enterprise Fund
5/25/2010	CMCS	UNC Hospitals	HO Exp Reimb - Apr 10		3,192,765.00	HCS Shared Exp
5/28/2010		Interest Earned		41,542.63		Interest
6/1/2010	CMCS	UNC P&A	Ent Fund Assess-May 10	341,667.00		Enterprise Fund
6/9/2010	CMCS	UNC SOM	Ent Fund Assess-Jun 10	25,000.00		Enterprise Fund
6/15/2010	Deposit	Rex Healthcare	HCS EF-RadOnc-Jun 10	50,000.00		Enterprise Fund
6/15/2010	Deposit	Rex Healthcare	HCS EF-Jun 10	50,000.00		Enterprise Fund
6/24/2010	CMCS	UNC Hospitals	Ent Fund Assess-Jun 10	1,836,784.00		Enterprise Fund
6/24/2010	CMCS	UNC Hospitals	UNCH-HCS Tax May 10	3,251,991.00		HCS Shared Exp
6/25/2010	Deposit	FirstHealth-UNCHCS, LLC	Distribution from SHO(acq costs refund)	81,216.00		HCS Shared Exp
6/25/2010	Deposit	FirstHealth-UNCHCS, LLC	Distribution from SHO(return of WC)	300,000.00		HCS Shared Exp
6/25/2010	CMCS	UNC Hospitals	Special assess-UNCH to UNC SOM per HCS board resolution at May10 mtg	10,000,000.00		Board Action
6/25/2010	CMCS	UNC-SOM	Patient Safety Fund-Sarah Massie-S&B-4thqtrFY10		11,275.34	Patient Safety
6/25/2010	CMCS	UNC-SOM	Patient Safety Fund-Dr.Rosenstein-4th qtrFY10		25,000.00	Patient Safety
6/25/2010	CMCS	UNC P&A	HO Exp Reimb - May 10		58,269.00	HCS Shared Exp
6/25/2010	CMCS	UNC Hospitals	Repayment of acquisiton cost for SHO		81,216.00	HCS Shared Exp
6/25/2010	CMCS	UNC P&A	Sanford Nephrology-FY09 final, FY10 est		418,891.00	HCS Shared Exp
6/25/2010	CMCS	UNC P&A	Ent Fund Allocation-June 10		2,310,325.00	Enterprise Fund
6/25/2010	CMCS	UNC Hospitals	HO Exp Reimb - May 10		3,666,185.00	HCS Shared Exp
6/25/2010	CMCS	UNC-SOM	Special assess-UNCH to UNC SOM per HCS board resolution at May10 mtg		10,000,000.00	Board Action
6/25/2010	CMCS	UNC P&A	UNC P&A-HCS Tax May 10	856,109.00		HCS Shared Exp
6/23/2010	60	Triangle Physician Network, LLC	4th qtr addl cash call		347,106.26	HCS Shared Exp
6/30/2010	61	Chatham Hospital, Inc	HCS Ent Fund Refund		1,250.01	Enterprise Fund
6/30/2010	CMCS	UNC Hospitals	Bal of $9.3M acquitision commitment	2,240,484.00		HCS Shared Exp
6/30/2010	62	Chatham Hospital, Inc	Bal of $9.3M acquitision commitment		2,240,484.00	HCS Shared Exp
6/30/2010	Deposit	Rex Healthcare	HCS Tax - May 10	66,018.00		HCS Shared Exp
6/30/2010	CMCS	UNC P&A	Ent Fund Assess-June 10	341,667.00		Enterprise Fund
6/30/2010		Interest Earned		47,215.96		Interest

Insert all rows above this one

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY10 Activity

Date	CMCS Trf/ Check #	Payor/Payee	Description	Deposit	Checks/ Transfers	Activity Description
				133,849,515.89	104,095,980.97	

Summary	Deposit	Checks/Transfers
Enterprise Fund	48,224,777	29,409,652
Mission Support	14,831,038	4,831,038
HCS Shared Exp	60,494,041	57,629,556
Outreach Fund	0	0
Patient Safety	25,000	225,735
GME Fund	0	2,000,000
Interest	274,660	0
Board Action	10,000,000	10,000,000
	133,849,516	104,095,981
	0	0

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY11 Activity

Date	CMCS Trf/ Check #	Payor/Payee	Description	4100004 Deposit	Checks/Transfers	Activity Description
07/01/10		Balance b/f				
07/31/10		Interest Earned		38,936.06		Interest
08/03/10	CMCS	UNC P&A	Ent Fund Assess-Jul 10	341,667.00		Enterprise Fund
08/06/10	CMCS	UNC Hospitals	UNCH-HCS Tax Jun 10	3,356,515.00		HCS Shared Exp
08/06/10	CMCS	UNC Hospitals	HO exp reimb-Jun 10		4,133,916.99	HCS Shared Exp
08/30/10	Deposit	Rex Healthcare	Ent Fund assessment-Jul&Aug10	250,000.00		Enterprise Fund
08/30/10	CMCS	UNC Hospitals	Special assess to UNCHCS EF for Recruiting Fund per Dr. Roper's memo of 6/30/1C	5,000,000.00		Recrruitment Func
08/30/10	CMCS	UNC P&A	Patient Safety Fund-Sarah Massie-S&B-4thqtrFY10(June)		5,664.53	Patient Safety
08/30/10	CMCS	UNC P&A	HO exp reimb-Jul 10		35,444.00	HCS Shared Exp
08/30/10	CMCS	UNC P&A	HCS Tax July 10	771,768.00		HCS Shared Exp
08/30/10	CMCS	UNC P&A	Ent Fund Allocation-Jul 10		2,995,470.00	Enterprise Fund
08/30/10	CMCS	UNC P&A	Ent Fund Allocation-Aug 10		2,995,470.00	Enterprise Fund
08/30/10	CMCS	UNC Hospitals	HO exp reimb-Final Jun 10		400,878.97	HCS Shared Exp
08/30/10	CMCS	UNC Hospitals	HO exp reimb-Jul 10		3,308,420.00	HCS Shared Exp
08/30/10		Interest Earned		41,160.25		Interest
09/01/10	CMCS	UNC P&A	Ent Fund Assess-Aug 10	375,000.00		Enterprise Fund
09/14/10	Deposit	Rex Healthcare	Ent Fund assessment-Sep 10	125,000.00		Enterprise Fund
09/21/10	CMCS	UNC SOM	Ent Fund Assess-Jul-Sep 10	75,000.00		Enterprise Fund
09/21/10	Deposit	Rex Healthcare	HCS Tax Jul 10	61,869.00		HCS Shared Exp
09/21/10	CMCS	UNC Hospitals	TPN Cash Call-1st Qtr FY11	841,856.00		HCS Shared Exp
09/24/10	CMCS	UNC Hospitals	UNCH-HCS Tax Jul & Aug 10	6,267,209.00		HCS Shared Exp
09/24/10	CMCS	UNC Hospitals	UNCH-HCS Tax refund of overpayment of Jun tax		45,839.62	HCS Shared Exp
09/24/10	CMCS	UNC P&A	HO Exp Reimb - Aug 10		83,439.00	HCS Shared Exp
09/24/10	CMCS	UNC P&A	HO Exp Reimb - Jun 10		135,225.00	HCS Shared Exp
09/24/10	CMCS	UNC Hospitals	HO Exp Reimb - Aug 10		2,995,917.00	HCS Shared Exp
09/24/10	CMCS	UNC P&A	Ent Fund Allocation-Sep 10		2,995,470.00	Enterprise Fund
09/24/10	CMCS	UNC P&A	HCS Tax Aug 10	868,370.00		HCS Shared Exp
09/24/10	CMCS	UNC P&A	TPN Cash Call-1st Qtr FY11	210,464.00		HCS Shared Exp
09/24/10	CMCS	UNC P&A	HCS Tax Jun 10	878,980.00		HCS Shared Exp
09/29/10	63	Triangle Physician Network, LLC	TPN Cash Call-1st Qtr FY11		1,052,320.00	HCS Shared Exp
09/30/10		Interest Earned		33,919.73		Interest
10/01/10	CMCS	UNC P&A	Ent Fund Assess-Sep 10	375,000.00		Enterprise Fund
10/05/10	Deposit	Rex Healthcare	HCS Tax Jun 10(accrued $68,930)	69,044.00		HCS Shared Exp
10/06/10	Deposit	Rex Healthcare	HCS Tax Aug 10	67,404.00		HCS Shared Exp
10/07/10	CMCS	UNC P&A	Ent Fund Assess-Jul 10(pd 341667 earlier)	33,333.00		Enterprise Fund
10/12/10	CMCS	UNC SOM	Ent Fund Assess-Oct 10	25,000.00		Enterprise Fund
10/27/10	Deposit	FirstHealth-UNCHCS, LLC	Distribution from SHO(return of WC)	300,000.00		HCS Shared Exp
10/29/10	Deposit	Rex Healthcare	Ent Fund assessment-Oct 10	125,000.00		Enterprise Fund
10/29/10	CMCS	UNC P&A	HCS Tax Sep 10	786,131.00		HCS Shared Exp
10/29/10	CMCS	UNC Hospitals	UNCH-HCS Tax Sep 10	3,152,327.00		HCS Shared Exp
10/29/10	CMCS	UNC-SOM	Patient Safety Fund-Sarah Massie-S&B-1stQFY11		15,431.82	Patient Safety
10/29/10	CMCS	UNC P&A	HO Exp Reimb - Sep 10		47,686.00	HCS Shared Exp
10/29/10	CMCS	UNC P&A	Est HCS Tax refund - FY10		417,451.00	HCS Shared Exp
10/29/10	CMCS	UNC Hospitals	Est HCS Tax refund - FY10		1,669,803.00	HCS Shared Exp
10/29/10	CMCS	UNC P&A	Ent Fund Allocation-Oct 10		2,955,470.00	Enterprise Fund
10/29/10	CMCS	UNC Hospitals	HO Exp Reimb - Sep 10		3,570,075.00	HCS Shared Exp
10/29/10		Interest Earned		37,817.83		Interest
11/01/10	CMCS	UNC P&A	Ent Fund Assess-Oct 10	375,000.00		Enterprise Fund
11/03/10	Transfer	Medical Air, Inc	Aircraft Purchase-2009 Baron G58		940,000.00	Enterprise Fund
11/10/10	CMCS	UNC SOM	Ent Fund Assess-Nov 10	25,000.00		Enterprise Fund

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY11 Activity

Date	CMCS Trf/ Check #	Payor/Payee	Description	4100004 Deposit	Checks/Transfers	Activity Description
11/10/10	64	Rex Healthcare	Ho Exp Refund		280.55	HCS Shared Exp
11/16/10	65	Rex Healthcare	Ho Exp Refund		339.27	HCS Shared Exp
11/16/10	Deposit	Rex Healthcare	Ent Fund assessment-Nov 10	125,000.00		Enterprise Fund
11/16/10	Deposit	Rex Healthcare	HCS Tax Sep 10	66,472.00		HCS Shared Exp
11/24/10	CMCS	UNC P&A	FY10 Neurointensivist Refund Due	718,397.00		Enterprise Fund
11/24/10	CMCS	UNC P&A	P&A-HCS Tax Oct 10	858,834.00		HCS Shared Exp
11/30/10	CMCS	UNC Hospitals	UNCH-HCS Tax Oct 10	3,067,466.00		HCS Shared Exp
11/30/10	CMCS	UNC Hospitals	UNCH-Mission Support FY10	12,084,885.00		Mission Support
11/30/10	CMCS	UNC P&A	HO Exp Reimb - Oct 10		74,339.00	HCS Shared Exp
11/30/10	CMCS	UNC P&A	GME Funding from Outreach Fund-FY11		2,000,000.00	GME Fund
11/30/10	CMCS	UNC P&A	Ent Fund Allocation-Nov 10		2,985,470.00	Enterprise Fund
11/30/10	CMCS	UNC Hospitals	HO Exp Reimb - Oct 10		4,452,172.00	HCS Shared Exp
11/30/10	CMCS	UNC P&A	P&A Mission Support Allocation-FY10		10,784,885.00	Mission Support
11/30/10	CMCS	UNC P&A	H&V FY10 Performance Matrix		600,000.00	Mission Support
11/30/10	CMCS	UNC P&A	Nephrology FY10 Distribution from MS		500,000.00	Mission Support
11/30/10	CMCS	UNC Hospitals	UNCH Mission Support -FY11	5,000,000.00		Mission Support
11/30/10		Interest Earned		29,007.35		Interest
12/01/10	CMCS	UNC P&A	Ent Fund Assess-Nov 10	375,000.00		Enterprise Fund
12/08/10	CMCS	UNC SOM	Ent Fund Assess-Dec 10	25,000.00		Enterprise Fund
12/16/10	Deposit	Rex Healthcare	Ent Fund assessment-Dec 10	125,000.00		Enterprise Fund
12/16/10	Deposit	Rex Healthcare	HCS Tax Oct 10	64,243.00		HCS Shared Exp
12/17/10	CMCS	UNC Hospitals	UNCH-HCS Tax Nov 10	3,489,796.00		HCS Shared Exp
12/17/10	CMCS	UNC P&A	HO Exp Reimb - Nov 10		45,753.00	HCS Shared Exp
12/17/10	CMCS	UNC P&A	Ent Fund Allocation-Dec 10		2,985,469.00	Enterprise Fund
12/17/10	CMCS	UNC Hospitals	HO Exp Reimb - Nov 10		3,120,169.00	HCS Shared Exp
12/17/10	CMCS	UNC Hospitals	UNCH Mission Support -FY11 (rtnd funds to UNCH)		5,000,000.00	Mission Support
12/22/10	CMCS	UNC Hospitals	TPN Cash Call - 2nd Qtr 2011	3,276,020.00		HCS Shared Exp
12/22/10	CMCS	Rex Healthcare	TPN Cash Call - 2nd Qtr 2011	979,218.00		HCS Shared Exp
12/29/10	66	Triangle Physician Network, LLC	TPN Cash Call - 2nd Qtr FY11		3,276,020.00	HCS Shared Exp
12/29/10	CMCS	UNC P&A	TPN Cash Call - 2nd Qtr 2011	389,638.00		HCS Shared Exp
12/29/10	CMCS	UNC P&A	P&A-HCS Tax Nov 10	796,777.00		HCS Shared Exp
12/31/10		Interest Earned		29,533.39		Interest
01/04/11	CMCS	UNC P&A	Ent Fund Assess-Dec 10	375,000.00		Enterprise Fund
01/05/11	CMCS	UNC SOM	Ent Fund Assess-Jan 11	25,000.00		Enterprise Fund
01/05/11	67	Triangle Physician Network, LLC	TPN Cash Call - 2nd Qtr FY11		979,218.00	HCS Shared Exp
01/19/11	Deposit	Rex Healthcare	Ent Fund assessment-Jan 11	125,000.00		Enterprise Fund
01/25/11	Deposit	Rex Healthcare	HCS Tax Nov and Dec 10	143,951.00		HCS Shared Exp
01/26/11	CMCS	UNC P&A	P&A-HCS Tax Dec 10	882,304.00		HCS Shared Exp
01/25/11	68	Triangle Physician Network, LLC	TPN Cash Call - 2nd Qtr FY11		389,638.00	HCS Shared Exp
01/31/11	CMCS	UNC Hospitals	UNCH-HCS Tax Dec 10	3,196,987.00		HCS Shared Exp
01/31/11	CMCS	UNC Hospitals	Ent Fund Assess-prepaid remainder of FY11	5,200,000.00		Enterprise Fund
01/31/11	CMCS	UNC Hospitals	Miss Supp payment thru Dec 10	12,542,242.00		Mission Support
01/31/11	CMCS	UNC P&A	HO Exp Reimb - Dec 10		6,764.00	HCS Shared Exp
01/31/11	CMCS	UNC-SOM	Patient Safety Fund-Ethics Comm-Arlene Davis-FY11		25,000.00	Patient Safety
01/31/11	CMCS	UNC P&A	Ent Fund Allocation-Jan 11		2,985,469.00	Enterprise Fund
01/31/11	CMCS	UNC Hospitals	HO Exp Reimb - Dec 10		3,299,941.00	HCS Shared Exp
01/31/11		Interest Earned		24,694.63		Interest
02/02/11	CMCS	UNC P&A	Ent Fund Assess-Jan 11	375,000.00		Enterprise Fund
02/03/11	Transfer	Medical Air, Inc	Aircraft Purchase-2009 Baron G58	300,000.00		Enterprise Fund
02/07/11	Transfer	Medical Air, Inc	Aircraft Purchase-2009 Baron G58	390,000.00		Enterprise Fund

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY11 Activity

Date	CMCS Trf/ Check #	Payor/Payee	Description	4100004 Deposit	Checks/Transfers	Activity Description
02/17/11	Deposit	Rex Healthcare	Ent Fund assessment-Feb 11	125,000.00		Enterprise Fund
02/28/11	CMCS	UNC Hospitals	UNCH-HCS Tax Jan 11	3,145,589.00		HCS Shared Exp
02/28/11	CMCS	UNC P&A	P&A-HCS Tax Jan 11	673,020.00		HCS Shared Exp
02/28/11	CMCS	UNC P&A	Ent Fund Allocation-Feb 11		2,209,089.00	Enterprise Fund
02/28/11	CMCS	UNC P&A	HO Exp Reimb - Jan 11		38,242.00	HCS Shared Exp
02/28/11	CMCS	UNC Hospitals	HO Exp Reimb - Jan 11		3,526,369.00	HCS Shared Exp
02/28/11	CMCS	UNC-SOM	Patient Safety Fund-Ethics Comm-Dr.McGee-07/10-01/11		17,615.48	Patient Safety
02/28/11		Interest Earned		29,732.20		Interest
03/02/11	CMCS	UNC P&A	Ent Fund Assess-Feb 11	375,000.00		Enterprise Fund
03/10/11	CMCS	UNC SOM	Ent Fund Assess-Feb 11	25,000.00		Enterprise Fund
03/10/11	Deposit	Rex Healthcare	HCS Tax Jan 11	69,707.00		HCS Shared Exp
03/16/11	Deposit	Rex Healthcare	Ent Fund assessment-Mar 11	125,000.00		Enterprise Fund
03/29/11	CMCS	UNC P&A	P&A-HCS Tax Feb 11	834,941.00		HCS Shared Exp
03/29/11	CMCS	UNC P&A	Ent Fund Allocation-Mar 11		2,888,422.00	Enterprise Fund
03/29/11	CMCS	UNC-SOM	Patient Safety Fund-Sarah Massie-S&B-2ndQFY11		17,402.38	Patient Safety
03/29/11	CMCS	UNC P&A	HO Exp Reimb - Feb 11		81,518.00	HCS Shared Exp
03/29/11	CMCS	UNC Hospitals	HO Exp Reimb - Feb 11		3,548,877.00	HCS Shared Exp
03/29/11	CMCS	UNC Hospitals	UNCH-HCS Tax Feb 11	2,989,282.00		HCS Shared Exp
03/30/11	CMCS	UNC SOM	Ent Fund Assess-Mar 11	25,000.00		Enterprise Fund
03/31/11	CMCS	UNC Hospitals	For Trf to Chatham	5,500,000.00		HCS Shared Exp
03/31/11	69	Chatham Hospital	Trf from UNC HCS		5,500,000.00	HCS Shared Exp
03/31/11		Interest Earned		37,499.69		Interest
04/04/11	CMCS	UNC P&A	Ent Fund Assess-Mar 11	375,000.00		Enterprise Fund
04/11/11	CMCS	UNC SOM	Ent Fund Assess-Apr 11	25,000.00		Enterprise Fund
04/12/11	Deposit	Rex Healthcare	HCS Tax Feb 11	63,813.00		HCS Shared Exp
04/14/11	CMCS	Rex Healthcare	TPN Cash Call - 3rd Qtr 2011	2,104,362.00		HCS Shared Exp
04/14/11	CMCS	UNC P&A	TPN Cash Call - 3rd Qtr 2011	429,368.00		HCS Shared Exp
04/14/11	70	Triangle Physician Network, LLC	TPN Cash Call - 3rd Qtr 2011		2,104,362.00	HCS Shared Exp
04/14/11	71	Triangle Physician Network, LLC	TPN Cash Call - 3rd Qtr 2011		429,368.00	HCS Shared Exp
04/19/11	Deposit	Rex Healthcare	Ent Fund assessment-Apr 11	50,000.00		Enterprise Fund
04/26/11	CMCS	UNC P&A	P&A-HCS Tax Mar 11	1,052,269.00		HCS Shared Exp
04/29/11	CMCS	UNC Hospitals	UNCH-HCS Tax Mar 11	3,746,689.00		HCS Shared Exp
04/29/11	CMCS	UNC SOM	PIPSIF Ethics Comm-Dr.McGee-Jan-Feb11		5,452.88	Patient Safety
04/29/11	CMCS	UNC P&A	HO Exp Reimb - Mar 11		30,909.00	HCS Shared Exp
04/29/11	CMCS	UNC P&A	Ent Fund Allocation-Apr 11		2,888,422.00	Enterprise Fund
04/29/11	CMCS	UNC Hospitals	HO Exp Reimb - Mar 11		4,029,289.00	HCS Shared Exp
04/29/11		Interest Earned		35,008.71		Interest
05/03/11	CMCS	UNC P&A	Ent Fund Assess-Apr 11	375,000.00		Enterprise Fund
05/05/11	72	Rex Healthcare	HO Exp Reimb - Apr 11		2,988.00	HCS Shared Exp
05/12/11	CMCS	UNC SOM	Ent Fund Assess-May 11	25,000.00		Enterprise Fund
05/19/11	Deposit	Rex Healthcare	HCS Tax Mar 11	75,968.00		HCS Shared Exp
05/19/11	Deposit	Rex Healthcare	Ent Fund assessment-May 11	50,000.00		Enterprise Fund
05/20/11	CMCS	UNC Hospitals	UNCH-HCS Tax Apr 11	3,419,438.00		HCS Shared Exp
05/20/11	CMCS	UNC SOM	PIPSIF-MedDir Resuscitation-Lydia Chang		25,000.00	Patient Safety
05/20/11	CMCS	UNC P&A	HO Exp Reimb - Apr 11		29,476.00	HCS Shared Exp
05/20/11	CMCS	UNC SOM	PIPSIF-Nicotine Dependence-Adam Goldstein		55,000.00	Patient Safety
05/20/11	CMCS	UNC SOM	PIPSIF-EMR sys coding for faculty appointments		60,000.00	Patient Safety
05/20/11	CMCS	UNC P&A	Ent Fund Allocation-May 11		2,888,422.00	Enterprise Fund
05/20/11	CMCS	UNC Hospitals	HO Exp Reimb - Apr 11		3,338,720.00	HCS Shared Exp
05/24/11	Deposit	FirstHealth-UNCHCS, LLC	Distribution from SHO(return of WC)	150,000.00		HCS Shared Exp

UNC Health Care System & Enterprise Fund
STIF A/C 5-000-738 FY11 Activity

Date	CMCS Trf/ Check #	Payor/Payee	Description	4100004 Deposit	Checks/Transfers	Activity Description
05/25/11	CMCS	UNC Hospitals	TPN Cash Call - Addl FY11	900,000.00		HCS Shared Exp
05/24/11	CMCS	UNC P&A	P&A-HCS Tax Apr 11	825,397.00		HCS Shared Exp
05/27/11	CMCS	UNC P&A	TPN Cash Call - 4th FY11	225,000.00		HCS Shared Exp
05/23/11	73	Triangle Physician Network, LLC	TPN Cash Call Addl FY11		1,400,000.00	HCS Shared Exp
05/23/11	74	Triangle Physician Network, LLC	TPN Cash Call Addl FY11		850,000.00	HCS Shared Exp
05/26/11	Transfer	Rex Healthcare	TPN Cash Call Addl FY11	1,125,000.00		HCS Shared Exp
05/31/11	75	Peidmont Health	FY11 contract		750,000.00	HCS Shared Exp
05/31/11	CMCS	UNC SOM	PIPSIF-Peds Specialty Team		8,336.42	Patient Safety
05/31/11		Interest Earned		37,237.88		Interest
06/01/11	CMCS	UNC P&A	Ent Fund Assess-May 11	375,000.00		Enterprise Fund
06/07/11	CMCS	UNC SOM	Ent Fund Assess-Jun 11	25,000.00		Enterprise Fund
06/10/11	CMCS	UNC Hospitals	UNCH-HCS Tax May 11	3,177,362.00		HCS Shared Exp
06/10/11	CMCS	UNC Hospitals	Miss Supp 2nd payment FY11	5,000,000.00		Mission Support
06/10/11	CMCS	UNC SOM	PIPSIF-Sarah Massie 3rd Q FY11		15,981.78	Patient Safety
06/10/11	CMCS	UNC Hospitals	HO Exp Reimb - May 11		4,395,696.00	HCS Shared Exp
06/10/11	CMCS	UNC P&A	Ent Fund Allocation-Jun 11		2,088,421.00	Enterprise Fund
06/15/11	CMCS	UNC P&A	H&V Recruitment Fund Assessment	1,000,000.00		Recrruitment Func
06/15/11	Deposit	FirstHealth-UNCHCS, LLC	Distribution from SHO(return of WC)	150,000.00		HCS Shared Exp
06/28/11	CMCS	UNC P&A	Ent Fund Assess-Jun 11	375,000.00		Enterprise Fund
06/28/11	CMCS	UNC P&A	P&A-HCS Tax May 11	948,862.00		HCS Shared Exp
06/28/11	CMCS	UNC Hospitals	HCS EF FY12 Assessment Prepaid	26,200,000.00		Enterprise Fund
06/28/11	CMCS	UNC SOM	PIPSIF-Sarah Massie 4th Q FY11		10,299.36	Patient Safety
06/28/11	CMCS	UNC SOM	PIPSIF-Geriatrics Clinic at Sr.Ctr-first year of 3 yr support		58,000.00	Enterprise Fund
06/28/11	CMCS	UNC P&A	HO Exp Reimb - May 11		58,455.00	HCS Shared Exp
06/28/11	CMCS	UNC Hospitals	H&V Recruitment Fund Assessment	800,000.00		Recrruitment Func
06/29/11	CMCS	UNC SOM	SOM Support per JPL ltr of 5/31/11		2,000,000.00	Board Action
05/23/11	77	Triangle Physician Network, LLC	TPN Cash Call from Rex & P&A		889,385.00	HCS Shared Exp
06/30/11		Interest Earned		38,176.05		Interest
Insert all rows above this one				147,122,957.77	120,549,837.05	

Summary	Deposit	Checks/Transfers
Enterprise Fund	38,833,397	34,859,064
Mission Support	34,627,127	16,884,885
HCS Shared Exp	66,449,710	64,544,703
Outreach Fund	0	0
Patient Safety	0	261,185
GME Fund	0	2,000,000
Interest	412,724	0
Recrruitment Fund	6,800,000	0
Board Action	0	2,000,000
	147,122,958	**120,549,837**

UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM

UNC HCS & Enterprise Fund INCOME STATEMENT
FOR THE FISCAL YEAR ENDING JUNE 30, 2010

	HCS Funds	ROLLS UP TO HCS FUNDS COLUMN: HCS Enterprise Fund	HCS Outreach (GME) Fund	HCS Patient Safety Fund	HCS Tax Fund
Operating Revenue					
Net Patient Service Revenue	$ -	$ -	$ -	$ -	$ -
Cost Report Settlements	-				
State Appropriations	-				
Other Operating Revenue	-				
Net Operating Revenue	-	-	-	-	-
Operating Expenses					
Salaries and Fringe Benefits	-				
Medical and Surgical Supplies	-				
Contracted Services	446,718				446,718
Other Supplies and Services	-				
Communications and Utilities	-				
Medical Malpractice Insurance	-				
Depreciation	-				
Bond and Other Interest Expense	-				
Total Operating Expenses	446,718	-	-	-	446,718
Operating Income (Loss)	(446,718)	-	-	-	(446,718)
Operating Margin					
Enterprise Fund Activity					
Transfers to HCS Enterprise Fund	54,917,018	54,917,018	-	-	-
Transfers from HCS Enterprise Fund	(44,365,310)	(44,365,310)	-	-	-
Adjusted Operating Income (Loss)	10,104,990	10,551,708	-	-	(446,718)
Adjusted Operating Margin					
Nonoperating Gains (Losses)					
Interest and Investment Income	274,660	258,665	-	12,277	3,718
Nonoperating Income (Expense)	(200,735)	-	-	(200,735)	-
Gain (Loss) on Investment in Affiliates	-	-	-	-	-
Medical School Trust Fund (MSTF)	-				
Total Nonoperating Gains (Losses)	73,925	$ 258,665	$ -	$ (188,458)	$ 3,718
Net Income (Loss)	$ 10,178,915	$ 10,810,373	$ -	$ (188,458)	$ (443,000)
Total Margin					
Other Changes in Net Assets	-	$ -	$ -	$ -	$ -
Transfer from(to) HCS/SOM/Chatham/CBPs	-	$ -	$ -	$ -	$ -
Increase (Decrease) in Net Assets	$ 10,178,915	$ 10,810,373	$ -	$ (188,458)	$ (443,000)

UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM

UNC Health Care System & Enterprise Fund BALANCE SHEET
JUNE 30, 2010

	HCS Funds	ROLLS UP TO UNCHCS FUNDS COLUMN: HCS Enterprise Fund	HCS Outreach (GME) Fund	HCS Patient Safety Fund	HCS Tax Fund
Current Assets					
Cash and Investments	$ -	$ -	$ -	$ -	$ -
Patient Accounts Receivable - Net	-				
Inventories	-				
Other Assets and Receivables	22,471,727	17,613,142	-		4,858,585
Assets Whose Use is Limited or Restricted	41,330,452	31,171,510	8,000,000	617,616	1,541,325
Prepaid expenses	-				
Total Current Assets	63,802,179	48,784,652	8,000,000	617,616	6,399,910
Noncurrent Assets					
Property, Plant and Equipment - Net	-				
Assets Whose Use is Limited or Restricted	-				
Other Assets	-				
Total Noncurrent Assets	-	-	-	-	-
TOTAL ASSETS	**63,802,179**	**48,784,652**	**8,000,000**	**617,616**	**6,399,910**
Current Liabilities					
Accounts and Other Payables	24,235,259	9,477,984	8,000,000	-	6,757,275
Accrued Salaries and Benefits	-				
Estimated Third Party Settlements	-				
Notes and Bonds Payable	-				
Interest Payable	-				
Other	20,000,000	20,000,000			
Total Current Liabilities	44,235,259	29,477,984	8,000,000	-	6,757,275
Noncurrent Liabilities					
Notes and Bonds Payable - Net & Arbitrage	-				
Accumulated Annual / Holiday Leave	-				
Total Noncurrent Liabilities	-	-	-	-	-
TOTAL LIABILITIES	**44,235,259**	**29,477,984**	**8,000,000**	**-**	**6,757,275**
NET ASSETS	**19,566,920**	**19,306,668**	**-**	**617,616**	**(357,365)**
TOTAL LIABILITIES AND NET ASSETS	**63,802,179**	**48,784,652**	**8,000,000**	**617,616**	**6,399,910**

UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM

UNC HCS & Enterprise Fund INCOME STATEMENT
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011

	HCS Funds	ROLLS UP TO HCS FUNDS COLUMN: HCS Enterprise Fund	HCS Outreach (GME) Fund	HCS Recruitment Fund - H&V	HCS Recruitment Fund - Other	HCS Patient Safety Fund	HCS Tax Fund
Operating Revenue							
Net Patient Service Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cost Report Settlements	-						
State Appropriations	-						
Other Operating Revenue	-						
Net Operating Revenue	-	-	-	-	-	-	-
Operating Expenses							
Salaries and Fringe Benefits	-						
Medical and Surgical Supplies	-						
Contracted Services	4,862						4,862
Other Supplies and Services	-						
Communications and Utilities	-						
Medical Malpractice Insurance	-						
Depreciation	-						
Bond and Other Interest Expense	-						
Total Operating Expenses	4,862	-	-	-	-	-	4,862
Operating Income (Loss)	(4,862)	-	-	-	-	-	(4,862)
Operating Margin							
Enterprise Fund Activity							
Mission Support	2,914,013	2,914,013	-	-	-	-	-
Transfers to HCS Enterprise Fund	33,713,940	33,713,940	-	-	-	-	-
Transfers from HCS Enterprise Fund	(35,320,668)	(42,320,668)	-	4,000,000	3,000,000	-	-
Adjusted Operating Income (Loss)	1,302,423	(5,692,715)	-	4,000,000	3,000,000	-	(4,862)
Adjusted Operating Margin							
Nonoperating Gains (Losses)							
Interest and Investment Income	412,724	382,380	-	-	-	5,852	24,492
Nonoperating Income (Expense)	(261,185)	-	-	-	-	(261,185)	-
Gain (Loss) on Investment in Affiliates	-	-	-	-	-	-	-
Medical School Trust Fund (MSTF)	-						
Total Nonoperating Gains (Losses)	$ 151,539	$ 382,380	$ -	$ -	$ -	$ (255,333)	$ 24,492
Net Income (Loss)	$ 1,453,962	$ (5,310,335)	$ -	$ 4,000,000	$ 3,000,000	$ (255,333)	$ 19,630
Total Margin							
Other Changes in Net Assets	-	-	-	-	-	-	-
Transfer from(to) TPN	(889,385)	-	-	-	-	-	(889,385)
Transfer from(to) HCS/SOM/Chatham	(2,000,000)	(2,000,000)	-		-	-	-
Increase (Decrease) in Net Assets	$ (1,435,423)	$ (7,310,335)	$ -	$ 4,000,000	$ 3,000,000	$ (255,333)	$ (869,755)

UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM

UNC Health Care System & Enterprise Fund BALANCE SHEET
JUNE 30, 2011

	HCS Funds	ROLLS UP TO UNCHCS FUNDS COLUMN					
		HCS Enterprise Fund	HCS Outreach (GME) Fund	HCS Recruitmen Fund - H&V	HCS Recruitmen Fund - Other	HCS Patient Fund	HCS Tax Fund
Current Assets							
Cash and Investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Patient Accounts Receivable - Net	-						
Inventories	-						
Other Assets and Receivables	5,522,194	688,940	-	-			4,833,254
Assets Whose Use is Limited or Restricted	67,903,572	51,070,465	6,000,000	4,000,000	3,000,000	362,283	3,470,823
Prepaid expenses	-	-	-				
Total Current Assets	73,425,766	51,759,405	6,000,000	4,000,000	3,000,000	362,283	8,304,077
Noncurrent Assets							
Property, Plant and Equipment - Net	-						
Assets Whose Use is Limited or Restricted	-						
Other Assets	-						
Total Noncurrent Assets	-	-	-	-	-	-	-
TOTAL ASSETS	**73,425,766**	**51,759,405**	**6,000,000**	**4,000,000**	**3,000,000**	**362,283**	**8,304,077**
Current Liabilities							
Accounts and Other Payables	29,094,268	13,563,071	6,000,000	-	-	-	9,531,197
Accrued Salaries and Benefits	-						
Estimated Third Party Settlements	-						
Notes and Bonds Payable	-						
Interest Payable	-						
Other	26,200,000	26,200,000					
Total Current Liabilities	55,294,268	39,763,071	6,000,000	-	-	-	9,531,197
Noncurrent Liabilities							
Notes and Bonds Payable - Net & Arbitrage	-						
Accumulated Annual / Holiday Leave	-						
Total Noncurrent Liabilities	-	-	-	-	-	-	-
TOTAL LIABILITIES	**55,294,268**	**39,763,071**	**6,000,000**	**-**	**-**	**-**	**9,531,197**
NET ASSETS	**18,131,498**	**11,996,334**	**-**	**4,000,000**	**3,000,000**	**362,283**	**(1,227,120)**
TOTAL LIABILITIES AND NET ASSETS	**73,425,766**	**51,759,405**	**6,000,000**	**4,000,000**	**3,000,000**	**362,283**	**8,304,077**

1 UNC Health Care System	Enterprise Fund[1]		Mission Support[2]		HCS Tax Fund (Shared Expenses)[3]	
A Health System Properties	n/a	n/a	n/a	n/a	n/a	n/a
B FirstHealth UNCHCS	n/a	n/a	n/a	n/a	n/a	n/a
C UNCH	contributes to EF	n/a	contributes to MS	n/a	contributes to tax fund	reimbursed for incurred HCS expens
D UNC P&A	contributes to EF	recieves benefit from EF	n/a	Recieves benefit from MS	contributes to tax fund	reimbursed for incurred HCS expens
E Rex	contributes to EF	n/a	n/a	n/a	contributes to tax fund	reimbursed for incurred HCS expens
F Chatham	n/a	n/a	n/a	n/a	contributes to tax fund	n/a
G TPN	n/a	n/a	n/a	n/a	contributes to tax fund	receives op support from UNCH, UNC P&A, and Re
H UNC SOM	contributes to EF	receives benefit from EF	n/a	n/a	n/a	n/a
I Pardee[7]	does not participate	does not participate	does not participate	does not participate	does not participate	does not participate

UNC Health Care System	Outreach Fund[4]		Patient Safety Fund[5]		GME Fund[6]	
A Health System Properties	n/a	n/a	n/a	n/a	n/a	n/a
B FirstHealth UNCHCS	n/a	n/a	n/a	n/a	n/a	n/a
C UNCH	assessed funds	n/a	assessed funds	received benefit	assessed funds	n/a
D UNC P&A	assessed funds	n/a	assessed funds	received benefit	assessed funds	received benefit
E Rex	n/a	n/a	n/a	n/a	n/a	n/a
F Chatham	n/a	n/a	n/a	n/a	n/a	n/a
G TPN	n/a	n/a	n/a	n/a	n/a	n/a
H UNC SOM	n/a	received benefit	n/a	received benefit	n/a	received benefit
I Pardee[7]	does not participate	does not participate	does not participate	does not participate	does not participate	does not participate

Notes

1 UNC Hospitals, UNC Physicians & Associates, Rex Healthcare, and the UNC School of Medicine annually contribute to the Enterprise Fund. The Fund then provides support to UNC School of Medicine departments and support to HCS initiatives. Recent EF grants includ grants to Anesthesiology, Dermatology, Emergency Medicine, Family Medicine, Heart & Vascular, Medicine, Neurology, Ophthalmology, Orthopedics, Otolaryngology, Psychiatry, Pediatrics, Radiation Oncology, Radiology and Surgery. The Enterprise Fund has also been used to support NC AHEC and its medical air program.

2 A portion of UNC Hospitals' operating income bay be transferred to the UNC HCS based on achieving organizational goals.

3 Centralized administrative expenses are typically bourne within a single entity. To distribute the expense to the appropriate entity, a tax is assessed on the entities using these services. As an example, UNC Hospitals pays the salaries of UNC HCS Leadership through its payroll system. However the cost is shared amongst all the entities of the system.

4 The Outreach Fund was created in FY07 via cash contributions from UNCH and UNC P&A to make community investments in FY07, FY08 and FY09. The Outreach Fund supported visionary initiatives to significantly impact our patients and the citizens of the state. Investments were centered around geriatrics, community outreach, elimination of health care disparities, and implementation of new technologies and methodologies.

5 The Patient Safety fund was funded via the Liability Insurance Trust Fund (whose members are UNCH and UNC P&A). The Patient Safety seeks to improve clinical outcomes, patient safety and physician behavior. The fund primarily supports quality initiatives across the Health Care System. The Chief of the Medical Staff directs the uses of these funds.

6 The GME Fund, or Outreach Fund II, helps support the teaching mission of the UNC SOM. The GME was funded by a $10 million contribution from UNCH and UNC P&A. The UNC HCS CEO, as Dean of the School of Medicine, directed the fund to distribute its assets to the clinical departments of the School of Medicine to subsidize the cost of providing Graduate Medical Education. Beginning in FY10, the fund began to make annual disbursements of $2 million to the clinical departments.

7 Pardee Hospital is not owned by the UNC Health Care System or any of its entities. It is managed by UNC Hospitals and owned by the Citizens of Henderson County, North Carolina. Pardee does not participate in the Enterprise Fund.

Tab 5

Identify the resources devoted to teaching, research, patient care and other activities of each of the affiliated entities engaged in teaching, research, and patient care.

Index	Entity	Description
5.01	UNCH	Teaching, research and patient care occur concurrently at UNC Hospitals, in a similar manner to the School of Medicine. UNC Hospitals has a closed medical staff, meaning that only UNC SOM faculty physicians practice at UNC Hospitals, thus the activities of the SOM are tightly correlated with UNCH. Additionally, medical direction for the clinical operations of the hospital are directed by the clinical departments of the SOM.
	UNC P&A	UNC Physicians & Associates is the clinical arm of the UNC School of Medicine. Teaching, research and patient care occur concurrently at the SOM and therefore at UNC P&A. Professors teach medical students and residents while they are providing patient care and performing research.
	Rex	While Rex does not yet allocate specific resources to teaching, development of teaching programs is underway. Rex does perform research, and is expanding those activities in partnership with the School of Medicine. Additionally, Rex provides financial support of the teaching and research missions of UNC Health Care.
	TPN	No teaching or research programs are in place.
	Chatham	No teaching or research programs are in place.

Resources devoted to teaching, research, clinical care

	Teaching	Research	Clinical Care
UNC HOSPITALS	Teaching, research and clinical care occur concurrently at UNC Health Care's Chapel Hill Campus, roughly $960M in FY11		
UNC PHYSICIANS & ASSOCIATES	Teaching, research and clinical care occur concurrently at UNC Health Care's Chapel Hill Campus, roughly $358M in FY11[1]		
REX UNC HEALTH CARE	Development of teaching programs underway but not yet in place	Research programs in Cancer and Heart & Vascular totaled $581K in FY11	Total operating expenses total $582M in FY11
TRIANGLE PHYSICIAN NETWORK	No teaching program in place	No research program in place	Total operating expenses total $36M in FY11
CHATHAM HOSPITAL	No teaching program in place	No research program in place	Total operating expenses total $24M in FY11

Notes:

1. UNC P&A is a subset of the UNC School of medicine. The FY11 resources devoted to teaching, research and clinical care exceed $1.03B

Tab 6

Identify all transfers between and among Rex and UNCHCS

Index	Entity	Description
6.01	UNC HCS	In March 2011, we provided an estimated Rex to UNCHCS cash flow of $22.2M. Since that original submission, we have scoured accounts looking for additional transfers. We have identified some additional payments that did not go directly to the Health Care System. We have also included actual FY11 numbers, instead of the estimates previously provided. Also, at the time of the intial request, TPN activitiy was a subset of Rex, and therefor not a UNC HCS transfer. Those resources shifted to TPN control as its own entity during FY11. Since TPN is now its own entity, we have included TPN activity as a direct transfer. The combined effect of these changes incrementally increases the FY00-FY11 cash flow to $36.6M.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Cash Flows from Rex to UNC HCs													
NC State Health Plan Settlement: paid to UNC SOM/UNC P&A	-	-	-	-	-	-	-	-	-	4,020,000	-	-	**4,020,000**
Purchased Services: Neonatal physicians, other clinical services from UNC SOM/UNC P&A	114,595	25,058	189,812	303,807	466,626	346,471	616,168	424,907	1,022,840	810,993	1,550,478	1,633,294	**7,505,050**
TPN Support: Subset of $13M cash calls distributed to TPN in FY10 and FY11	-	-	-	-	-	-	-	-	-	-	112,943	4,403,755	**4,516,698**
Rex Contributions to Enterprise Fund	-	-	-	-	-	-	500,000	500,000	600,000	600,000	1,200,000	1,400,000	**4,800,000**
Purchased Services: Shared HCS costs; admin, mgmt, legal and contracting	-	288,000	941,000	1,651,000	1,009,000	844,000	1,080,000	1,260,000	1,540,000	1,839,000	1,915,749	2,035,014	**14,402,763**
Purchased Services: Mgmt agreement - Rex Home Services and other Home Health	35,515	35,977	-	-	-	640,000	632,000	690,000	378,000	2,027,000	962,479	1,023,541	**6,424,512**
	$150,110	**$349,035**	**$1,130,812**	**$1,954,807**	**$1,475,626**	**$1,830,471**	**$2,828,168**	**$2,874,907**	**$3,540,840**	**$9,296,993**	**$5,741,649**	**$ 10,495,604**	**$41,669,022**
Purchased services from UNC HCS	150,110	349,035	1,130,812	1,954,807	1,475,626	1,830,471	2,328,168	2,374,907	2,940,840	4,676,993	4,428,706	4,691,849	**28,332,324**
Payment to UNC P&A for SHP Settlement	-	-	-	-	-	-	-	-	-	4,020,000	-	-	**4,020,000**
TPN Support	-	-	-	-	-	-	-	-	-	-	112,943	4,403,755	**4,516,698**
Cash Transfers	-	-	-	-	-	-	500,000	500,000	600,000	600,000	1,200,000	1,400,000	**4,800,000**
	$150,110	**$349,035**	**$1,130,812**	**$1,954,807**	**$1,475,626**	**$1,830,471**	**$2,828,168**	**$2,874,907**	**$3,540,840**	**$9,296,993**	**$5,741,649**	**$ 10,495,604**	**$41,669,022**
Cash Flows from UNC HCS to Rex													
Purchased Services from Rex	-	12,000	144,000	144,000	193,000	1,029,000	755,000	869,000	716,000	413,000	238,000	$ 596,000	**$ 5,109,000**
rent for UNC Women's Specialty Ctr													
purchased blood products													
research activity													
pathology services													
Purchased Services from Rex Healthcare	-	12,000	144,000	144,000	193,000	1,029,000	755,000	869,000	716,000	413,000	238,000	596,000	**5,109,000**
Cash Transfers	-	-	-	-	-	-	-	-	-	-	-	-	**-**
	$ -	**$ 12,000**	**$ 144,000**	**$ 144,000**	**$ 193,000**	**$1,029,000**	**$ 755,000**	**$ 869,000**	**$ 716,000**	**$ 413,000**	**$ 238,000**	**$ 596,000**	**$ 5,109,000**
Net Purchased Services (from Rex to UNCHS)	150,110	349,035	1,130,812	1,954,807	1,475,626	1,830,471	2,828,168	2,874,907	3,540,840	9,296,993	5,741,649	10,495,604	**41,669,022**
Net cash Transfers (From Rex to UNCHCS)	-	(12,000)	(144,000)	(144,000)	(193,000)	(1,029,000)	(755,000)	(869,000)	(716,000)	(413,000)	(238,000)	(596,000)	**(5,109,000)**
Net cash Flow	$150,110	$337,035	$ 986,812	$1,810,807	$1,282,626	$ 801,471	$2,073,168	$2,005,907	$2,824,840	$8,883,993	$5,503,649	$ 9,899,604	**$36,560,022**

#5

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

H D

BILL DRAFT 2011-MDz-103 [v.8] (01/23)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
3/14/2012 8:21:07 PM

Short Title: Protect Homeowners with Underwater Mortgages. (Public)

Sponsors: Representative Brubaker.

Referred to:

A BILL TO BE ENTITLED

AN ACT TO ENSURE PAYMENT OF JUST COMPENSATION TO PROPERTY OWNERS WITH MORTGAGE DEBT EXCEEDING THE FAIR MARKET VALUE OF THE PROPERTY BY AUTHORIZING THE CONSIDERATION OF OUTSTANDING MORTGAGE DEBT WHEN DETERMINING DAMAGES IN A CONDEMNATION ACTION, AS RECOMMENDED BY THE HOUSE SELECT COMMITTEE ON STATE OWNED ASSETS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 136-112 reads as rewritten:

"**§ 136-112. Measure of damages.**

(a) Generally. – The following shall be the measure of damages to be followed by the commissioners, jury or judge who determines the issue of damages:

(1) Where only a part of a tract is taken, the measure of damages for said taking shall be the difference between the fair market value of the entire tract immediately prior to said taking and the fair market value of the remainder immediately after said taking, with consideration being given to any special or general benefits resulting from the utilization of the part taken for highway purposes.

(2) Where the entire tract is taken the measure of damages for said taking shall be the fair market value of the property at the time of taking.

(b) When Condemned Property Has Mortgage Debt Exceeding Fair Market Value. – Notwithstanding any other provision of law, the commissioners, jury, or judge who determines the issue of damages may add to the amount determined pursuant to subsection (a) of this section an amount equal to the difference between the outstanding balance of any eligible mortgage and the amount determined pursuant to subsection (a) of this section, but only if the property owner proves by a preponderance of the evidence that the fair market value of the property has declined since the property was purchased solely due to a decline in the market for real property.

(c) Eligible Mortgage Defined. – For purposes of this section, the term 'eligible mortgage' includes only a debt secured by a mortgage or deed of trust executed prior to July 1, 2008, to obtain money for the purchase of the property being condemned."

SECTION 2. This act is effective when it becomes law and shall expire on July 1, 2014.

#6

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

H D

BILL DRAFT 2011-MDz-115 [v.2] (03/14)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
3/14/2012 7:47:21 PM

Short Title: Streamline DOT Sale of Unused Properties. (Public)

Sponsors: Representative Brubaker.

Referred to:

A BILL TO BE ENTITLED

AN ACT TO FACILITATE THE TRANSFER OF UNUSED DEPARTMENT OF TRANSPORTATION LAND TO THE PRIVATE SECTOR BY STREAMLINING THE PROCESS OF SELLING THAT LAND, AS RECOMMENDED BY THE HOUSE SELECT COMMITTEE ON STATE OWNED ASSETS.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 136 of the General Statutes is amended by adding a new Article to read:

"Article 21.

"Identification and Sale of Unused Property.

"**§ 136-280. Definitions.**

The following definitions apply in this Article:

(1) Contingent bid. – A bid for the purchase of a Class A property that is made contingent on the elapsing of a due diligence period or on particular action being taken with respect to a rezoning application.

(2) Department. – The Department of Transportation.

(3) Due diligence period. – A period of time during which the potential purchaser of a Class A property may conduct inspections, appraisals, and related activities whose purpose is to determine the desirability of purchasing the property at issue.

(4) Earnest money. – Funds required to accompany a contingent bid in accordance with G.S. 136-283(c) and that shall be applied to the purchase price of real property when sold to the bidder tendering the funds but that are not returned to the bidder in the event that the bidder elects not to purchase the property.

(5) Unused property. – Real property owned by or allocated to the Department that is not needed for current or future transportation purposes, including residue properties, uneconomic remnant properties, and property identified pursuant to G.S. 136-287(1).

(6) Upset bid. – A bid to purchase unused property that is at least 5% higher than the highest bid for the property thus far received.

"**§ 136-281. Classification of unused property.**

The Department shall continuously identify unused property and shall classify each lot, block, or tract of unused property as one of the following types:

(1) Class A. – A property (i) whose size and road access are sufficient to allow commercial or residential development of one or more standalone projects without requiring the acquisition of additional real property; and (ii) whose size and shape are sufficient to allow compliance with zoning and development standards for parking, setbacks, side and front yard requirements, and access.

(2) Class B. – A property (i) that does not meet the definition of a Class A property; (ii) that would enhance the value of adjacent land by allowing larger or more extensive uses when joined to the adjacent land.

(3) Class C. – A property that does not meet the definition of a Class A or Class B property.

"**§ 136-282. Prompt sale of unused property.**

The Department shall attempt to promptly sell all unused property in accordance with G.S. 136-283 through 136-285.

"**§ 136-283. Sale of Class A property.**

(a) Public Sale. – Class A property shall be sold by public sale to the highest bidder following advertisement.

(b) Advertisement. – The Department shall take all of the following steps to advertise the sale of a Class A property:

(1) Advertise the sale by publication in a newspaper having general circulation in the county in which the property is situated.

(2) Make the following information about the property being sold available to the public both on its website and by mail:

a. Current zoning information.

b. Adjacent uses.

c. Land use plans of the local jurisdiction, if known.

d. Any other relevant information.

(c) Contingent Bids. – A bidder may make a contingent bid to purchase Class A property. However, a contingent bid shall be accompanied by earnest money in an amount determined pursuant to the following requirements:

(1) For contingency periods that last 60 days or less, no earnest money is required.

(2) For contingency periods that will last beyond 60 days, 1% of the bid price is required for each calendar month that the contingency period will extend beyond the initial 60 day period. For purposes of this subdivision, any fraction of a calendar month shall be considered a full calendar month. Additional contingency periods may be granted on a monthly basis in exchange for additional earnest money of 1% per month requested.

(d) Upset Bids. – The Department shall consider any upset bid received during the ten business days following the conclusion of bidding on a particular property. The receipt of an upset bid shall restart the ten day period for consideration of upset bids.

"**§ 136-284. Sale of Class B property.**

(a) Negotiated Sale to Adjacent Owner. – Class B property shall be offered for sale to the owner or owners of all real property that is adjacent to the property.

(b) Acceptable Price. – If only one adjacent landowner offers to purchase the property, the property shall be sold to that adjacent landowner so long as the offered price is at least 40% of the appraised value of the property. If more than one adjacent owner offers to purchase the property, then the property shall be sold to the owner offering the highest purchase price.

(c) Upset Bids. – If the highest purchase price offered for a particular property is 80% or more of the appraised value of the property, then upset bids shall not be considered. However, if the highest purchase price offered is less than 80% of the property's appraised value, then the Department shall consider any upset bid received during the 30 calendar days following receipt of the highest offer and shall by publication in a newspaper having general circulation in the county in which the property is situated notify the public that upset bids for purchase of the property will be considered during this period. If no upset bid is received during the 30-day period, the Department shall consider any upset bid received during the ten business days following the expiration of the 30-day period. If an upset bid is received, then the Department shall consider any further upset bids received during the ten business days following receipt of the upset bid and the receipt of further upset bids shall restart the ten day period for consideration of upset bids.

"**§ 136-285. Sale of Class C property.**

(a) Negotiated Sale to Adjacent Owner. – Class C property shall be offered for sale to the owner or owners of all real property that is adjacent to the property.

(b) Acceptable Price. – If only one adjacent owner offers to purchase the property, the property shall be sold to that adjacent landowner so long as the offered price is at least 40% of the appraised value of the property. If more than one adjacent owner offers to purchase the property, then the property shall be sold to the landowner offering the highest purchase price. Upset bids shall not be considered.

"**§ 136-286. Auction of unsold unused property.**

(a) Unsold Property Shall Be Auctioned. – If any unused property remains unsold after one year, the property shall be sold at public auction. For purposes of this requirement, the one year period begins when the sale of the property is first publically advertised or when the property is first offered for sale to adjacent landowners, as appropriate.

(b) Reserve. – Unused property auctioned pursuant to this section shall be sold with reserve according to the following schedule:

(1) Class A Property. – 40% of appraised value.

(2) Class B Property. – 30% of appraised value.

(3) Class C Property. – No reserve.

(c) Properties That Do Not Sell at Auction. – The Department shall periodically make an attempt to auction any property that initially fails to sell at an auction undertaken pursuant to this section, and subsequent auctions shall be subject to this section.

"**§ 136-287. Identification of unused property.**

Whenever the Department completes a project and there is associated real property that was not used for the project, the Department shall examine whether or not that property is either:

(1) Unused property that can be sold. Any property identified as unused property pursuant to this subdivision shall be classified and sold in the manner prescribed by this Article.

(2) Property that cannot be sold either because (i) it does not constitute unused property; (ii) it is not owned in fee simple by the State; or (iii) it is environmentally contaminated. The Department shall document the reason that a property cannot be sold pursuant to this subdivision and shall review this determination at least every ten years.

(3) Property that cannot be sold because it is unknown whether or not the property is needed for future transportation purposes. The Department shall document when it determines that a property cannot be sold pursuant to this subdivision and shall review this determination at least every five years.

"**§ 136-288. Sale of condemned property to its previous owner.**

Nothing in this Article shall preclude the sale of condemned property to its former owner pursuant to G.S. 136-19(b)."

SECTION 2. The Department of Transportation shall conduct the same review for projects completed prior to the effective date of this act that is required prospectively by G.S. 136-287, as enacted by Section 1 of this act. Properties shall be disposed of in the manner provided by G.S. 136-287.

SECTION 3. No later than January 1, 2013, the Department of Transportation shall report to the Joint Legislative Commission on Governmental Operations on the classification and sale of properties pursuant to Article 21 of Chapter 136 of the General Statutes, as enacted by this act. At a minimum, this report shall include information on the following:

(1) The number and type of properties classified.

(2) The number and type of properties sold, including information about the manner of sale, the type of purchaser, the per-sale average and total dollar sales figures, and the average ratio of sale price to appraised value of the properties sold.

SECTION 4. G.S. 136-19 reads as rewritten:

"**§ 136-19. Acquisition of land and deposits of materials; condemnation proceedings; federal parkways.**

(a) The Department of Transportation is vested with the power to acquire either in the nature of an appropriate easement or in fee simple such rights-of-way and title to such land, gravel, gravel beds or bars, sand, sand beds or bars, rock, stone, boulders, quarries, or quarry beds, lime or other earth or mineral deposits or formations, and such standing timber as it may deem necessary and suitable for transportation infrastructure construction, including road construction, maintenance, and repair, and the necessary approaches and ways through, and a sufficient amount of land surrounding and adjacent thereto, as it may determine to enable it to properly prosecute the work, by purchase, donation, or condemnation, in the manner hereinafter set out. ~~If the Department of Transportation acquires by purchase, donation, or condemnation part of a tract of land in fee simple for highway right-of-way as authorized by this section and the Department of Transportation later determines that the property acquired for transportation infrastructure, including highway right-of-way, or a part of that property, is no longer needed for infrastructure right-of-way, then the Department shall give first consideration to any offer to purchase the property made by the former owner. The Department may refuse any offer that is less than the current market value of the property, as determined by the Department. Unless the Department acquired an entire lot, block, or tract of land belonging to the former owner, the former owner must own the remainder of the lot, block, or tract of land from which the property was acquired to receive first consideration by the Department of their offer to purchase the property.~~

(b) ~~Notwithstanding the provisions of subsection (a), if~~If the Department acquires the property by condemnation and determines that the property or a part of that property is no longer needed for highway right-of-way or other transportation projects, the Department of Transportation may reconvey the property to the former owner upon payment by the former owner of the full price paid to the owner when the property was taken, the cost of any improvements, together with interest at the legal rate to the date when the decision was made to offer the return of the property. Unless the Department acquired an entire lot, block, or tract of land belonging to the former owner, the former owner must own the remainder of the lot, block, or tract of land from which the property was acquired to purchase the property pursuant to this subsection.

~~(c) The requirements of this section for reconveying property to the former owner, regardless of whether such property was acquired by purchase, donation, or condemnation, shall not apply to property acquired outside the right-of-way as an "uneconomic remnant" or "residue".~~

(d) The Department of Transportation is also vested with the power to acquire such additional land alongside of the rights-of-way for transportation projects, including roads as in

its opinion may be necessary and proper for the protection of the transportation projects, including roads and roadways, and such additional area as may be necessary as by it determined for approaches to and from such material and other requisite area as may be desired by it for working purposes. The Department of Transportation may, in its discretion, with the consent of the landowner, acquire in fee simple an entire lot, block or tract of land, if by so doing, the interest of the public will be best served, even though said entire lot, block or tract is not immediately needed for right-of-way purposes.

(e) Notwithstanding any other provisions of law or eminent domain powers of utility companies, utility membership corporations, municipalities, counties, entities created by political subdivisions, or any combination thereof, and in order to prevent undue delay of highway projects because of utility conflicts, the Department of Transportation may condemn or acquire property in fee or appropriate easements necessary to provide transportation project rights-of-way for the relocation of utilities when required in the construction, reconstruction, or rehabilitation of a State transportation project. The Department of Transportation shall also have the authority, subject to the provisions of G.S. 136-19.5(a) and (b), to, in its discretion, acquire rights-of-way necessary for the present or future placement of utilities as described in G.S. 136-18(2).

(f) Whenever the Department of Transportation and the owner or owners of the lands, materials, and timber required by the Department of Transportation to carry on the work as herein provided for, are unable to agree as to the price thereof, the Department of Transportation is hereby vested with the power to condemn the lands, materials, and timber and in so doing the ways, means, methods, and procedure of Article 9 of this Chapter shall be used by it exclusively.

(g) The Department of Transportation shall have the same authority, under the same provisions of law provided for construction of State transportation projects, for acquirement of all rights-of-way and easements necessary to comply with the rules and regulations of the United States government for the construction of federal parkways and entrance roads to federal parks in the State of North Carolina. The acquirement of a total of 125 acres per mile of said parkways, including roadway and recreational, and scenic areas on either side thereof, shall be deemed a reasonable area for said purpose. The right-of-way acquired or appropriated may, at the option of the Department of Transportation, be a fee-simple title. The said Department of Transportation is hereby authorized to convey such title so acquired to the United States government, or its appropriate agency, free and clear of all claims for compensation. All compensation contracted to be paid or legally assessed shall be a valid claim against the Department of Transportation, payable out of the State Highway Fund. Any conveyance to the United States Department of Interior of land acquired as provided by this section shall contain a provision whereby the State of North Carolina shall retain concurrent jurisdiction over the areas conveyed. The Governor is further authorized to grant concurrent jurisdiction to lands already conveyed to the United States Department of Interior for parkways and entrances to parkways.

(h) The action of the Department of Transportation heretofore taken in the acquirement of areas for the Blue Ridge Parkway in accordance with the rules and regulations of the United States government is hereby ratified and approved and declared to be a reasonable exercise of the discretion vested in the said Department of Transportation in furtherance of the public interest.

(i) When areas have been tentatively designated by the United States government to be included within a parkway, but the final survey necessary for the filing of maps as provided in this section has not yet been made, no person shall cut or remove any timber from said areas pending the filing of said maps after receiving notice from the Department of Transportation that such area is under investigation; and any property owner who suffers loss by reason of the restraint upon his right to use the said timber pending such investigation shall be entitled to

recover compensation from the Department of Transportation for the temporary appropriation of his property, in the event the same is not finally included within the appropriated area, and the provisions of this section may be enforced under the same law now applicable for the adjustment of compensation in the acquirement of rights-of-way on other property by the Department of Transportation."

SECTION 5. This act becomes effective October 1, 2012.

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

February 20, 2012

MEMORANDUM

TO:	Members, HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM:	Rep. Harold J. Brubaker
SUBJECT:	Meeting Notice

DAY	**DATE**	**TIME**	**ROOM**
Thursday	March 15, 2012	10:00 am	643 LOB

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

Cindy Coley (Rep. Brubaker)

om: Cindy Coley (Rep. Brubaker)
nt: Monday, February 20, 2012 2:49 PM
o: Cindy Coley (Rep. Brubaker)
Subject: House State-Owned Assets, House Select Committee on

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

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MEMORANDUM

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cc: Committee Record _X_

Interested Parties _X_

MINUTES
SELECT COMMITTEE ON STATE-OWNED ASSETS
TUESDAY APRIL 10, 2012

The House Select Committee on State-Owned Assets met on April 10, 2012, 2012 at 10:05 a.m., in Room 544 Legislative Office Building, Raleigh, North Carolina. In attendance were Representative Brubaker (Chairman); and Representatives Avila, Brandon, Brawley, Carney, Crawford, Folwell, Hager, Howard, Moffitt, Owens, Pittman, Setzer, Spear, Starnes, West and Wray. Mark Bondo (Fiscal Staff), Kory Goldsmith (Research Staff), Greg Roney (Research Staff), Ben Stanley (Bill Drafting) and Committee Assistant Cindy Coley were present.

Chairman Brubaker called the meeting to order and recognized House Sergeant-At-Arms Staff Carlton Adams, Martha Parrish and John Brandon.

Upon a motion by Representative Brawley and seconded by Representative Hager, the Minutes of the March 15, 2012 meeting were unanimously approved.

Chairman Brubaker recognized Tim Walton (Manager, General Real Estate Section, Department of Administration who gave a "Report on State Surplus Property" as follows Chairman Brubaker recognized Tim Walton (Manager, General Real Estate Section, Department of Administration who gave an update on "Surplus Property" as follows:

1. 13.78 acres and building (currently a DMV office) on Market Street, Wilmington, NC.
   Available since 2006. Currently being reevaluated.
   Sales Price: $5,000,000

2. 3.98 acres and building (former National Guard Armory), Kinston, NC.
   Available since 2010.
   Sales Price: $192,500

3. 95 acres, Cary, NC.
   Available since February 2012
   Sales Price: Not yet established. Inquiries but no offers yet.

The updated Report is attached to these Minutes as Exhibit #1.

Chairman Brubaker recognized Pam Kilpatrick, Assistant State Budget Officer, Office of State Budget and Management who submitted a "Report on The Western Executive Residence: History, Current Use and Budget" which is attached to the Minutes as Exhibit #2.

***Rep. Avila requested a listing of the budget code (income and expenses from all sources) for the Western Executive Residence which Pam Kilpatrick will provide at the April 23, 2012 meeting of the House Select Committee on State-Owned Assets.**

***Rep. Hager requested a list of the usage of the Western Executive Residence and the fees, price/costs involved.**

Chairman Brubaker recognized Representative Moffitt who advised members of his Subcommittee Report on the "Underwater Mortgage" issue and real estate "Takings". His subcommittee's proposed legislation is attached as Exhibit #3. Upon a motion by Representative Moffitt and seconded by Representative Brawley, the committee unanimously approved the proposed legislation which is attached as Exhibit #3..

Chairman Brubaker recognized Representative Brawley who advised members of his Subcommittee Report on "Residue and Residual Properties". His subcommittee's proposed legislation is attached as Exhibit #4. Representative Brawley moved for a Favorable Report which was seconded by Representative Moffitt.

Representative West submitted an Amendment to the proposed legislation which would treat the Rodney Orr Bypass Surplus Right-Of-Way property as unused property which is attached to these Minutes as Exhibit #5. Upon a motion by Representative Moffitt and seconded by Representative Brawley, the Committee unanimously approved the Amendment submitted by Representative West.

***Following further questions by Representatives Folwell, Starnes, Spear and Howard, Staff will clarify the Upset Bid process and the 10-day Upset Bid Extension process for the Counties and the State.**

Chairman Brubaker accordingly appointed the following Sub-Committee Chairman and Sub-Committee Members to further clarify the Counties' and the State's Upset Bid Process and the 10-Day Upset Bid Extension process:

Rep. Julia Howard – Chairman
Rep. Edgar Starnes – Member
Rep. Bill Brawley – Member
Rep. Tim Spears - Member
Rep. Michael Wray – Member

***Representative Howard also suggested that both the smaller residue parcels and the three larger DOT properties should have the same upset bid process.**

***Representative Avila asked staff to check on why the above-referenced three DOT properties, which are "For Sale", have not yet "SOLD".**

Upon a motion by Rep. Moffitt and seconded by Rep. Brawley, the committee unanimously moved that the Bill and the Amendment be redrafted into a new Committee Substitute with a Favorable Report, Unfavorable Report for the old bill, and staff will be able to make technical changes.

Ms. Kory Goldsmith, Legislative Research Staff Attorney, submitted a Report comparing North Carolina's largest hospitals and hospital systems which is attached to these Minutes as Exhibit #6.

Ms. Goldsmith, legislative Research Staff Attorney, submitted a Rex Hospital 990 Information Executive Summary which is attached to these Minutes as Exhibit #7.

Rep. Moffitt submitted "UNCHCS Changes" draft legislation concerning Governance. which is attached to these Minutes as Exhibit #8. After indepth discussion, the following actions occurred:

Rep. Moffitt made a Motion for a Favorable Report. Show of Hands vote requested by Rep. Carney resulted in 8 Ayes, 7 Noes, 2 Abstains, 2 Absents.

Rep. Owens made a Motion to Table Rep. Moffitt's Motion. This was defeated by a vote of the Committee members.

***Upon Rep. Avila's request, staff will get a county-by-county breakdown on Indigent Care".**

***Upon Rep. Avila's request, staff to see if the Johnston County Hospital Board is a conflict of interest.**

***Rep. Howard requests a Summary for the "UNCHCS Changes" draft legislation.**

Rep. Carney requested a "show of hands" vote which resulted in 8 Ayes, 7 Noes, 2 Abstains, 2 Absents.

Rep. Brawley submitted "UNCHCS – Sale of Rex Hospital " draft legislation which is attached to these Minutes as Exhibit #9. Also attached is a Data Sheet on a proposed sale of Rex Hospital known as Exhibit #10. These two drafts will be postponed until January 2012.

Chairman Brubaker announced the next meeting is scheduled for Tuesday, April 10, 2012 at 10:00 a.m., 544 Legislative Office Building, Raleigh, North Carolina. There being no further business, the meeting adjourned at 12:05 p.m.

Rep. Harold J. Brubaker, Chairman

ATTEST:

Cindy Coley, Committee Assistant

EPRESENTATIVE
AROLD BRUBAKER
CHAIR
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

Cindy Coley
Committee Clerk
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

General Assembly of North Carolina

House Select Committee on State Owned Assets

State Legislative Building
Raleigh, North Carolina

AGENDA

April 10, 2012, 10:00am
Room 544 Legislative Office Building

1. Call to order and introductory remarks
   Representative Harold Brubaker, Chair

2. Report on State Surplus Property
   Tim Walton, Manager, General Real Estate Section
   Department of Administration

3. Governor's Western Mansion
   Pam Kilpatrick, Assistant State Budget Officer
   Office of State Budget and Management

4. Review of proposed legislation
   Department of Transportation Subcommittee
   Protect Homeowners with Underwater Mortgages
   Streamline DOT Sale of Unused Properties

   UNC Health Care System

   Other Proposals

5. Adjourn

Persons having questions about the Committee meeting or other matters related to the Committee may contact the Committee Clerk at 919-715-4946 or Committee Staff at 919-733-4910 (Fiscal Research), 919-733-6660 (Bill Drafting) or 919-733-2578 (Research).

Committee Sergeants at Arms

NAME OF COMMITTEE State Owned Assets

DATE: 4- -12 **Room:** 544

House Sgt-At Arms:

1. **Name:** Carlton Adams
2. **Name:** Martha Parrish
3. **Name:** John Brandon
4. **Name:**
5. **Name:**

Senate Sgt-At Arms:

1. **Name:**
2. **Name:**
3. **Name:**
4. **Name:**
5. **Name:**

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS APRIL 10, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Steve Burriss	Rex Hospital
Lisa Schilk	Rex
Angel Sams	NSS
Dana Yeganian	Capstrat
Alan Wolf	Rex
Jennifer James	UNCHC
Karen McCall	UNC HC
N O Wamer	Self.

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS APRIL 10, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Edytha McKay	DENR
Diana Kees	DENR
Molly Wilder	DENR
David Knight	DENR
DAVID GRIFFIN	DENR — AQUARIUMS
Neal Conoley	NC Ag. Soc.
DAVID RICE	MANNING FULTON
Laura Brewer	Capstrat
Kelly Nicholson	UNCHCS
Kevin FitzGerald	UNC HCS
Elise Quick	Troutman Sanders

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS APRIL 10, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Robert Brown	FitzComm
Joyce Fitzpatrick	Fitzcomm
Tom Fetzer	FSP
Christine Craig	WakeMed
Andi Curtis	WakeMed
Bo Heath	McGuireWoods
Chris Hoyner	DOA
Melanie Jones	DCR
Carl Dean	OSP
Kent Yelverton	NCDACS
Speros Fleggas	DOA.

VISITOR REGISTRATION SHEET

SELECT COMMITTEE ON STATE-OWNED ASSETS APRIL 10, 2012

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Pam Kilpatrick	OSBM
David Brown	OSBM
Barbara Bowers	OSBM
Chad Lowry	Gov Office
	NCTA

Ex #1

North Carolina
Department of Administration

Beverly Eaves Perdue, Governor

Moses Carey, Secretary

March 31, 2012

To: Chairs, Joint Legislative Commission on Governmental Operations
Mark Bondo, Fiscal Research Division

From: Speros Fleggas, Senior Deputy Secretary
Department of Administration

Re: Report on S.L.2011-145, Section 6.15

This report covers the activities of the Department of Administration, as required per S.L.2011-145, Section 6.15 (a-d). The Department has taken the actions requested to effectuate the sale of state-owned land assets in accordance with Section 2.2(a) of this S.L 2011-145. The report is submitted to comply with subsection (d) which requires a report on land asset sales made pursuant to this section by March 31, 2012.

Please contact my office with any questions at 919-807-2425.

Attachment

cc: Secretary Moses Carey
Anne Bander, Chief Operating Officer
Zeke Creech, Legal Counsel
Tim Walton, State Property Office
Christy Agner, Legislative Liaison

Mailing Address:
1301 Mail Service Center
Raleigh, N.C. 27699-1301

Telephone (919) 807-2425
Fax (919) 733-9571
State Courier #51-01-00
e-mail: moses.carey@doa.nc.gov

Location:
116 West Jones Street
Raleigh, North Carolina

Report on S.L.2011-145, Section 6.15
March 31, 2012

Pursuant to Session Law 2011-145, the State Property Office of the Department of Administration developed a system to assist our office, in consultation with the respective agencies and institutions, to determine the utilization of real property allocated to each one. Each agency and institution received a package that included maps and a building asset list for each property allocated to them, as well as necessary instructions and forms for feedback. The deadline for responses was September 15, 2011. Each agency and institution's response was reviewed complex by complex.

At the conclusion of the review, State Property Office staff met with the appropriate person at each agency and institution to better understand their programmatic requirements and to convey what the State Property Office perceived from a real estate perspective. Items included in the meeting discussion included review of the current purpose of the asset and the future needs to perform the service intended at the location. Additionally, the 2007 State Master Plan guided conversations related to real property allocated to state agencies in Wake County.

In consultation with the agencies and institutions, a determination was made if a property is unused, underused or critical for their core mission. This process was detailed in a presentation to the House Select Committee on State Assets on September 22, 2011. Potentially unused or underused state –owned properties were provided at the House Select Committee on State Assets on December 12, 2011. The State Property Office proceeded to research deeds and the source of funds used to acquire those specific properties to determine if deed or funding restriction prohibited disposition, if that was determined to be the appropriate course of action.

Properties available for sale were discussed with the House Select Committee on State Assets on March 15, 2012. The properties, identified for sale as a result of this ongoing review and prior assessment, as of this report's date, are:

- ±95 acres located on Cary Towne Boulevard at I-40, Cary, Wake County
  This site was made available in February 2012

- ±13.78 acres located at 1 Station Road, Wilmington, New Hanover County
  Available since 2006

- ±3.98 acres located at 801 East Highland Avenue, Kinston, Lenoir County
  Available since 2010

For further information regarding these properties, please visit the State Property Office website at www.ncspo.com.

The Department of Administration has taken the above actions requested to effectuate the sale of state-owned real property assets in accordance with Section 2.2(a) of this S.L 2011-145. No asset sales of real property pursuant to Section 6.15 (d) have been finalized as of March 31, 2012.

REPORT TO HOUSE SELECT COMMITTEE ON STATE ASSETS--IN COMPLIANCE WITH S.L. 2011-145, SEC. 16.5
POTENTIAL LIST OF PROPERTIES

County	Agency/Complex	Approx. Acreage	Buildings on Selected Parcel?
Preliminary List of Properties, As Reported at 12/12/11 Meeting			
Duplin	Agriculture-Animal Disease Lab	5.09	Yes
Guilford	Agriculture-Piedmont Farmers' Market	6.36	No
Iredell	Agriculture-Livestock Show and Sale Facility	46.25	No
New Hanover	Agriculture-Fuel Calibration Station	0.40	Yes
Anson	Correction-Anson Correctional Center	2.93	No
Carteret	Correction-Carteret Correctional Center	45.48	No
Gates	Correction-Gates Correctional Center	22.86	Yes
Granville	Correction-Umstead Correctional Center	34.00	Yes
Hoke	Correction-South Central Regional Office	6.91	No
Mecklenburg	Correction-Charlotte Correctional Center	27.98	No
Moore	Correction-Moore Correctional Center	6.93	No
Moore	Correction-Moore Correctional Center	3.51	No
Northampton	Correction-Odom Correctional Center	149.56	No
Scotland	Correction-Scotland Correctional Center	96.24	No
Warren	Correction-Warren Correctional Center	34.66	Yes
Lenoir	**Crime Control & Public Safety-NCNG Armory**	**3.92**	**Yes**
Edgecombe	DOT-Tarboro Maintenance Yard	15.01	No
Franklin	DOT-Bunn Maintenance Yard	52.24	Yes
~~Mecklenburg~~	~~DOT-Huntersville Maintenance Unit~~	~~47.50~~	~~No~~
New Hanover	**DOT/DMV Wilmington District Office**	**13.78**	**Yes**
Johnston	Wildlife Resources Commission-Micro Boat Access	2.00	No
2012 Addendum, Being Added for April 10, 2012 Meeting			
Cabarrus	Correction-Cabarrus Correctional Center	49.46	Yes
Guilford	Correction-Guilford Correctional Center	175.83	Yes
Haywood	Correction-Haywood Correctional Center	2.41	Yes
Wake	**Administration-undeveloped tract (Cary Towne Blvd.)**	**+/-95**	No

Prior to any potential disposition, any state-owned property determined surplus to the allocated agency's current and future needs is reviewed by the State Property Office per G.S. 146-28.

G.S. 146-28. Agency must file application with Department; Department must investigate.
Any State agency desiring to sell, lease, or rent any land owned by the State or by any State agency shall file with the Department of Administration an application setting forth the facts relating to the proposed transaction, and shall furnish the Department with such additional information as the Department may request relating thereto. Upon receipt of such application, the Department of Administration shall promptly investigate all aspects of the proposed transaction, including particularly present and future State need for the land proposed to be conveyed, leased, or rented. (1957, c. 584, s. 6; G.S., s. 146-109; 1959, c. 683, s. 1.)

§ 146-29. Procedure for sale, lease, or rental.
If, after investigation, the Department of Administration determines that it is in the best interest of the State that land be sold, leased, or rented, the Department shall proceed with its sale, lease, or rental, as the case may be, in accordance with rules adopted by the Governor and approved by the Council of State. If an agreement of sale, lease, or rental is reached, the proposed transaction shall then be submitted to the Governor and Council of State for their approval or disapproval. Every conveyance in fee of land owned by the State or by any State agency shall be made and executed in the manner prescribed in G.S. 146-74 through 146-78. (1957, c. 584, s. 6; G.S., s. 146-110; 1959, c. 683, s. 1.)

Additionally, per S.L. 2011-145, Section 18.3, closed prison facilities the Department of Public Safety must provide consultation to various entities.

Session Law 2011-145 Section 18.3 Use of Closed Prison Facilities
In conjunction with the closing of prison facilities, including small expensive prison units recommended for consolidation by the Government Performance Audit Committee, the Department of Correction shall consult with the county or municipality in which the unit is located, with the elected State and local officials, and with State and federal agencies about the possibility of converting that unit to other use. The Department may also consult with any private for-profit or nonprofit firm about the possibility of converting the unit to other use. In developing a proposal for future use of each unit, the Department shall give priority to converting the unit to other criminal justice use. Consistent with existing law and the future needs of the Department of Correction, the State may provide for the transfer or the lease of any of these units to counties, municipalities, State agencies, federal agencies, or private firms wishing to convert them to other use.

Ex # 2

Western Executive Residence: History, Current Use and Budget

Presented to the House Select Committee on State-Owned Assets
by Pam Kilpatrick, Assistant State Budget Officer
N.C. Office of State Budget and Management
April 10, 2012

HISTORY

The Western Executive Residence is located at 45 Patton Mountain Road, just north of downtown Asheville, at an elevation of 3,140 feet. Built in 1939 as a private residence for business owner Tom Brimer of Washington, DC, owner of the Good Humor Ice Cream Company, it contains 6,000 square feet of living space and is surrounded by 18 acres. In the early 1960's the residence was purchased by the Asheville Chamber of Commerce. The Chamber's intent was to offer the residence as a gift to the State as a means of encouraging the governor to spend more time in the western part of the State. Over 150 corporations and individuals contributed to the purchase and renovation of the property. On October 23, 1964, the North Carolina Council of State accepted the gift valued in excess of $100,000.

In 1977, Governor James B. Hunt Jr. formed the Governor's Western Residence Association. This nonprofit association furnishes the Western Residence and underwrites maintenance and renovations not covered by the State.

CURRENT USE

The Western Residence provides a secondary residence for the First Family and is a vacation residence for former first families in the western part of the State. It provides a site for official functions for the Governor and for area-wide government and civic organizations. The Residence is also used by senior State officials on area business travel. Overall operation, including residential scheduling, is the responsibility of the Office of the First Gentleman (previously the First Lady).

Policies and procedures guide the external use of the Western Residence, and use of the picnic pavilion (constructed on the grounds in 1993).

- The Residence and grounds are available to civic and cultural groups, non-profit organizations and local, state and federal government agencies.
- The premises may be used for meetings, retreats, receptions, luncheons and dinners.
- Strictly *prohibited* uses include private parties, weddings, political campaign events, and fundraising events.
- The Residence (house and/or picnic pavilion) is available on Tuesdays, Wednesdays and Thursdays.
- Maximum capacity for indoor events is 50 people, and the pavilion can accommodate up to 200 people for outdoor events.

BUDGET

The budget for the Western Executive Residence is appropriated in Budget Code 13000 (Governor's Office) and is supported by state General Fund appropriations and the collection of receipts from rentals. On average, net state expenditures in this budget code have been approximately $10,000 per year over the past 7 years, with a

range of between $5,000 and $15,000. This appropriation supports utilities, telecommunications, pest control and some repair services and supplies.

Budget Code 13000, Fund 1632 - Western Executive Residence

	Certified Budget FY 2011-2012	Actual Expend FY 2010-2011	Actual Expend FY 2009-2010	Actual Expend FY 2008-2009	Actual Expend FY 2007-2008	Actual Expend FY 2006-2007	Actual Expend FY 2005-2006
Requirements	$15,459	$19,723	$17,934	$15,082	$24,603	$21,223	$13,284
Receipts	$7,000	$3,993	$9,400	$7,325	$10,675	$11,178	$8,450
Appropriation	$8,459	$15,730	$8,534	$7,757	$13,928	$10,045	$4,834

Note: Higher expenditures in some years are reflected in utilities and/or repair accounts.

Source: Actual expenditures from NC Accounting System Report BD701, June 30 year-end data. Certified budget from Office of State Budget and Management Certified Budget Report BD 307.

Building and grounds maintenance and staffing support are provided from other state agencies.

- The Department of Correction provides 1.5 FTEs and a crew of 4 inmates who perform building and grounds maintenance and oversight.
- The Department of Transportation provides road maintenance and after-storm clean up of fallen trees and large limbs.
- External scheduling (approximately .10 FTE) is provided by the Western Office (Heritage Tourism) of the Department of Cultural Resources with oversight by the Office of the First Gentleman.

For the current state fiscal year, $29,620 has been spent on repairs and renovations.

PHOTOGRAPH OF THE WESTERN EXECUTIVE RESIDENCE

Ex #3

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

H D

BILL DRAFT 2011-MDz-103 [v.10] (01/23)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/10/2012 9:03:10 AM

Short Title:	Protect Homeowners with Underwater Mortgages.	(Public)
Sponsors:	Representatives Moffitt and Brawley (Primary Sponsors).	
Referred to:		

A BILL TO BE ENTITLED

AN ACT TO ENSURE PAYMENT OF JUST COMPENSATION TO PROPERTY OWNERS WITH MORTGAGE DEBT EXCEEDING THE FAIR MARKET VALUE OF THE PROPERTY BY AUTHORIZING THE CONSIDERATION OF OUTSTANDING MORTGAGE DEBT WHEN DETERMINING DAMAGES IN A CONDEMNATION ACTION, AS RECOMMENDED BY THE HOUSE SELECT COMMITTEE ON STATE OWNED ASSETS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 136-112 reads as rewritten:

"**§ 136-112. Measure of damages.**

(a) Generally. – The following shall be the measure of damages to be followed by the commissioners, jury or judge who determines the issue of damages:

(1) Where only a part of a tract is taken, the measure of damages for said taking shall be the difference between the fair market value of the entire tract immediately prior to said taking and the fair market value of the remainder immediately after said taking, with consideration being given to any special or general benefits resulting from the utilization of the part taken for highway purposes.

(2) Where the entire tract is taken the measure of damages for said taking shall be the fair market value of the property at the time of taking.

(b) When Condemned Property Has Mortgage Debt Exceeding Fair Market Value. – Notwithstanding any other provision of law, the commissioners, jury, or judge who determines the issue of damages may add to the amount determined pursuant to subsection (a) of this section an amount equal to the difference between the outstanding balance of any eligible mortgage and the amount determined pursuant to subsection (a) of this section, but only if the property owner proves by a preponderance of the evidence that the fair market value of the property has declined since the property was purchased solely due to a decline in the market for real property.

(c) Eligible Mortgage Defined. – For purposes of this section, the term 'eligible mortgage' includes only a debt secured by a mortgage or deed of trust executed prior to July 1, 2008, to obtain money for the purchase of the property being condemned."

SECTION 2. This act is effective when it becomes law and shall expire on July 1, 2014.

Ex #4

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

H D

BILL DRAFT 2011-MDz-115 [v.9] (03/14)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/10/2012 8:54:22 AM

Short Title:	Streamline DOT Sale of Unused Properties.	(Public)
Sponsors:	Representatives Brawley and Moffitt (Primary Sponsors).	
Referred to:		

A BILL TO BE ENTITLED

AN ACT TO FACILITATE THE TRANSFER OF UNUSED DEPARTMENT OF TRANSPORTATION LAND TO THE PRIVATE SECTOR BY STREAMLINING THE PROCESS OF SELLING THAT LAND, AS RECOMMENDED BY THE HOUSE SELECT COMMITTEE ON STATE OWNED ASSETS.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 136 of the General Statutes is amended by adding a new Article to read:

"Article 2F.
"Identification and Sale of Unused Property.

"**§ 136-44.70. Definitions.**

The following definitions apply in this Article:

(1) Contingent bid. – A bid for the purchase of a Class A property that is made contingent on the elapsing of a due diligence period or on particular action being taken with respect to a rezoning application. Subject to the provisions of G.S. 136-44.73(c), the bidder shall determine the duration of the contingency period.

(2) Department. – The Department of Transportation.

(3) Due diligence period. – A period of time during which the potential purchaser of a Class A property may conduct inspections, appraisals, and related activities whose purpose is to determine the desirability of purchasing the property at issue.

(4) Earnest money. – Funds required to accompany a contingent bid in accordance with G.S. 136-44.73(c).

(5) Unused property. – Real property owned by or allocated to the Department that is not needed for current or future transportation purposes, including residue properties, uneconomic remnant properties, and property identified pursuant to G.S. 136-44.77(1).

(6) Upset bid. – A bid to purchase unused property that is at least 5% higher than the highest bid for the property thus far received.

"**§ 136-44.71. Classification of unused property.**

The Department shall continuously identify unused property and shall classify each lot, block, or tract of unused property as one of the following types:

(1) Class A. – A property (i) whose size and road access are sufficient to allow commercial or residential development of one or more standalone projects without requiring the acquisition of additional real property; and (ii) whose size and shape are sufficient to allow compliance with zoning and development standards for parking, setbacks, side and front yard requirements, and access.

(2) Class B. – A property (i) that does not meet the definition of a Class A property; and (ii) that would enhance the value of adjacent land by allowing larger or more extensive uses when joined to the adjacent land.

(3) Class C. – A property that does not meet the definition of a Class A or Class B property.

"**§ 136-44.72. Prompt sale of unused property.**

The Department shall attempt to promptly sell all unused property in accordance with G.S. 136-44.73 through 136-44.75.

"**§ 136-44.73. Sale of Class A property.**

(a) Public Sale. – Class A property shall be sold by public sale to the highest bidder following advertisement.

(b) Advertisement. – The Department shall take all of the following steps to advertise the sale of a Class A property:

(1) Advertise the sale by publication in a newspaper having general circulation in the county in which the property is situated.

(2) Make the following information about the property being sold available to the public both on its website and by mail:

a. Current zoning information.

b. Adjacent uses.

c. Land use plans of the local jurisdiction, if known.

d. Any other relevant information.

(3) Solicit upset bids from the public for any bid received that exceeds ten thousand dollars ($10,000).

(c) Contingent Bids. – A bidder may make a contingent bid to purchase Class A property. However, a contingent bid shall be accompanied by earnest money in an amount determined pursuant to the following requirements:

(1) For contingency periods that last 60 days or less, no earnest money is required.

(2) For contingency periods that will last beyond 60 days, 1% of the bid price is required for each calendar month that the contingency period will extend beyond the initial 60 day period. For purposes of this subdivision, any fraction of a calendar month shall be considered a full calendar month. Additional contingency periods may be granted on a monthly basis in exchange for additional earnest money of 1% per month requested.

(d) Upset Bids. – The Department shall consider any upset bid received during the ten business days following the conclusion of bidding on a particular property. The receipt of an upset bid shall restart the ten day period for consideration of upset bids.

(e) Disposition of Earnest Money. – Earnest money shall be applied to the purchase price of real property when sold to the bidder tendering the funds but it shall be returned to the bidder in the event that the bidder's bid is superseded by an upset bid. Earnest money shall not be returned to a bidder in the event that the bidder elects not to purchase the property.

"**§ 136-44.74. Sale of Class B property.**

(a) Negotiated Sale to Adjacent Owner. – Class B property shall be offered for sale to the owner or owners of all real property that is adjacent to the property.

(b) Acceptable Price. – If only one adjacent landowner offers to purchase the property, the property shall be sold to that adjacent landowner so long as the offered price is at least 40% of the appraised value of the property. If more than one adjacent owner offers to purchase the property, then the property shall be sold to the owner offering the highest purchase price.

(c) Upset Bids. – If the highest purchase price offered for a particular property is 80% or more of the appraised value of the property, then upset bids shall not be considered. However, if the highest purchase price offered is less than 80% of the property's appraised value, then the Department shall consider any upset bid received during the 30 calendar days following receipt of the highest offer. Additionally, if the highest bid thus far received exceeds $10,000 the Department shall by publication in a newspaper having general circulation in the county in which the property is situated notify the public that upset bids for purchase of the property will be considered during this period. If no upset bid is received during the 30-day period, the Department shall consider any upset bid received during the ten business days following the expiration of the 30-day period. If an upset bid is received, then the Department shall consider any further upset bids received during the ten business days following receipt of the upset bid and the receipt of further upset bids shall restart the ten day period for consideration of upset bids.

"**§ 136-44.75. Sale of Class C property.**

(a) Negotiated Sale to Adjacent Owner. – Class C property shall be offered for sale to the owner or owners of all real property that is adjacent to the property.

(b) Acceptable Price. – If only one adjacent owner offers to purchase the property, the property shall be sold to that adjacent landowner so long as the offered price is at least 40% of the appraised value of the property. If more than one adjacent owner offers to purchase the property, then the property shall be sold to the landowner offering the highest purchase price. Upset bids shall not be considered.

"**§ 136-44.76. Auction of unsold unused property.**

(a) Unsold Property Shall Be Auctioned. – If any unused property remains unsold after one year, the property shall be sold at public auction. For purposes of this requirement, the one year period begins when the sale of the property is first publically advertised or when the property is first offered for sale to adjacent landowners, as appropriate.

(b) Reserve. – Unused property auctioned pursuant to this section shall be sold with reserve according to the following schedule:

(1) Class A Property. – 40% of appraised value.

(2) Class B Property. – 30% of appraised value.

(3) Class C Property. – No reserve.

(c) Properties That Do Not Sell at Auction. – The Department shall periodically do all of the following with respect to any property that initially fails to sell at an auction undertaken pursuant to this section:

(1) Offer the property for sale to the owner or owners of all real property that is adjacent to the property. If only one adjacent landowner offers to purchase the property, the property shall be sold to that adjacent landowner at the negotiated price with no reserve. If more than one adjacent owner offers to purchase the property, then the property shall be sold to the landowner offering the highest purchase price. Upset bids shall not be considered.

(2) Make an additional attempt to auction the property in accordance with this section, if an adjacent owner does not purchase the property pursuant to Subdivision (1) of this subsection.

"**§ 136-44.77. Identification of unused property.**

Whenever the Department completes a project and there is associated real property that was not used for the project, the Department shall examine whether or not that property is either:

(1) Unused property that can be sold. Any property identified as unused property pursuant to this subdivision shall be classified and sold in the manner prescribed by this Article.

(2) Property that cannot be sold either because (i) it does not constitute unused property; (ii) it is not owned in fee simple by the State; or (iii) it is environmentally contaminated. The Department shall document the reason that a property cannot be sold pursuant to this subdivision and shall review this determination at least every ten years.

(3) Property that cannot be sold because it is unknown whether or not the property is needed for future transportation purposes. The Department shall document when it determines that a property cannot be sold pursuant to this subdivision and shall review this determination at least every five years.

"**§ 136-44.78. Disapproval of Certain Sales by Governor and Council of State.**

(a) Notification Required. – The Department shall notify the Governor and Council of State of any proposed sale under this Article of land with an appraised value of at least twenty-five thousand dollars ($25,000).

(b) Approval Not Required. – Notwithstanding Article 7 of Chapter 146 of the General Statutes, Governor and Council of State approval of a sale under this Article is not required.

(c) Disapproval of Certain Sales Authorized. – If the Governor and Council of State disapprove of a proposed sale of land with an appraised value of at least twenty-five thousand dollars ($25,000) within thirty days of being notified of it then the sale shall not be completed.

"**§ 136-44.79. Sale of condemned property to its previous owner.**

Nothing in this Article shall preclude the sale of condemned property to its former owner pursuant to G.S. 136-19(b)."

SECTION 2. The Department of Transportation shall conduct the same review for projects completed prior to the effective date of this act that is required prospectively by G.S. 136-44.77, as enacted by Section 1 of this act. Properties shall be disposed of in the manner provided by G.S. 136-44.77.

SECTION 3. No later than January 1, 2013, the Department of Transportation shall report to the Joint Legislative Commission on Governmental Operations on the classification and sale of properties pursuant to Article 21 of Chapter 136 of the General Statutes, as enacted by this act. At a minimum, this report shall include information on the following:

(1) The number and type of properties classified.

(2) The number and type of properties sold, including information about the manner of sale, the type of purchaser, the per-sale average and total dollar sales figures, and the average ratio of sale price to appraised value of the properties sold.

SECTION 4. G.S. 136-19 reads as rewritten:

"**§ 136-19. Acquisition of land and deposits of materials; condemnation proceedings; federal parkways.**

(a) The Department of Transportation is vested with the power to acquire either in the nature of an appropriate easement or in fee simple such rights-of-way and title to such land, gravel, gravel beds or bars, sand, sand beds or bars, rock, stone, boulders, quarries, or quarry beds, lime or other earth or mineral deposits or formations, and such standing timber as it may deem necessary and suitable for transportation infrastructure construction, including road construction, maintenance, and repair, and the necessary approaches and ways through, and a sufficient amount of land surrounding and adjacent thereto, as it may determine to enable it to properly prosecute the work, by purchase, donation, or condemnation, in the manner hereinafter set out. ~~If the Department of Transportation acquires by purchase, donation, or condemnation part of a tract of land in fee simple for highway right-of-way as authorized by this section and the Department of Transportation later determines that the property acquired for transportation~~

~~infrastructure, including highway right-of-way, or a part of that property, is no longer needed for infrastructure right-of-way, then the Department shall give first consideration to any offer to purchase the property made by the former owner. The Department may refuse any offer that is less than the current market value of the property, as determined by the Department. Unless the Department acquired an entire lot, block, or tract of land belonging to the former owner, the former owner must own the remainder of the lot, block, or tract of land from which the property was acquired to receive first consideration by the Department of their offer to purchase the property.~~

(b) ~~Notwithstanding the provisions of subsection (a), if~~If the Department acquires the property by condemnation and determines that the property or a part of that property is no longer needed for highway right-of-way or other transportation projects, the Department of Transportation may reconvey the property to the former owner upon payment by the former owner of the full price paid to the owner when the property was taken, the cost of any improvements, together with interest at the legal rate to the date when the decision was made to offer the return of the property. Unless the Department acquired an entire lot, block, or tract of land belonging to the former owner, the former owner must own the remainder of the lot, block, or tract of land from which the property was acquired to purchase the property pursuant to this subsection.

~~(c) The requirements of this section for reconveying property to the former owner, regardless of whether such property was acquired by purchase, donation, or condemnation, shall not apply to property acquired outside the right-of-way as an "uneconomic remnant" or "residue".~~

(d) The Department of Transportation is also vested with the power to acquire such additional land alongside of the rights-of-way for transportation projects, including roads as in its opinion may be necessary and proper for the protection of the transportation projects, including roads and roadways, and such additional area as may be necessary as by it determined for approaches to and from such material and other requisite area as may be desired by it for working purposes. The Department of Transportation may, in its discretion, with the consent of the landowner, acquire in fee simple an entire lot, block or tract of land, if by so doing, the interest of the public will be best served, even though said entire lot, block or tract is not immediately needed for right-of-way purposes.

(e) Notwithstanding any other provisions of law or eminent domain powers of utility companies, utility membership corporations, municipalities, counties, entities created by political subdivisions, or any combination thereof, and in order to prevent undue delay of highway projects because of utility conflicts, the Department of Transportation may condemn or acquire property in fee or appropriate easements necessary to provide transportation project rights-of-way for the relocation of utilities when required in the construction, reconstruction, or rehabilitation of a State transportation project. The Department of Transportation shall also have the authority, subject to the provisions of G.S. 136-19.5(a) and (b), to, in its discretion, acquire rights-of-way necessary for the present or future placement of utilities as described in G.S. 136-18(2).

(f) Whenever the Department of Transportation and the owner or owners of the lands, materials, and timber required by the Department of Transportation to carry on the work as herein provided for, are unable to agree as to the price thereof, the Department of Transportation is hereby vested with the power to condemn the lands, materials, and timber and in so doing the ways, means, methods, and procedure of Article 9 of this Chapter shall be used by it exclusively.

(g) The Department of Transportation shall have the same authority, under the same provisions of law provided for construction of State transportation projects, for acquirement of all rights-of-way and easements necessary to comply with the rules and regulations of the United States government for the construction of federal parkways and entrance roads to

federal parks in the State of North Carolina. The acquirement of a total of 125 acres per mile of said parkways, including roadway and recreational, and scenic areas on either side thereof, shall be deemed a reasonable area for said purpose. The right-of-way acquired or appropriated may, at the option of the Department of Transportation, be a fee-simple title. The said Department of Transportation is hereby authorized to convey such title so acquired to the United States government, or its appropriate agency, free and clear of all claims for compensation. All compensation contracted to be paid or legally assessed shall be a valid claim against the Department of Transportation, payable out of the State Highway Fund. Any conveyance to the United States Department of Interior of land acquired as provided by this section shall contain a provision whereby the State of North Carolina shall retain concurrent jurisdiction over the areas conveyed. The Governor is further authorized to grant concurrent jurisdiction to lands already conveyed to the United States Department of Interior for parkways and entrances to parkways.

(h) The action of the Department of Transportation heretofore taken in the acquirement of areas for the Blue Ridge Parkway in accordance with the rules and regulations of the United States government is hereby ratified and approved and declared to be a reasonable exercise of the discretion vested in the said Department of Transportation in furtherance of the public interest.

(i) When areas have been tentatively designated by the United States government to be included within a parkway, but the final survey necessary for the filing of maps as provided in this section has not yet been made, no person shall cut or remove any timber from said areas pending the filing of said maps after receiving notice from the Department of Transportation that such area is under investigation; and any property owner who suffers loss by reason of the restraint upon his right to use the said timber pending such investigation shall be entitled to recover compensation from the Department of Transportation for the temporary appropriation of his property, in the event the same is not finally included within the appropriated area, and the provisions of this section may be enforced under the same law now applicable for the adjustment of compensation in the acquirement of rights-of-way on other property by the Department of Transportation."

SECTION 5. This act becomes effective October 1, 2012.

EX-#5

NORTH CAROLINA GENERAL ASSEMBLY AMENDMENT

(Please type or use ballpoint pen)

EDITION No. 2011-MDz-115

H. B. No. _____ DATE 4-10-12

S. B. No. _____ Amendment No. _____
(to be filled in by Principal Clerk)

COMMITTEE SUBSTITUTE _____

(Rep.) WEST
Sen.)

moves to amend the bill on page 6, line 29-30

( ) WHICH CHANGES THE TITLE

by INSERTING BETWEEN THE LINES A NEW SECTION TO READ:

"SECTION 5. THE DEPARTMENT OF TRANSPORTATION SHALL TREAT THE RODNEY ORR BYPASS SURPLUS RIGHT OF WAY PROPERTY AS UNUSED PROPERTY AND SHALL SELL IT IN ACCORDANCE WITH ARTICLE 2F OF CHAPTER 136 OF THE GENERAL STATUTES, AS ENACTED BY SECTION 1 OF THIS ACT.";

AND MOVES TO RENUMBER THE REMAINING SECTIONS ACCORDINGLY.

SIGNED _____

ADOPTED _____ FAILED _____ TABLED _____

PRINCIPAL CLERK'S OFFICE (FOR ENGROSSMENT)

#6

UNC HEALTH CARE

Using FY2010 information reported to NCHA by each hospital, we compared North Carolina's largest hospitals and hospital systems:

	Operating Revenue Ranking	NCHA Uncomp Care[1] Ranking
Carolinas HealthCare	1	1
Novant Health	2	2
Duke Health	3	3
UNC Health Care	4	4
ECU & Vidant	5	5
NC Baptist Hospital	6	8
Mission Hospitals	7	9
WakeMed	8	6
Cone Health	9	7

Notes

1. Uncompensated Care as reported to the North Carolina Hospital Association. Uncompensated Care defined as: Charity Care, losses on Medicaid, Medicare, and other Governmental programs, subsidized health services and bad debt.

3. Provide the information for Rex that would appear on an IRS Form 990

The IRS ruled in 2005 that Rex Hospital is exempt from filing annual 990 informational returns. To ensure transparency into the operations of Rex Hospital, we are attaching an executive summary providing key information typically found in the 990 return.

4. How much money Pardee is losing?

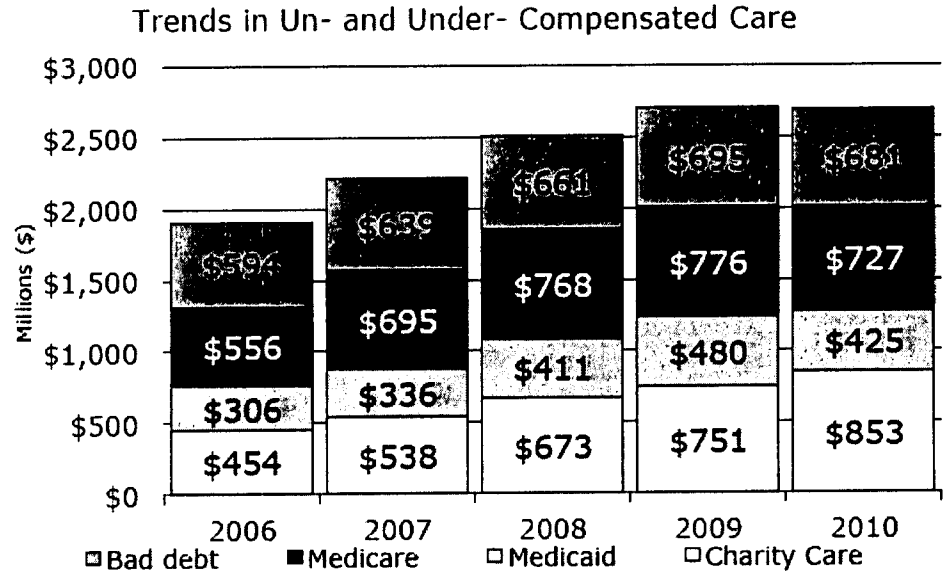
Margaret Pardee Hospital (Pardee) in Hendersonville, NC is not owned by UNC Health Care. It is owned by the citizens of Henderson County, and overseen by a Board of Trustees, and by the Henderson County Board of Commissioners. UNC Health Care provides management services to Pardee. While we cannot provide Pardee's financial information, we can assure the committee that Pardee is not losing money.

Recalling the discussion from the last committee meeting, we believe Chatham Hospital is the subject of the request. UNC Health Care purchased control of Chatham Hospital's Board of Trustees in early FY2009. According to Chatham's audited financials, Chatham has lost $8.6 million since FY2009.

Questions from House Select Committee on Sale of State Assets

1. **What is the total amount of uncompensated care in the State? (The region?) and the total amount paid out (by UNC Health Care?) "in service of health care"???**

   The North Carolina Hospital Association (NCHA) calculated **$2.7 billion** of uncompensated care across North Carolina in 2010. This calculation was included in NCHA's most recent annual State of the State report.



Prepared by Sarah Broome, PhD, Director of Economic Research, NCHA, June 3, 2011.
Response rate: 87%; missing responses imputed using beds. Data source: NCHA ANDI.

Figure 35: Medicare Losses, Medicaid Losses, Charity Care and Bad Debt Costs, 2006-2010.

As for money "paid out in service of health care", the cost of clinical services provided by UNC Health Care during FY2011 exceeded **$2 billion**.

2. **Where does UNC Health Care rank in terms of hospitals in NC that provide uncompensated care?**

   All 100 hospitals in North Carolina provide substantial uncompensated care, and each hospital reports information to the NCHA's community benefit database (ANDI). However, each hospital accounts for the costs of uncompensated care in a different manner, and an apples-to-apples comparison is difficult to achieve.

#7

UNC HEALTH CARE

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UNC Health Care	4	4
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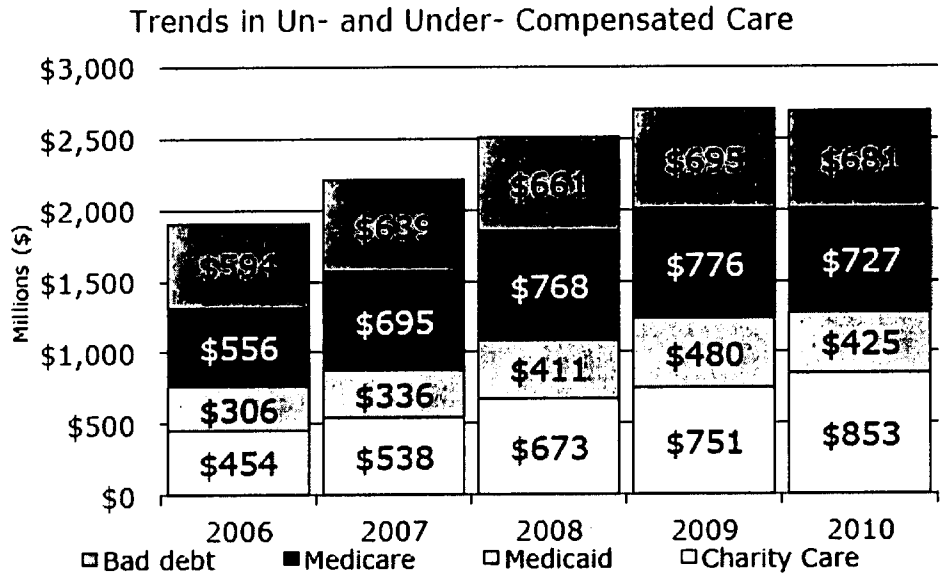

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#8

REX
UNC HEALTH CARE

Rex Hospital 990 Information
Executive Summary

The IRS ruled in 2005 that Rex Hospital is exempt from filing annual 990 informational returns. However, to ensure transparency into the operations of Rex Hospital, this executive summary provides key information typically found in the 990 return. The information contained in this summary is for the FY 2011 and the CY2010.

Rex Hospital reports significant financial and operational information on a regular basis to various state and federal agencies. This reporting includes the following:

- Annual licensure data reported to the North Carolina Division of Health Service Regulation
- Annual audited financials reported to the North Carolina Medical Care Commission
- Annual audited financials reported to the Office of the State Controller
- Quarterly financial and operational statistics posted to the public website www.msrb.org
- Annual audited financials, historical financials and pro forma financials and associated statistics reported to the NC Certificate of Need office as part of the application process
- Annual audited financials are provided to the media upon request
- Annual Community Benefits posted on the North Carolina Hospital Association (NCHA) website, NCHA.org
- Rex's Financial Assistance policy posted on the NCHA.org website
- Rex's Financial Assistance policy, application and other pertinent information posted on rexhealth.com

A copy of the most recent audited financials is attached to this summary.

Each heading below references the specific 990 document where the information would be reported:

Rex Mission (Form 990)
To provide the best in health services by bringing together compassionate care and leading-edge technology.

Rex Programs (Form 990-Part III)
The top three programs at Rex Hospital are:

- General Surgery
- Orthopaedics
- Cardiology

REX
UNC HEALTH CARE

Rex Governance (Form 990-Part VII A)
Rex's Board of Directors is comprised of 14 members. In FY2011, board members included:

- Dale Jenkins, Chair
- Theresa Artis
- Jean Carter, MD
- Vincent Hoellerich, MD
- Jim Hyler
- Darlene Johns
- Jeff Lyash
- Gary Park
- Bill Roper
- David Strong
- Orage Quarles
- Waltye Rasulala
- Mark Striebel
- Bob Thomas

Rex maintains current governance and compliance policies including but not limited to the following:

- Conflict of interest
- Whistle blower
- Document retention and destruction

Rex Compensation (Form 990 Part VII A)
Rex's executive compensation is based on third party benchmarks. The Rex Board of Directors reviews and approves all executive compensation. The UNC Health Care Board of Directors provides an additional layer of review and approval for executive compensation. A schedule of Executive compensation is found in attachment A to this document. Also included in attachment A is a list of the five highest compensated employees.

The total number of coworkers whose income was $100,000 or greater during CY2010 was 177.

Independent Contractors (Form 990 Part VII B)
Rex engages a number of independent contractors to provide services to the organization. The top 5 contractors ranked based on payments made during CY2010 are:

SRI	$8,460,450
BBH Designs	$7,035,456
Mayo Collaborative Svcs	$1,734,708
The Outsource Group	$1,692,537
K & L Gates	$1,337,673

Reason for Public Charity Status (Schedule A)
Rex is a hospital described in section 170(b)(1)(A)(iii) of the IRS Code.

REX
UNC HEALTH CARE

Schedule of Contributors (Schedule B)
Rex is a 501(c)(3). Contributors of $5,000 or more include Rex Hospital Foundation and Rex Hospital Guild.

Lobbying Activity (Schedule C)
Rex's lobbying costs for FY2011 totaled $100,266.

Supplemental Financial Statements (Schedule D)
Information available in annual audit

Financial Assistance and Community Benefits (Schedule H)
Rex's Financial Assistance policy is posted on two separate websites: NCHA.org and rexhealth.com. Additionally viewers of the UNC Health Care website can easily link to the Rex website to find this information.

Rex uses the Federal Poverty Guidelines (FPG) as the primary basis for participation in the RexAssist program. Families at or below the 250% of the FPG will receive free hospital care.

Uninsured patients whose income exceeds the threshold for financial assistance are eligible for discounts on their bills. They automatically receive a 15% discount on their bill. They can receive an additional 35% discount for prompt payment. Additionally Rex offers convenient interest-free payment plans tailored for our patient's personal circumstances.

All this is advertised on rexhealth.com for our patients' convenience. Additionally Rex patient care coworkers are kept current on Rex Assist and our payment programs to ensure that they can answer patient questions as they arise.

Total Financial Assistance and Means-tested Government Programs costs were $29.6 million for FY11.

In addition to charity care costs, Rex recognized bad debt expense at a cost of $7.0 million for FY11.

Total Medicare revenue was $183 million while the costs of providing this care was $230 million. This generates a deficit of $47 million for Rex's care of our Medicare patients.

Rex uses a third party collection agency for those accounts that age out over 120 days. The collection agency attempts to collect payments on Rex's behalf. After a certain number of attempts at collection, the patient account delinquency will be reported to the national credit agencies.

Rex has a written policy that addresses the treatment of our patients under emergency conditions without discrimination regardless of the patient's eligibility under Rex's financial assistance policy.

Rex Related Parties (Schedule H)

Rex partners with various organizations to meet its mission. In FY2011 these relationships included:

- Smithfield Radiation Oncology, LLC with a total income of $152,378. This is the only disregarded entity as defined by the IRS.
- Rex Healthcare
- Rex Hospital Guild
- The Rex Healthcare Foundation
- Rex Home Services
- UNC Health Care System
- Rex Enterprise Co
- Rex Physicians LLC
- Rex Surgery Center of Cary LLC

The FY2011 audit provides a narrative on these organizations.

Other facilities that are not licensed, registered or similarly recognized as hospital facilities include:

- Rex Healthcare of Wakefield
- Rex Healthcare of Cary
- Rex Rehabilitation and Nursing Care Center of Raleigh
- Rex Rehabilitation and Nursing Care Center of Apex
- Rex Healthcare of Knightdale
- Rex Wellness Center of Wakefield
- Rex Wellness Center of Raleigh
- Rex Wellness Center of Cary
- Rex Wellness Center of Garner

Grants and Other Assistance (Schedule I)

Rex is a very generous community partner providing significant funding to many local not-for-profit agencies. Some of the recipient agencies for FY2011 include:

- Wake County Medical Society
- Raleigh School of Nurse Anesthetists
- NC Museum of Art
- American Heart Association
- United Way of the Greater Triangle

Compensation (Schedule J)

Executive Compensation is approved by the Rex and UNC Boards. Each executive has a written employment contract and annual compensation studies are performed. A schedule of Executive Compensation is found in attachment A of this document.

REX
UNC HEALTH CARE

Supplemental Information on Tax-Exempt Bonds (Schedule K)

Rex issued bonds for $123 million in September 2010. The proceeds funded a central energy plant, routine capital and refunding of Series 1998 bonds issued 4/21/98. This information is included in the annual audited financial statements.

Transactions with Interested Persons (Schedule L)

A loan was provided to the CIO for relocation costs.

Related Organizations and Unrelated Partnerships (Schedule R)

The audited financials include a listing off all organizations associated with Rex Hospital.

Rex 990 Executive Summary
Attachment A
Compensation
For CY2010

Name	Related entity employees	Officer	Highest Compensated Employees	Base Comp	Bonus	Other	Nontaxable benefits	Total
William Roper	X			715,759	-	13,050	4761.7	733,571
Gary Park	X	X		655,141	-	7,411	7261.78	669,814
David Strong		X		425,759	121,765	6,141	14,506	568,171
Bernadette Spong		X		260,143	69,962	13,121	13,306	356,532
Mary Lou Powell		X		220,313	68,369	7,846	9,313	305,841
Steve Burriss		X		212,041	59,122	29,828	13,826	314,817
Novlet Bradshaw		X		209,210	56,652	6,994	10,306	283,162
Linda Butler		X		166,972	48,242	3,245	10,306	228,765
Don Esposito		X		194,944	59,199	629	14,206	268,978
Sylvia Hackett		X		174,735	48,734	5,601	8,613	237,683
Erick Hawkins		X		184,234	46,692	8,323	6,893	246,142
Chad Lefteris		X		141,712	41,413	6,569	6,059	195,753
Lisa Schiller		X		142,286	42,015	311	15,246	199,858
Jeffrey Crane			X	612,562	193,383	59,166	12,666	877,777
Kenneth Zeitler			X	640,051	110,359	48,608	6,359	805,377
Shahram Tehrani			X	449,364	29,000	23,166	11,506	513,036
Wayne Smith			X	415,593	-	21,742	6,059	443,394
Robert Wehbie			X	162,976	100,641	107,974	15,305	386,896

#9

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

H D

BILL DRAFT 2011-RCz-8 [v.2] (04/06)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/9/2012 1:23:59 PM

Short Title: UNCHCS Changes. (Public)

Sponsors: Representative.

Referred to:

A BILL TO BE ENTITLED

AN ACT TO CLARIFY THE PURPOSE OF THE UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM, TO INCREASE THE AUTHORITY OF THE UNIVERSITY OF NORTH CAROLINA BOARD OF GOVERNORS TO GOVERN THE HEALTH CARE SYSTEM, TO REDUCE THE NUMBER AND CHANGE THE COMPOSITION OF THE MEMBERS OF THE BOARD OF DIRECTORS OF THE HEALTH CARE SYSTEM, TO INCREASE THE SYSTEM'S ACCOUNTABILITY AND TRANSPARENCY, TO CLARIFY ITS STATUS AS A STATE AGENCY AND TO LIMIT FUTURE EXPANSION, AS RECOMMENDED BY THE HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 116-37 reads as rewritten:

"**§ 116-37. University of North Carolina Health Care System.**

(a) Creation of System. –

(1) There is hereby established the University of North Carolina Health Care System, effective November 1, 1998, which shall be ~~governed and administered as~~ an affiliated enterprise of The University of North Carolina governed by the Board of Governors and administered by the board of directors created in subsection (b) of this section. Consistent with State statutes and policy and without unduly competing with non-State owned health care systems, the purpose of the University of North Carolina Health Care System is to ~~in accordance with the provisions of this section, 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, and render other services designed to promote the health and well-being of the citizens of North Carolina.~~ meet the goals of education, research, patient care, and community service.

(2) As of November 1, 1998, all of the rights, privileges, liabilities, and obligations of the board of directors of the University of North Carolina Hospitals at Chapel Hill, not inconsistent with the provisions of this section, shall be transferred to and assumed by the board of directors of the University of North Carolina Health Care System.

(3) The University of North Carolina Hospitals at Chapel Hill and the clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill shall be governed by the Board of Governors and administered by the board of directors of the University of North Carolina Health Care System.

(4) With respect to the provisions of subsections (d), (e), (f), ~~(h), (i), (j),~~ and (k) of this section, the ~~board of directors~~ Board of Governors may adopt or may delegate to the board of directors the authority to adopt policies that make the authorities and responsibilities established by one or more of said subsections applicable to the University of North Carolina Hospitals at Chapel Hill, to the clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill, to both, or to other persons or entities affiliated with or under the control of the University of North Carolina Health Care System.

(5) To effect an orderly transition, the policies and procedures of the clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill and of the University of North Carolina Hospitals at Chapel Hill effective as of October 31, 1998, shall remain effective in accordance with their terms until changed by the Board of Directors of the University of North Carolina Health Care System.

(b) Board of Directors. ~~There is hereby established a board of directors of the University of North Carolina Health Care System, effective November 1, 1998.~~ The Board of Governors of the University of North Carolina is directed to reconstitute the board of directors for the University of North Carolina Health Care System, effective November 1, 2012.

(1) The reconstituted board of directors shall be composed of 12 members as follows:

a. ~~A minimum of six~~Three members ex officio of said board shall be ~~the President of The University of North Carolina (or the President's designee);~~ the State Treasurer or the Treasurer's designee, the Chief Executive Officer of the University of North Carolina Health Care System; ~~the Chancellor of the University of North Carolina at Chapel Hill and one additional administrative officer of the University of North Carolina at Chapel Hill designated by the Chancellor; and two members of the faculty of the~~ and the Dean of the School of Medicine of the University of North Carolina at Chapel ~~Hill designated by the Dean of the School of Medicine;~~ Hill; provided, that if the Dean is already ~~not such~~ a member ex officio by virtue of holding one or more of the offices aforementioned, ~~additional ex officio memberships shall be held by the President of the University of North Carolina Hospitals at Chapel Hill,~~ the faculty member responsible for leading the clinical patient care programs of the School of ~~Medicine, and the Dean of the School of Medicine of the University of North Carolina at Chapel Hill.~~ Medicine shall serve as the third member ex offico.

b. ~~No less than nine and no more than 21~~Nine members at ~~large, which number shall be determined by the board of directors,~~ large who shall be appointed by the Board of Governors for four-year terms, commencing on November 1 of the year of ~~appointment; provided, that~~ appointment. In order to effectuate staggered terms and to provide continuity of board membership, a minimum of five members of the initial class of at-large members of the reconstituted

board shall ~~include~~ be selected by the Board of Governors from the persons who hold the appointed memberships on the board of directors of the University of North Carolina ~~Hospitals at Chapel Hill~~Health Care System incumbent as of October 31, ~~1998~~,2012, whose terms shall expire on October 31, 2014. ~~with their terms of membership on the board of directors of the University of North Carolina Health Care System to expire on the last day of October of the year in which their term as a member of the board of directors of the University of North Carolina Hospitals at Chapel Hill would have expired.~~The Board of Governors shall appoint individuals to the remaining at-large positions of the reconstituted board whose terms shall expire on October 31, 2016. ~~Vacant~~As the terms of the initial at large members of the reconstituted board expire, the Board of Governors shall appoint individuals to fill the vacant at-large positions ~~shall be filled by the appointment of persons~~ from the business and professional public at large who have special competence in business management, hospital administration, health care delivery, or medical practice or who otherwise have demonstrated dedication to the improvement of health care in North Carolina, and who are neither members of the Board of Governors, members of the board of trustees of a constituent institution of The University of North Carolina, nor officers or employees of the State. ~~Members shall be appointed by the President of the University, and ratified by the Board of Governors, from among a slate of nominations made by the board of directors of the University of North Carolina Health Care System.~~ No member may be appointed to more than two full four-year terms in succession; provided, that persons holding appointed memberships on November 1, ~~1998~~,2012, by virtue of their previous membership on the board of directors of the University of North Carolina ~~Hospitals at Chapel Hill,~~ Health Care System on October 31, 2012, shall not be ~~eligible, for a period of one year following expiration of their term,~~ eligible to be reappointed to the board of directors of the University of North Carolina Health Care System. Any vacancy in an unexpired term shall be filled by an appointment made by ~~the President, and ratified by~~ the Board of ~~Governors, upon the nomination of the board of directors,~~Governors for the balance of the term remaining.

(2) The board of directors, with each ex officio and at-large member having a vote, shall elect a chairman only from among the at-large members, for a term of two years. ~~Notwithstanding the foregoing limitation, the Chancellor of the University of North Carolina at Chapel Hill may serve as Chairman.~~ No person shall be eligible to serve as chairman for more than three terms in succession.

(3) The board of directors of the University of North Carolina Health Care System shall meet at least every 60 days and may hold special meetings at any time and place within the State at the call of the chairman. Board members, other than ex officio members, shall receive the same per diem and reimbursement for travel expenses as members of the State boards and commissions generally.

(4) In meeting the patient-care, educational, research, and public-service goals of the University of North Carolina Health Care System, the Board of

Governors ~~board of directors~~ is authorized or may delegate to the board of directors the authority to ~~exercise such authority and responsibility to~~ adopt policies, rules, and regulations that are ~~as it deems~~ necessary and appropriate, not inconsistent with the provisions of this section or the policies of the Board of Governors or, to the extent the ~~board's~~ actions affect employees of the University of North Carolina at Chapel Hill, not inconsistent with the policies of the University of North Carolina at Chapel Hill. The Board of Governors ~~board~~ may authorize or may delegate to the board of directors the authority to authorize any component of the University of North Carolina Health Care System, including the University of North Carolina Hospitals at Chapel Hill, to contract in its individual capacity, subject to such policies and procedures as the board of directors may direct. The board of directors may enter into formal agreements with the University of North Carolina at Chapel Hill with respect to the provision of clinical experience for students and for the provision of maintenance and supporting services. The board's action on matters within its jurisdiction is final, except that appeals may be made, in writing, to the Board of Governors with a copy of the appeal to the Chancellor of the University of North Carolina at Chapel Hill. The board of directors shall keep the Board of Governors and the board of trustees of the University of North Carolina at Chapel Hill fully informed about health care policy and recommend changes necessary to maintain adequate health care delivery, education, and research for improvement of the health of the citizens of North Carolina.

(c) Officers. –

(1) The executive and administrative head of the University of North Carolina Health Care System shall have the title of "Chief Executive Officer." The board of directors, the board of trustees, and the Chancellor of the University of North Carolina at Chapel Hill, following such search process as the boards and the Chancellor deem appropriate, shall identify two or more persons as candidates for the office, who, pursuant to criteria agreed upon by the boards and the Chancellor, have the qualifications for both the positions of Chief Executive Officer of the University of North Carolina Health Care System and Vice-Chancellor for Medical Affairs of the University of North Carolina at Chapel Hill. The names of the candidates so identified, once approved by the board of directors and the board of trustees, shall be forwarded by the Chancellor to the President of The University of North Carolina, who if satisfied with the quality of one or more of the candidates, will nominate one as Chief Executive Officer, subject to selection by the Board of Governors. The individual serving as Chief Executive Officer shall have complete executive and administrative authority to formulate proposals for, recommend the adoption of, and implement policies governing the programs and activities of the University of North Carolina Health Care System, subject to all requirements of the board of directors. That same individual, when serving as Vice-Chancellor for Medical Affairs, shall have all authorities, rights, and responsibilities of a vice-chancellor of the University of North Carolina at Chapel Hill.

(2) The executive and administrative head of the University of North Carolina Hospitals at Chapel Hill shall have the title of "President of the University of North Carolina Hospitals at Chapel Hill."

(3) The board of directors shall elect, on nomination of the Chief Executive Officer, the President of the University of North Carolina Hospitals at

Chapel Hill, and such additional administrative and professional staff employees of the University of North Carolina Health Care System as may be deemed necessary to assist in fulfilling the duties of the office of the Chief Executive Officer, all of whom shall serve at the pleasure of the Chief Executive Officer.

(d) Personnel. – Employees of the University of North Carolina Health Care System shall be deemed to be employees of the State and shall be subject to all provisions of State law relevant thereto; provided, however, that except as to the provisions of Articles 5, 6, 7, and 14 of Chapter 126 of the General Statutes, the provisions of Chapter 126 shall not apply to employees of the University of North Carolina Health Care System, and the policies and procedures governing the terms and conditions of employment of such employees shall be adopted by the board of directors; provided, that with respect to such employees as may be members of the faculty of the University of North Carolina at Chapel Hill, no such policies and procedures may be inconsistent with policies established by, or adopted pursuant to delegation from, the Board of Governors of The University of North Carolina.

(1) The ~~board of directors~~ Board of Governors shall fix or approve or may delegate to the board of directors the authority to fix or approve the schedules of pay, expense allowances, and other compensation and adopt position classification plans for employees of the University of North Carolina Health Care System.

(2) The ~~board of directors~~ Board of Governors may adopt or provide or may delegate to the board of directors the authority to adopt or prorvide for rules and regulations concerning, but not limited to, annual leave, sick leave, special leave with full pay or with partial pay supplementing workers' compensation payments for employees injured in accidents arising out of and in the course of employment, working conditions, service awards and incentive award programs, grounds for dismissal, demotion, or discipline, other personnel policies, and any other measures that promote the hiring and retention of capable, diligent, and effective career employees. However, an employee who has achieved career State employee status as defined by G.S. 126-1.1 by October 31, 1998, shall not have his or her compensation reduced as a result of this subdivision. Further, an employee who has achieved career State employee status as defined by G.S. 126-1.1 by October 31, 1998, shall be subject to the rules regarding discipline or discharge that were effective on October 31, 1998, and shall not be subject to the rules regarding discipline or discharge adopted after October 31, 1998.

(3) The ~~board of directors~~Board of Governors may prescribe or may delegate to the board of directors the authority to prescribe the office hours, workdays, and holidays to be observed by the various offices and departments of the University of North Carolina Health Care System.

(4) The ~~board of directors~~Board of Governors may establish or may delegate to the board of directors the authority to establish boards, committees, or councils to conduct hearings upon the appeal of employees who have been suspended, demoted, otherwise disciplined, or discharged, to hear employee grievances, or to undertake any other duties relating to personnel administration that the board of directors may direct.

The board of directors shall submit all initial classification and pay plans and other rules and regulations adopted pursuant to subdivisions (1) through (4) of this subsection to the Office of State Personnel for review upon adoption by the board. Any subsequent changes to these plans, rules, and policies ~~adopted by the board~~ shall be submitted to the Office of State

Personnel for review. Any comments by the Office of State Personnel shall be submitted to the Chief Executive Officer and to the President of The University of North Carolina.

(e) Finances. – The University of North Carolina Health Care System shall be subject to the provisions of the State Budget ~~Act, except for trust funds as provided in G.S. 116-36.1 and G.S. 116-37.2.~~ Act. The Chief Executive Officer, subject to the ~~board of directors,~~ Board of Governors, shall be responsible for all aspects of budget preparation, budget execution, and expenditure reporting. All operating funds of the University of North Carolina Health Care System may be budgeted and disbursed through special fund codes, maintaining separate auditable accounts for the University of North Carolina Hospitals at Chapel Hill and the clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill. All receipts of the University of North Carolina Health Care System may be deposited directly to the special fund codes, and except for General Fund appropriations, all receipts of the University of North Carolina Hospitals at Chapel Hill may be invested pursuant to G.S. 116-37.2(h). General Fund appropriations for support of the University of North Carolina Hospitals at Chapel Hill shall be budgeted in a General Fund code under a single purpose, "Contribution to University of North Carolina Hospitals at Chapel Hill Operations" and be transferable to a special fund operating code as receipts.

(f) Finances – Patient/Health Care System Benefit. – The Chief Executive Officer of the University of North Carolina Health Care System, or the Chief Executive Officer's designee, may expend operating budget funds, including State funds, of the University of North Carolina Health Care System for the direct benefit of a patient, when, in the judgment of the Chief Executive Officer or the Chief Executive Officer's designee, the expenditure of these funds would result in a financial benefit to the University of North Carolina Health Care System. Any such expenditures are declared to result in the provision of medical services and create charges of the University of North Carolina Health Care System for which the health care system may bill and pursue recovery in the same way as allowed by law for recovery of other health care systems' charges for services that are unpaid.

These expenditures shall be restricted (i) to situations in which a patient is financially unable to afford ambulance or other transportation for discharge; (ii) to afford placement in an after-care facility; (iii) to assure availability of a bed in an after-care facility after discharge from the hospitals; (iv) to secure equipment or other medically appropriate services after discharge; or (v) to pay health insurance premiums. The Chief Executive Officer or the Chief Executive Officer's designee shall reevaluate at least once a month the cost-effectiveness of any continuing payment on behalf of a patient.

To the extent that the University of North Carolina Health Care System advances anticipated government entitlement benefits for a patient's benefit, for which the patient later receives a lump-sum "back-pay" award from an agency of the State, whether for the current admission or subsequent admission, the State agency shall withhold from this back pay an amount equal to the sum advanced on the patient's behalf by the University of North Carolina Health Care System, if, prior to the disbursement of the back pay, the applicable State program has received notice from the University of North Carolina Health Care System of the advancement.

(f1) Provision of Indigent Care. – The University of North Carolina Health Care System shall provide a proportionate share of the indigent care, as compared with non-State owned health care systems, in each county where it provides medical services. By July 1, 2013, the Board of Governors in conjunction with the North Carolina Hospital Association shall develop methods to measure the provision of indigent care services that allow for direct and accurate comparison between health care systems.

(g) Reports. – The Chief Executive Officer ~~and the President of The University of North Carolina jointly~~ shall report by September 30 of each year on the operations and financial affairs of the University of North Carolina Health Care System to the Board of

Governors. The Board of Governovors shall report by November 30 of each year on the operations and financial affairs of the University of North Carolina Health Care System to the Joint Legislative Commission on Governmental Operations. The report shall include the actions taken by the Board of Governors or the board of directors under the authority granted in ~~subsections (d), (h), (i), and (j)~~ subsection (d) of this section.

All nonprofit corporations that are part of the University of North Carolina Health Care System must complete an Internal Revenue Service From 990 annually and submit a copy to the Board of Governors.

~~(h) Purchases. Notwithstanding the provisions of Articles 3, 3A, and 3C of Chapter 143 of the General Statutes to the contrary, the board of directors shall establish policies and regulations governing the purchasing requirements of the University of North Carolina Health Care System. These policies and regulations shall provide for requests for proposals, competitive bidding, or purchasing by means other than competitive bidding, contract negotiations, and contract awards for purchasing supplies, materials, equipment, and services which are necessary and appropriate to fulfill the clinical, educational, research, and community service missions of the University of North Carolina Health Care System. The board of directors shall submit all initial policies and regulations adopted pursuant to this subsection to the Division of Purchase and Contract for review upon adoption by the board. Any subsequent changes to these policies and regulations adopted by the board shall be submitted to the Division of Purchase and Contract for review. Any comments by the Division of Purchase and Contract shall be submitted to the Chief Executive Officer and to the President of The University of North Carolina.~~

~~(i) Property. The board of directors shall establish rules and regulations for acquiring or disposing of any interest in real property for the use of the University of North Carolina Health Care System. These rules and regulations shall include provisions for development of specifications, advertisement, and negotiations with owners for acquisition by purchase, gift, lease, or rental, but not by condemnation or exercise of eminent domain, on behalf of the University of North Carolina Health Care System. This section does not authorize the board of directors to encumber real property. The board of directors shall submit all initial policies and regulations adopted pursuant to this subsection to the State Property Office for review upon adoption by the board. Any subsequent changes to these policies and regulations adopted by the board shall be submitted to the State Property Office for review. Any comments by the State Property Office shall be submitted to the Chief Executive Officer and to the President of The University of North Carolina. After review by the Attorney General as to form and after the consummation of any such acquisition, the University of North Carolina Health Care System shall promptly file a report concerning the acquisition or disposition with the Governor and Council of State. Acquisitions and dispositions of any interest in real property pursuant to this section shall not be subject to the provisions of Article 36 of Chapter 143 of the General Statutes or the provisions of Chapter 146 of the General Statutes.~~

~~(j) Property Construction. Notwithstanding G.S. 143-341(3) and G.S. 143-135.1, the board of directors shall adopt policies and procedures with respect to the design, construction, and renovation of buildings, utilities, and other property developments of the University of North Carolina Health Care System requiring the expenditure of public money for:~~

- ~~(1) Conducting the fee negotiations for all design contracts and supervising the letting of all construction and design contracts.~~
- ~~(2) Performing the duties of the Department of Administration, the Office of State Construction, and the State Building Commission under G.S. 133-1.1(d), Article 8 of Chapter 143 of the General Statutes, and G.S. 143-341(3).~~
- ~~(3) Using open-end design agreements.~~

~~(4) As appropriate, submitting construction documents for review and approval by the Department of Insurance and the Division of Health Service Regulation of the Department of Health and Human Services.~~

~~(5) Using the standard contracts for design and construction currently in use for State capital improvement projects by the Office of State Construction of the Department of Administration.~~

~~The board of directors shall submit all initial policies and procedures adopted under this subsection to the Office of State Construction for review upon adoption by the board. Any subsequent changes to these policies and procedures adopted by the board shall be submitted to the Office of State Construction for review. Any comments by the Office of State Construction shall be submitted to the Chief Executive Officer and to the President of The University of North Carolina.~~

(k) Patient Information. – The University of North Carolina Health Care System shall, at the earliest possible opportunity, specifically make a verbal and written request to each patient to disclose the patient's social security number, if any. If the patient does not disclose that number, the University of North Carolina Health Care System shall deny benefits, rights, and privileges of the University of North Carolina Health Care System to the patient as soon as practical, to the maximum extent permitted by federal law or federal regulations. The University of North Carolina Health Care System shall make the disclosure to the patient required by Section 7(b) of P.L. 93-579. This subsection is supplementary to G.S. 105A-3(c).

(l) Expansion. – The University of North Carolina Health Care System shall not use any funds available to it, whether fees for provision of services, reserves, or assessments of entities affiliated with the system, to expand the geographic areas where it provides services without the specific authorization of the General Assembly. "

SECTION 2. G.S. 116-37.2(b) reads as written:

"(b) The Board of ~~Directors~~ Governors is responsible or may delegate the responsibility to the board of directors of the University of North Carolina Health Care System, as established in G.S. 116-37(b), ~~is responsible~~ for the custody and management of the funds of the University of North Carolina Hospitals at Chapel Hill. The Board of Governors shall adopt or may delegate the authority to the board of directors to adopt uniform policies and procedures applicable to the deposit, investment, and administration of these funds, which shall assure that the receipt and expenditure of such funds is properly authorized and that the funds are appropriately accounted for. The Board of Governors may delegate authority, through the Chief Executive Officer of the University of North Carolina Health Care System to the President of the University of North Carolina Hospitals at Chapel Hill, when such delegation is necessary or prudent to enable the University of North Carolina Hospitals at Chapel Hill to function in a proper and expeditious manner."

SECTION 3. G.S. 116-37.2(h) reads as rewritten:

"(h) The Board of Governors may deposit or invest, or may delegate to the board of directors the authority to deposit or invest ~~Directors of the University of North Carolina Health Care System may deposit or invest~~ the funds under this section in interest-bearing accounts and other investments in the exercise of its sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries."

SECTION 4. G.S. 143-56 reads as rewritten:

"**§ 143-56. Certain purchases excepted from provisions of Article.**

Unless as may otherwise be ordered by the Secretary of Administration, the purchase of supplies, materials and equipment through the Secretary of Administration shall be mandatory in the following cases:

(1) Published books, manuscripts, maps, pamphlets and periodicals.

(2) Perishable articles such as fresh vegetables, fresh fish, fresh meat, eggs, and others as may be classified by the Secretary of Administration.

Purchase through the Secretary of Administration shall not be mandatory for information technology purchased in accordance with Article 3D of Chapter 147 of the General Statutes, for a purchase of supplies, materials or equipment for the General Assembly if the total expenditures is less than the expenditure benchmark established under the provisions of G.S. 143-53.1, for group purchases made by hospitals, developmental centers, neuromedical treatment centers, and alcohol and drug abuse treatment centers through a competitive bidding purchasing program, as defined in G.S. 143-129, ~~by the University of North Carolina Health Care System pursuant to G.S. 116-37(h), by the University of North Carolina Hospitals at Chapel Hill pursuant to G.S. 116-37(a)(4), by the University of North Carolina at Chapel Hill on behalf of the clinical patient care programs of the School of Medicine of the University of North Carolina at Chapel Hill pursuant to G.S. 116-37(a)(4),~~ or by East Carolina University on behalf of the Medical Faculty Practice Plan pursuant to G.S. 116-40.6(c).

All purchases of the above articles made directly by the departments, institutions and agencies of the State government shall, whenever possible, be based on competitive bids. Whenever an order is placed or contract awarded for such articles by any of the departments, institutions and agencies of the State government, a copy of such order or contract shall be forwarded to the Secretary of Administration and a record of the competitive bids upon which it was based shall be retained for inspection and review.

SECTION 5. G.S. 146-22(c) reads as rewritten:

"(c) Acquisitions on behalf of ~~the University of North Carolina Health Care System shall be made in accordance with G.S. 116-37(i), acquisitions on behalf of the University of North Carolina Hospitals at Chapel Hill shall be made in accordance with G.S. 116-37(a)(4), acquisitions on behalf of the clinical patient care programs of the School of Medicine of The University of North Carolina at Chapel Hill shall be made in accordance with G.S. 116-37(a)(4), and acquisitions on behalf of the~~ Medical Faculty Practice Plan of the East Carolina University School of Medicine shall be made in accordance with G.S. 116-40.6(d)."

SECTION 6. This act becomes effective October 1, 2012.

Show of hands

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	9/22/2011	10/25/2011	11/18/2011	12/12/2011	01/23/2012	CANCELLED	
Brubaker, Harold, Senior Chair	Yes	Yes	Yes	Yes	Yes		
Avila, Marilyn	N	Yes	Yes	Yes	Yes		
Brandon, Marcus	N	Yes	Yes	Yes	Yes		
Brawley, Bill	Yes	Yes	Yes	Yes	Yes		
Brisson, William	Yes	N	N	N	Yes		
Carney, Becky	N	Yes	N	Yes	Yes		
Crawford, James	N	Yes	Yes	Yes	Yes		
Folwell, Dale	N	Yes	Yes	Yes	Yes		
Hager, Mike	Yes	N	Yes	Yes	Yes		
Howard, Julia	N	Yes	Yes	Yes	Yes		
Lewis, David	Yes	Yes	Yes	Yes	Yes		
Moffitt, Timothy	Yes	Yes	Yes	Yes	Yes		
Owens, Bill	Yes	N	N	N	N		
Setzer, Mitchell	N	N	N	Yes	Yes		
Spear, Timothy	N	Yes	Yes	Yes	Yes		
Starnes, Edgar	Yes	Yes	Yes	Yes	Yes		
West, Roger	Yes	No	Yes	Yes	N		
Wray, Michael	N	Yes	Yes	Yes	Yes		
Pittman, Larry			Yes	Yes	Yes		

Spear Owens Lewis passes 8 to 7

#9

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

H D

BILL DRAFT 2011-RCz-4 [v.4] (03/15)

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
4/9/2012 12:13:27 PM

Short Title: UNCHCS - Sale of Rex Hospital. (Public)

Sponsors: Representative Brawley.

Referred to:

A BILL TO BE ENTITLED

AN ACT TO DIRECT THE UNIVERSITY OF NORTH CAROLINA HEALTH CARE SYSTEM TO SELL ITS INTEREST IN REX HEALTHCARE, INC. AS RECOMMENDED BY THE HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS.

Whereas, the North Carolina General Assembly created the University of North Carolina Health Care System (UNCHCS) as an affiliated enterprise of The University of North Carolina; and

Whereas, UNCHCS became the sole member of Rex Healthcare, Inc., a nonprofit corporation (Rex), in 2000 pursuant to an acquisition agreement with the John Rex Endowment; and

Whereas, UNCHCS has exclusive corporate control of Rex, appoints eight of the 13 members of the board of directors of Rex and approves the Rex budget; and

Whereas, Rex has direct control over multiple business entities including: Rex Enterprises Company, Inc., a for profit North Carolina business corporation; Rex Hospital, Inc., a nonprofit North Carolina business corporation; Rex Holdings, LLC, a single-member, member managed North Carolina limited liability company; and Rex Healthcare Foundation, Inc., a nonprofit North Carolina business corporation;

Whereas, there are multiple subsidiaries to each of the business entities controlled by Rex; and

Whereas, the North Carolina Attorney General has issued multiple opinions stating that Rex is not a State agency, nor are its employees State employees; and

Whereas, the General Assembly has determined that State ownership of the corporate control of Rex does not involve a core function of State government; now therefore:

The General Assembly of North Carolina enacts:

SECTION 1. The University of North Carolina Health Care System (UNCHCS) shall sell its entire interest as the sole member of Rex Healthcare, Inc. (Rex) and shall divest itself of any interest it may have in any subsidiaries of Rex. UNCHCS may effectuate the sale either by negotiation or bid, but in either case, UNCHCS shall attempt to obtain the highest return on investment. The Board of Governors of The University of North Carolina (BOG) shall monitor the sale and must approve any acquisition agreement prior to execution by UNCHCS. Beginning October 1, 2012, and quarterly thereafter, the BOG shall report on the

progress of the sale to the Joint Legislative Commission on Governmental Operations. The BOG shall submit its final report within 60 days of the completion of the sale. The proceeds of the sale shall be deposited in the General Fund.

SECTION 2. This act is effective when it becomes law.

Ex #11

Sale of Rex

- State government should not be in the business of competing with other hospitals. That seems to be all that Rex is doing. The state should get out of that business.
- Rex should be sold, and the money should be used to meet other urgent needs. WakeMed made an offer of nearly $900 million to buy Rex Hospital.
- The UNC Health Care system does NOT need Rex Hospital in order to meet its mission of research, education and service. All the research is being done in Chapel Hill, the education is being done at WakeMed, and Rex is doing very little service.
- Dr. Roper said he needs Rex so he can build a big statewide health care system. UNC Health Care shouldn't be doing that, so it doesn't need Rex. I would question why a big statewide health system owned by the state is necessary and/or how does it truly help the people of NC.

Oversight and Transparency

- We have serious concerns about how UNC Health Care is run. Both the General Assembly and the Board of Governors need to exercise more oversight and control.
- The legislature and the Board of Governors – not Dr. Roper by himself – should be deciding the role of UNC Health Care. No one person should have that much power without accountability or oversight.
- Dr. Roper has used the Enterprise Fund to spend a lot of money without any accountability or oversight. That needs to change.
- The University of North Carolina system has been forced to absorb very serious budget cuts. But UNC Health Care seems to have unlimited money to spend. We need to take a hard look at how that money is spent and who is making those decisions. Ultimately, the Board of Governors and legislature must be accountable to the taxpayers for this spending.
- Rex is a state-owned hospital. It must be more open and transparent to the public. Rex hasn't filed a 990 with the IRS. It should do so – and provide a copy to the Board of Governors and the public. As a matter of public policy all hospitals should be required to do the same regardless of ownership.
- UNC Health Care is a state agency – and it should be subject to the same spending rules and procedures as other state agencies.

What is the role of state government?

- State-owned hospitals should not be in the business of competing with private hospitals across North Carolina – period. In many communities private hospitals provide a great deal of stability to the local economy in terms of jobs, investment, etc. State government should not put these hospitals at risk by unfair competition. That's not the job of state government. It must stop.
- UNC Health Care is trying to negotiate management agreements with hospitals across the state. We should put a moratorium on those agreements until we can determine whether that is good public policy.
- Health care is changing fast. This legislature needs to take a long, hard look at the role of state government in health care. The elected representatives of North Carolina should be accountable to the taxpayers for those decisions.
- The big question is: What is the proper role of state government here? It looks like UNC Health Care has gone far beyond what that role should be.

Level Playing Field

- State-owned hospitals like Rex must do their fair share of charity and uninsured care. Rex is not doing that today.
- We must not let the same kind of unfair competition that has happened in Wake County happen in other counties.

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

March 16, 2012

MEMORANDUM

TO:	Members, HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM:	Harold J. Brubaker, Chairman
SUBJECT:	Meeting Notice

DAY	**DATE**	**TIME**	**ROOM**
Tuesday	April 10, 2012	10:00 AM	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

Cindy Coley (Rep. Brubaker)

From: Cindy Coley (Rep. Brubaker)
Sent: Tuesday, March 20, 2012 12:44 PM
To: Cindy Coley (Rep. Brubaker)
Subject: House State-Owned Assets, House Select Committee on

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

March 20, 2012

MEMORANDUM

TO: Members, HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS

FROM: Rep. Harold J. Brubaker, Chairman

SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Tuesday	April 10, 2012	10:00 am	544 LOB

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NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

March 20, 2012

MEMORANDUM

TO:	Members, HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM:	Rep. Harold J. Brubaker, Chairman
SUBJECT:	Meeting Notice

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cc: Committee Record _X_
Interested Parties _X_

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

March 16, 2012

MEMORANDUM

TO:	Members, HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM:	Harold J. Brubaker, Chairman
SUBJECT:	Meeting Notice

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If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

Cindy Coley (Rep. Brubaker)

[redacted]om: McCall, Karen <KMcCall@unch.unc.edu>
[redacted]nt: Friday, March 16, 2012 2:34 PM
[redacted]o: Rep. Harold "Bru" Brubaker; Kory Goldsmith (Research)
Cc: Rep. Marilyn Avila; Rep. Marcus Brandon; Rep. Bill Brawley; Rep. William Brisson; Rep. Becky Carney; Rep. Jim Crawford; Rep. Dale Folwell (Speaker Pro Tempore); Rep. Mike Hager; Rep. Julia Howard; Rep. David Lewis; Rep. Tim Moffitt; Rep. Bill Owens; Rep. Larry Pittman; Rep. Mitchell Setzer; Rep. Tim Spear; Rep. Edgar Starnes; Rep. Roger West; Rep. Michael Wray; Nicholson, Kelly
Subject: Letter to Chairman Bruebaker, House Select Committee on the Sale of State Assets
Attachments: Letter.docx; Goldsmith cover memo 3-16.docx

Attached is a letter from Dr. Roper to Chairman Bruebaker regarding yesterday's testimonry. Please contact Kelly Nicholson if you have questions or follow-up.

UNC
HEALTH CARE

March 16, 2012

To: Kory Goldsmith, North Carolina General Assembly

From: Kelly Nicholson

Re: Testimony clarification from House Select Committee on State-Owned Assets

---

Attached please find a letter from Dr. Roper to the members of the House Select Committee on State-Owned Assets.

We look forward to receiving any outstanding questions or materials required by the committee as a follow-up to Dr. Roper's presentation.

If you have any questions or need additional information, please contact me at (919) 360-9255 or Kelly_Nicholson@unchealthcare.org.

Thank you.

UNC
HEALTH CARE

March 16, 2012

The Honorable Harold J. Brubaker, Chairman
House Select Committee on State-Owned Assets
NC House of Representatives
300 N. Salisbury Street, Room 302
Raleigh, NC 27603-5925

Dear Chairman Brubaker:

During my testimony before the House Select Committee on State-Owned Assets on March 16, 2012, Rep. Michael Wray asked me about remarks reported in a December, 2011 article in the *News & Observer*. I responded that I have never, nor would I ever, threaten Bill Atkinson. That is correct.
Below is an excerpt from the transcript of my interview with *News & Observer* reporter Mandy Locke, in which I described a conversation I had with WakeMed CEO Bill Atkinson in March, 2011 about combining our institutions:

"...I want to be working on this kind of stuff [joint ventures] *with you. This can be something that makes a huge difference for health care in North Carolina. As a positive thing, it can be something that is the crowning achievement of your career, maybe my career. This is much bigger than anything personal...to put it negatively; I don't want to spend the next five years of my career trying to grind WakeMed into the dirt. That gives me no joy. Can't we embark on this together."*

As you can hopefully see, I was asserting that it is my goal not to spend the next five years working against WakeMed. As I said before your Committee, I am looking for ways to extend our 40 year partnership to better meet both of our missions of providing the best health care available to the people of North Carolina and training the next generation of our state's physicians.

Thank you for the opportunity both to speak before your Committee and to clarify my remarks in this letter. If you have further questions or comments, I welcome the opportunity to discuss this and other matters further. I look forward to working with you in the future to find the best ways to meet the health care challenges we face.

Sincerely,

UNC
HEALTH CARE

William L. Roper

William L. Roper
CEO, UNC Health Care

UNC
HEALTH CARE

cc:
Representative Marilyn Avila
Representative Marcus Brandon
Representative Bill Brawley
Representative William Brisson
Representative Becky Carney
Representative Jim Crawford
Representative Dale Folwell
Representative Mike Hager
Representative Julia Howard
Representative David Lewis
Representative Tim Moffitt
Representative Bill Owens
Representative Larry Pittman
Representative Mitchell Setzer
Representative Tim Spear
Representative Edgar Starnes
Representative Roger West
Representative Michael Wray
Kory Goldsmith

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Modified Fri, Dec 16, 2011 05:16 PM

Hospital CEOs argue, spur fight over WakeMed and Rex

BY MANDY LOCKE - mlocke@newsobserver.com
PUBLISHED IN: HEARTS AND MINDS

Third of four parts

After a big cardiology practice long associated with WakeMed aligned with Rex Hospital, Bill Atkinson refused to sit quietly.

The WakeMed CEO told reporters that UNC, through its ownership of Rex, was creating an unfair playing field in Wake County. He complained that public subsidies allowed UNC and Rex to make deals such as the one with Wake Heart, the cardiology practice that drove much of WakeMed's heart business.

Dale Jenkins, the Rex board chairman, figured board members could step in and ease tensions. He and Billie Redmond, chairwoman of WakeMed's board, invited leaders of both boards to a meeting days before Christmas in 2010.

Redmond invited Atkinson. Jenkins brought Bill Roper, CEO of UNC Health Care.

With minutes, Atkinson accused Roper of letting UNC be predatory. Roper told Atkinson he was out of bounds.

As the two seasoned executives quarreled, board leaders caught a glimpse of the rocky road these hospital systems were navigating under the leadership of two CEOs who typically got their way.

"These are two men who are accustomed to being in charge and being right ...," Redmond said. "To run an organization of that size you have to be strong and confident."

Atkinson and Roper lead staffs as large as a small town and broker multimillion-dollar deals in the

The story so far

Health care reform brought swift and dizzying changes to the medical landscape in the Triangle: Hospitals raced to get bigger; doctors rushed to join hospital systems. All this changed the relative harmony between Wake County's largest hospitals: WakeMed and Rex, part of UNC Health Care. WakeMed leaders began to fear that UNC Health Care's expansion plans included buying them. Last summer, WakeMed suffered a major blow when a premier cardiology practice that helped offset other losses aligned with cross-town rival Rex.

About the series

To re-create the critical meetings and moments that led to WakeMed's efforts to buy Rex Healthcare, reporter Mandy Locke spent nearly two months interviewing dozens of physicians, hospital administrators, hospital board members, state officials and community members.

Locke reviewed notes taken during and after many meetings, letters between key players, financial documents and personal calendars to try to re-create events. Locke occasionally constructed quotes offered during key meetings. In those instances, she quotes the people as they remember speaking and confirmed the meaning of the comments with others who attended.

The series

Sunday: A battle develops behind the scenes

Monday: Heart doctors change the game

course of a business day. Both have a track record of bringing innovation to the institutions they lead, largely because of their stamina and resolve. They rarely back down.

But their strengths would become burdens as Wake County leaders tried to untangle a disruption in the health care market that WakeMed feared would threaten its stability.

WakeMed and Rex had competed in relative harmony for decades. But UNC's purchase of Rex in 2000 brought a dynamic that WakeMed leaders struggled to fully comprehend and manage in the years that followed.

The defection of 23 heart doctors to Rex and UNC in October 2010 brought all those tensions to the surface.

Atkinson and Roper had interacted for more than a decade at professional meetings, but mostly, they lived in two different worlds.

Roper is a Republican and methodical bureaucrat with years of backroom Washington negotiations under his belt. Atkinson is an activist who often supports Democrats. He does not care much for the niceties and sluggishness of bureaucracy.

Roper speaks slowly and softly and wears a bowtie. Atkinson talks passionately and with the fervor of a Southern Baptist pastor.

Neither minces words.

As they argued at the December meeting, WakeMed and Rex's board members wondered how the two of them would lead the hospitals through this tumult.

Enjoying emergencies

Atkinson, 57, doesn't sleep much. He tries to cram two days of work into one. His career moved at a similar breakneck pace.

A Greensboro native, Atkinson spent his high school years at Oak Ridge Military Academy, studying tactics and strategy. He fell in love with emergencies and all the complications they brought.

Tuesday: Two guys, two styles, two ambitions

Wednesday: 'An absolute breakdown in leadership'

Related Stories

Biographies of hospital leaders

Timeline

Related Images

Shawn Rocco - srocco@newsobserver.com

Dr. Greg Rose, a cardiologist with Wake Heart and Vascular, performs a heart catheterization on James Reid, 79, Nov. 21 at Rex Hospital in Raleigh. Long associated with WakeMed, Wake Heart and Vascular realigned with Rex.

"I couldn't imagine being involved in something that didn't have problems," Atkinson said.

As a teenager in the 1970s, he trained to be an emergency technician. During college at UNC-Greensboro, he worked 48-hour weekend shifts for a local rescue squad.

Atkinson ended up in health care administration during an internship while earning a master's degree in public health.

At age 29, he became executive director of a Humana hospital in South Carolina. Since then, he has hop scotched the country, managing hospitals large and small. While in Colorado in the 1990s, he earned a doctorate in public policy.

Though Atkinson has studied public policy and has watched politics for years, he forgoes the unspoken rules. He ruffles feathers, speaking with unusual bluntness in public.

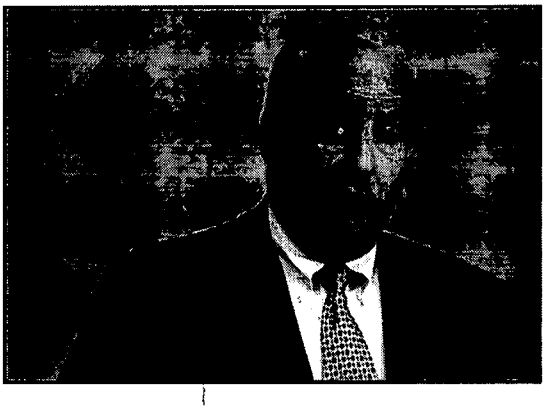
"You can't be one thing on Monday and another on Tuesday," Atkinson said of UNC wanting to compete and collaborate with WakeMed. "Will the real UNC please stand up?"

When a headhunter called to ask him whether he'd be interested in becoming CEO of WakeMed in 2003, Atkinson hesitated.

The hospital seemed to be in great shape, and Atkinson preferred disasters.

Atkinson quickly spotted a major problem after he arrived at WakeMed. The hospital lost millions on services such as caring for trauma patients in the emergency department and delivering babies to low-income mothers. Still, Atkinson reveled in addressing such a critical mission.

Redmond



SHAWN ROCCO - srocco@newsobserver.com

Atkinson

He decided WakeMed should do more. He proposed building a children's hospital, a place that could offer the specialty care for children previously offered only in Chapel Hill and Durham, even though he knew that in-patient stays for children at the new hospital would lose money each year.

In Chapel Hill, the project caught Bill Roper's attention. In 2008, Roper reached out to Atkinson to talk about UNC or Rex partnering on the children's hospital.

In the big leagues

As a pediatrician, Roper, 63, knew much about caring for children.

Though he logged long hours in hospitals treating sick children, Roper spent his career working in the field of public health, thinking about system changes that could keep people from getting sick or hurt. He thought of it as practicing medicine for an entire population.

Roper's public health experience, and his training as a doctor, rocketed him into national service.

In 1982, Roper became a White House fellow, a prestigious program that grooms a dozen or so promising young men and women to be leaders.

Roper stayed in Washington, landing a job as a health policy adviser for President Ronald Reagan. He was then tapped to become administrator of the organization that administers Medicaid and Medicare funding.

Roper soon became a fixture in Republican policy circles, and when George H.W. Bush became president in 1989, he tapped Roper to head his domestic policy team.

From there, Roper was sent to Atlanta, to head the Centers for Disease Control and Prevention.

When his party lost control of the White House in 1992, Roper veered into the private sector, researching health care for Prudential.

Roper found academia by happenstance. In 1997, an administrator from UNC-Chapel Hill asked whether he would lead the university's public health school. His family took easily to Chapel Hill and its vibrancy.

In 2004, the UNC Board of Governors selected him to lead UNC Health Care, a post that would require him to pull on every bit of his experience. He would navigate complicated health care financial reports, manage teams that treated the most complex of cases and sort through the shifting policies coming out of Washington.

He was responsible for an annual budget of $2.2 billion and 8,000 employees, not including roughly 5,000 at Rex.

Roper is meticulous. He arranges binders full of notes along his desk. When he sees a smudge on a family photo in his office, he immediately wipes it clean.

Roper can be seen as aloof, and in 2007, he faced sharp criticism for millions in bonuses paid to executives while poor families faced aggressive bill collections.

For Roper, most everything seems possible. When someone tells him no, he hears an invitation to come up with another proposal.

When he called Atkinson in 2008 to offer to lend a hand with the children's hospital, Roper assumed Atkinson would accept his help. Instead, Atkinson said he'd think about it.

Then, Atkinson asked Roper for something: designate WakeMed a teaching hospital, a title that would heighten its status. Roper said he'd think about it.

A blunt discussion

Atkinson eventually declined Roper's help with the in-patient children's hospital, a 25-bed operation that opened in 2010.

And Roper declined to award WakeMed the teaching status, even though 30 UNC doctors practice and teach residents at WakeMed each day.

When the two exchanged words at the December 2010 meeting, Roper thought they might still find a way to get past their differences over Wake Heart.

In March of this year, he asked Atkinson for a meeting.

In a room at the N.C. Hospital Association, Roper told Atkinson to lay it out for him, to tell him everything that bothered him about UNC and Rex.

Atkinson told Roper that the spirit of UNC didn't permeate through Rex and that WakeMed was being forced to fight a hospital that carries little of the charity care burden.

Then, Atkinson told him that Roper's refusal to designate WakeMed a teaching hospital had stung. He explained that he and his staff wanted a mere acknowledgment of the work already going on at the hospital.

Roper wrote in his notebook: "nuances missed."

Roper told Atkinson that he wanted the same relationship that he has with Duke University Hospital's CEO: civility despite competition.

Roper was taken aback by Atkinson's level of frustration. After the meeting, he sat in his car and wrote some notes.

He reminded himself to talk to Rex CEO David Strong about Rex's behavior, to consider making WakeMed a teaching hospital, and to figure out some way to repair the rift opened by the Wake Heart move.

Then, he wrote a single word: "Respect."

Vision of merger

Atkinson and Roper met again on April 5.

Roper suggested some small projects the hospitals could tackle together to restore trust: a joint venture hospital in Holly Springs, a Hispanic health initiative, a branch school of medicine at WakeMed.

Then, Roper brought up Wake Heart, the cardiology practice that chose Rex over WakeMed. Roper said he couldn't undo the deal. He suggested a meeting to discuss how the group could continue work at both Rex and WakeMed.

Roper then shared with Atkinson his vision for the future: One day, WakeMed and UNC, similar in mission and history, would merge.

Roper told Atkinson that work to this end could be the crowning achievement of both their careers. Roper told Atkinson he'd rather do that than spend the next five years of his career trying to grindWakeMed into the dirt.

Atkinson response was simple and direct. He asked Roper to sell Rex to WakeMed.

In jest, Roper replied: "We'll sell you half of Rex if you sell us half of WakeMed."

Both men laughed.

Tomorrow: An unwelcome offer renews the fight.

Locke: 919-829-8927

MINUTES
SELECT COMMITTEE ON STATE-OWNED ASSETS
MONDAY APRIL 23, 2012

The House Select Committee on State-Owned Assets met on Monday, April 23, 2012, 2012 at 10:02 a.m., in Room 544 Legislative Office Building, Raleigh, North Carolina. In attendance were Representative Brubaker (Chairman); and Representatives Avila, Brandon, Brawley, Carney, Crawford, Folwell, Hager, Howard, Moffitt, Owens, Pittman, Setzer, Spear, Starnes, West and Wray. Mark Bondo (Fiscal Staff), Kory Goldsmith (Research Staff), Greg Roney (Research Staff), Ben Stanley (Bill Drafting) and Committee Assistant Cindy Coley were present.

Chairman Brubaker called the meeting to order and recognized House Sergeant-At-Arms Staff Bill Bass, Larry Elliott, Martha Parrish, and Garland Shepheard.

Chairman Brubaker recognized Kory Goldsmith, Committee Counsel, who reviewed the draft of the Final Report which is attached to the Minutes as Exhibit #1.

Ms. Goldsmith reviewed the Summary of Bill Draft 2011-RCz-8 – UNCHCS Changes which is attached to the Minutes as Exhibit #2.

Ms. Goldsmith reviewed UNCHCS Changes (2001-RCz-8) which is attached to the Minutes as Exhibit #3.

Upon a motion by Representative Brawley and seconded by Representative Moffitt, the The draft of the Final Report of the Committee, the Summary of Bill Draft 2011-RCz-8 – UNCHCS Changes, and UNCHCS Changes (2001-RCz-8) was unanimously approved.

Chairman Brubaker thanked the Committee Members for their invaluable input at the meetings. There being no further business, the meeting adjourned at 10:10 a.m.

Rep. Harold J. Brubaker, Chairman

ATTEST:

Cindy Coley, Committee Assistant

REPRESENTATIVE
HAROLD BRUBAKER
CHAIR
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

Cindy Coley
Committee Clerk
300N Salisbury Street, Room 302
Raleigh, NC 27603-5925
919-715-4946

General Assembly of North Carolina

House Select Committee on State Owned Assets

State Legislative Building
Raleigh, North Carolina

AGENDA

April 23, 2012, 10:00am
Room 544 Legislative Office Building

1. Call to order and introductory remarks
   Representative Harold Brubaker, Chair
2. Review of draft report
3. Other business
4. Adjourn

Persons having questions about the Committee meeting or other matters related to the Committee may contact the Committee Clerk at 919-715-4946 or Committee Staff at 919-733-4910 (Fiscal Research), 919-733-6660 (Bill Drafting) or 919-733-2578 (Research).

ATTENDANCE

HOUSE SELECT COMMITTEE STATE-OWNED ASSETS

2011 - 2012

(Name of Committee)

DATES	April 23, 2012						
Brubaker, Harold, Senior Chair	Yes						
Avila, Marilyn	YES						
Brandon, Marcus							
Brawley, Bill	yes						
Brisson, William							
Carney, Becky	YES						
Crawford, James	YES						
Folwell, Dale	YES						
Hager, Mike	YES						
Howard, Julia	yes						
Lewis, David	YES						
Moffitt, Timothy	yes						
Owens, Bill	YES						
Setzer, Mitchell	yes						
Spear, Timothy							
Starnes, Edgar	YES						
West, Roger	yes						
Wray, Michael	YES						
Pittman, Larry	YES						

VISITOR REGISTRATION SHEET

House Select on State Owned Assets — 04-23-2012

Name of Committee — Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
[illegible]	NCMS
Katy Feinberg	MWC
Alan Wolf	Rex
Jennifer James	UNCHC
Angel Sams	NSS
Kelly Nicholson	UNC HC
Tom Fetzer	Wake Med
Dana Simpson	Smith Anderson
Christine Craig	WakeMed
Kent Yelverton	NCDA&CS
David Krotoszynski	DHHS

VISITOR REGISTRATION SHEET

House Selection State Owned Assets — 04-23-2012

Name of Committee — Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Mark Wilder	DENR
David Griffin	DENR - Aquariums
Chuck Stone	SEAMC
Mitch Leonard	SEAMC
Suzanne Bowling	SEAMC
Pam Mega	NCLM
Carolyn Burt	DST
Lacy Cota	UNC

EXHIBIT #1

NORTH CAROLINA GENERAL ASSEMBLY

HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS

REPORT TO THE
2012 SESSION
of the
2011 GENERAL ASSEMBLY
OF NORTH CAROLINA

APRIL 23, 2012

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RALEIGH, NORTH CAROLINA 27603-5925
TELEPHONE: (919) 733-9390

EXHIBIT #2

Bill Draft 2011-RCz-8: UNCHCS Changes.

2011-2012 General Assembly

Committee:	House Select Committee on State-Owned Assets	**Date:**	April 23, 2012
Introduced by:		**Prepared by:**	Kory Goldsmith Committee Counsel
Analysis of:	2011-RCz-8		

SUMMARY: ***The draft makes numerous changes to the governance, mission and operations of the University of North Carolina Health Care System.***

CURRENT LAW: In a 1998 budget provision (S.L. 1998-212, Sec. 11.8, codified as G.S. 116-37), the General Assembly repealed the statutes related to the UNC Hospitals at Chapel Hill and created the University of North Carolina Health Care System (UNCHCS). UNCHCS is designated as an "affiliated enterprise" of The University of North Carolina (UNC System) that is governed by a board of directors that can range in size from as few as 15 to as many as 27 members. The UNCHCS submits candidates for board membership to The University of North Carolina Board of Governors (UNC BOG) and the President of the UNC System makes the appointments. Pursuant to a 2009 statutory change, the UNCHCS board is no longer required to provide the UNC BOG with twice the number of candidates as there are vacancies to fill.

The purpose of the UNCHCS is to "provide patient care, facilitate the education of physicians and other health care providers, conduct research . . . and render other services designed to promote the health and well-being of the citizens of North Carolina." G.S. 116-37(a)(1). Employees of UNCHCS are State employees, but are exempt from much of the State Personnel Act. UNCHCS is able to adopt policies regarding terms and condition of employment, fix pay schedules, adopt policies regarding annual and sick leave. It is exempt from the State's purchase and contract laws, the procedures for acquisition of property, and the State procedures for design, construction and renovation of buildings.

BILL ANALYSIS:

Section 1 makes numerous changes to G.S. 116-37. It revises the mission of the UNCHCS. It would prohibit the UNCHCS from unduly competing with non-State owned health care systems and narrows the scope of its mission to education, research, patient care and community service. The bill draft reduces the number of members on the UNCHCS board of directors 12, nine of which are at-large members appointed by the UNC BOG. The board of directors must submit a list of candidates to the UNC BOG which must contain at least twice the number of candidates as there are seats to be filled. It also places the authority to adopt personnel policies and employee salaries with the UNC BOG, which may delegate those responsibilities back to the board of directors. The UNCHCS would be required to provide a proportionate share of indigent care, as compared to non-State owned health care systems, in each county where it provides services. It removes certain exemptions UNCHCS has related to the purchase of supplies and services, for acquiring and disposing of real property, and for construction contracts. It is also prohibited from expanding the geographic areas where it provides services without the specific approval of the General Assembly.

Sections 2-5 make conforming changes to other statutes.

EFFECTIVE DATE: The act becomes effective October 1, 2012.

BACKGROUND: In a series of Opinions issued in 2000, the Attorney General determined that UNCHCS could expend public funds to acquire sole corporate control of Rex Healthcare, Inc. (Rex) without the approval of the General Assembly. The Attorney General also determined that the

employees of Rex Hospital, Inc. (Rex Hospital) would not be State employees and that neither Rex nor Rex Hospital would become State agencies as a result of the acquisition. (See Appendix D, Exhibits 5 and 6) Relying on these Opinions, UNCHCS transferred $100 million dollars to the John Rex Endowment and received sole membership of Rex Healthcare, Inc. in return.

2011-RCz-8-SMRC-61 v1

EXHIBIT #3

UNCHCS Changes (2001-RCz-8) – The bill draft revises the mission of the UNCHCS. It would prohibit the UNCHCS from unduly competing with non-State owned health care systems and narrows the scope of its mission to education, research, patient care and community service. The bill draft reduces the number of members on the UNCHCS board of directors from up to 27 to 12, nine of which are at-large members appointed by the UNC BOG. The board of directors must submit a list of candidates to the UNC BOG which must contain at least twice the number of candidates as there are seats to be filled. It also places the authority to adopt personnel policies and employee salaries with the UNC BOG, which may delegate those responsibilities back to the board of directors. The UNCHCS would be required to provide a proportionate share of indigent care, as compared to non-State owned health care systems, in each county where it provides services. It removes certain exemptions UNCHCS has related to the purchase of supplies and services, for acquiring and disposing of real property, and for construction contracts. It is also prohibited from expanding the geographic areas where it provides services without the specific approval of the General Assembly.

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

April 10, 2012

MEMORANDUM

TO:	Members, HOUSE SELECT COMMITTEE ON STATE-OWNED ASSETS
FROM:	Rep. Harold J. Brubaker, Chairman
SUBJECT:	Meeting Notice

DAY	**DATE**	**TIME**	**ROOM**
Monday	April 23, 2012	10:00 am	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Cindy Coley at (919) 715-4946.

cc: Committee Record _X_
Interested Parties _X_

Cindy Coley (Rep. Brubaker)

From: Cindy Coley (Rep. Brubaker)
Sent: Tuesday, April 10, 2012 4:19 PM
To: Cindy Coley (Rep. Brubaker)
Subject: House State-Owned Assets, House Select Committee on

NORTH CAROLINA GENERAL ASSEMBLY

Raleigh, North Carolina 27601

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