UNC Health Care System
Annual Report
FY 2006-2007

Committee on Educational Planning, Policies, and Programs

UNC Board of Governors

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UNC Health Care System Annual Report
Executive Summary

The UNC Health Care System continues to benefit from N.C.G.S. 116-37, which delegates flexibility as it relates to personnel, purchases, property, and property construction matters. This flexibility has enabled us to significantly respond to the changing environmental forces that impact the delivery of health care services to the people of North Carolina and fulfill our vision to be the Nation's leading public academic health care system—leading, teaching, caring. Summarized below are operational improvements that resulted from management having the appropriate flexibility status.

UNC Health Care began a multi-year organizational change initiative as it launched its Commitment to Caring in early 2007. This effort is focused primarily on people and service as key drivers extraordinary service and operational excellence. Flexibility regarding personnel matters will help make this culture change possible.

Fiscal year 2007 marked the fifth full year that the Health Care System's market-driven and performance-based compensation system has been in operation. Our compensation autonomy has enabled the Health Care System to maintain an average salary for all jobs within 5% of the respective market for similar work. This year we utilized our flexibility to address the non-competitive cost of health insurance coverage for employees' dependents through a direct compensation subsidy. These efforts significantly improved our recruitment and retention abilities and benefit our patients through the continuity of care a stable staff provides.

UNC Hospitals continues to sponsor educational loans and stipend programs that provides economic support to students in nursing and allied health programs in exchange for time-related work commitments. To date, 843 students have taken advantage of this program including an additional 256 this fiscal year.

The most tangible measure of purchasing flexibility is savings realized which exceed $4.1 million in FY07. These savings are reductions achieved beyond Group Purchasing Organization (GPO) prices or other discounts. Flexibility in Purchasing additionally enabled the implementation of innovative programs that have widespread benefit to the UNC HCS. Important accomplishments this past year include more effective capital equipment management, and expanded relationships with vendors that enabled access to state-of-the-art tools for revenue cycle management and decision support.

The delegated flexibility in property management expedited transactions the conclusion of leases enabling the organization to be more nimble in responding to challenges and opportunities. For construction projects, the most important evolution is to move toward single prime management of large scale projects. This has been extremely effective in keeping the many projects on time and economical.

In other areas, the flexibility has enabled better coordination and collaboration across the entities of the health care system. Several important joint projects are ongoing, most notably facility planning for the main Chapel Hill campus and other regional sites, an effort to dramatically improve our service known as Commitment to Caring, and Patient Access and Efficiency (PAcE) an initiative designed to ease convenient availability

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The University of North Carolina Health Care System

Background

The University of North Carolina Health Care System was established on November 1, 1998 to integrate UNC Hospitals with the clinical patient care programs maintained by the UNC School of Medicine. The vision of the UNC Health Care System (UNC HCS) is to be the Nation's leading public academic health care system--leading, teaching, caring. Our primary focus continues to be on improving the health of our patients and meeting their needs. We must deliver excellent service and operate leading programs. We must be deeply and broadly engaged with the people of North Carolina and the Nation to meet their health challenges. Throughout, we must maintain financial viability for the UNC HCS, with margins sufficient to support our missions.

The addition of Rex Healthcare in April 2000 is an example of how the UNC HCS continues to evolve in size and complexity. The current structure of the UNC HCS is illustrated in the organizational charts shown in Appendix 1A and 1B.

Actions Taken Under Flexibility Legislation – FY 2006-2007

The authority granted in N.C.G.S. 116-37 subsection (d) personnel; subsection (h) purchases; subsection (i) property; and subsection (G) property construction has allowed the Board of Directors of the UNC HCS to approve the policies summarized below. The following report, depicting how this flexibility is utilized by the Chapel Hill component of the UNC HCS, will be sent to the Joint Legislative Commission on Governmental Operations on or before September 30, 2007, as required by statute.

FLEXIBILITY IN PERSONNEL POLICIES AND PROGRAMS

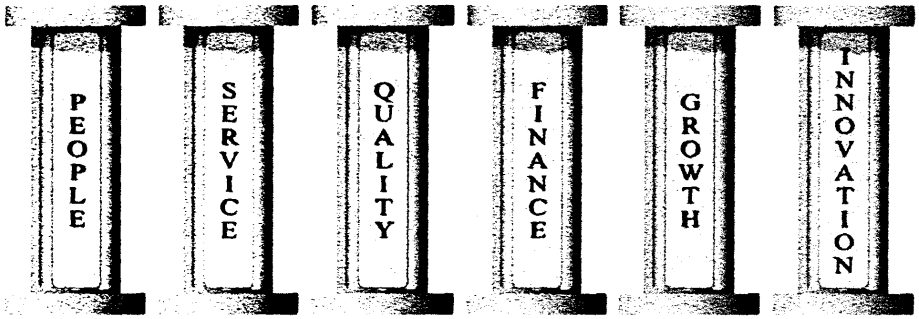
During fiscal year (FY) 07, the UNC HCS leaders made a commitment to advance to the next level of our mission of "Caring for the people of North Carolina" by seeking to create a culture of extraordinary service and operational excellence. Human Resources is a strategic partner with Public Affairs and Marketing, Patient Relations, and Performance Improvement in this initiative to provide the support and tools to maintain the program viability.

This cultural change is moving to reality through a focused two-year initiative we call "Commitment to Caring." Commitment to Caring is much more than another organizational improvement program. It places the patient at the center of everything we do, provides a strategic framework for all UNC HCS initiatives, and holds us accountable to achieve our measurable goals. This initiative is being developed by the UNC HCS in collaboration with Baptist Leadership Institute and is a true interdisciplinary UNC HCS imperative as evidenced by participation from leaders from the UNC

School of Medicine (SOM), UNC Physicians and Associates (P&A), and UNC Hospitals. The first pillar in the UNC Health Care Strategic Framework for Commitment to Caring is PEOPLE.

The keys to sustaining the PEOPLE pillar are found within the human resource management spectrum and focus on Attracting and Retaining the Best Team Members.

UNC Health Care Strategic Framework



Attracting and retaining the best team members

- Hire for excellence
- Orient and assimilate
- Set expectations
- Hardwire accountability
- Reward and recognize
- Develop and educate
- Communicate
- Create ownership
- Celebrate

The assimilation of this cultural change within the strategic framework of our Commitment to Caring requires:

- Engagement of all staff and faculty in service excellence practices and processes.
- Establishment of a robust leadership development initiative for the UNC HCS.
- Alignment of current practices and processes with Commitment to Caring.

Educating/developing leaders on the tools and best practices that create a culture of caring and excellence is one of the keys to success of this cultural change. Toward that end, UNC HCS leaders have, and will continue, to participate in quarterly Leadership Development sessions where the entire leadership system meets to learn of new ideas and tools and share information. The first of these sessions was held in May, and 550 UNC HCS leaders attended. As part of our Commitment to Caring, employees will have the opportunity to participate in a number of teams with membership representing employees at all levels of the organization to assist in developing the strategies and actions needed to move us forward.

The UNC HCS also instituted Cascade Learning that provides consistent learning and communication across the organization using the "leader as teacher" philosophy of high performing organizations. An additional 5,500 employees were educated on the initial framework and overall approach of this process in creating a culture of extraordinary service and operational excellence as delivered by each unit's manager.

Recruitment

Attracting, selecting, and retaining the best team members is of paramount importance to the UNC HCS and is one of the keys to creating and sustaining the Commitment to Caring culture. We also do this by becoming the health care employer of choice and by providing a practice environment that is professionally satisfying and financially rewarding. The UNC HCS adopted the structured behavioral interviewing and pre-employment screening that is encompassed in our new Hiring for Excellence program. All managers and staff who are part of the interviewing process will be educated in these best practices so that we consistently choose the right candidates for the right jobs. This is part of a three-year educational plan. At the conclusion of FY 07 and after four months into the new program, a mix of 127 managers and staff have been trained and are using the system as we move into FY 08.

Recruitment Activity

There were 21,578 employment applications received in FY 07, reflecting a decrease of 6,488 applications from the previous year. At the close of FY 07, there were 312 positions posted for recruitment compared to 281 at the end of FY 06. The national and local market for healthcare workers continues to be extremely competitive, and recruitment activities are increasingly expanding into the national arena. In FY 07, 1,179 allied health, executive, clerical, outpatient, and ancillary staff were hired, and nursing hires (Registered Nurses, Licensed Practical Nurses, Nursing Assistants, and Health Unit Coordinators) numbered 1,100. A new advertising firm (MarketSmart) has been awarded the contract as the official advertisement agency for UNC Hospitals. All media will be designed and developed for UNC HCS recruitment. All internal and external venues are screened and approved by MarketSmart prior to their use for recruitment purposes.

Nurse Employment

Offering weekend and night differentials has helped to stabilize nurse staffing by assisting us to recruit and retain nurses for the shifts most difficult to staff. These differentials remain competitive

within the local market. While our current rates for nurses are competitive, it is anticipated that market increases will continue to spiral upward with the escalating nursing shortage. Our strategies of workforce development, market based compensation, and retention efforts have helped to stabilize our nursing workforce over the past three years. Although we continue to add nursing positions, especially to correct staffing and patient acuity ratios, we believe that our reputation as a preferred employer within the local market helps us to continue to attract and retain staff.

Employment and Retention

Our employment and retention strategy focuses on presenting a positive recruitment image to all applicants and an aggressive plan to retain staff. Utilizing the Hiring for Excellence behavioral-based selection program, a targeted and more selective recruitment approach will result in fewer vacant positions than in recent history. With retention and competency for managers being targeted strategies the employee turnover has stabilized due to managers focusing on employee satisfaction, communication, and involvement in decision-making.

Health Insurance Costs as a Recruitment and Retention Issue

The limitations of our health plans presented a very real and significant barrier in our ability to recruit and retain qualified staff. The flexibility afforded us by the State allowed us to consider means such as employer-paid supplemental plans, sliding-scale wage adjustments, conversion of earned PTO to payments toward premiums, and even the possibility of plan options that were independent of the State Health Plan. The family coverage plan values for Duke, Rex, and WakeMed were on average 67% richer than the average coverage plan values offered under the State Health Plan. Therefore without some intervention and modification, we simply would not be able to recruit and retain top talent, even with a market-based compensation system.

Towers Perrin HR Benefits Consulting Services coordinated the health insurance program review and the recommendations for funding modifications to enhance the competitiveness of our health insurance benefits for family coverage. Following a final review of the Towers Perrin recommendations and approval by the UNC HCS Board to allocate up to $4.1M toward the health insurance family coverage supplemental pay, a supplement was initiated in the spring of 2007. We elected to use a consistent fixed dollar supplement for employees with family coverage in any one of the four health plan options so that we can better manage future cost increases. The dollar amount of the supplemental pay does vary by coverage type (i.e., family, spousal, parent, and child) but not plan option. These supplements affect full-time employees, part-time employees working more than thirty hours per week, and part-time employees working more than 20, but less than 30, hours per week with family coverage.

The family health insurance supplemental pay program accomplishes the UNC HCS's primary goal of improving recruitment and retention by improving the market competitiveness of the family coverage health insurance. A collateral benefit and equally important is the affordability of dependent coverage for lower income employees.

FY 07 Compensation Plan

Fiscal Year 2007 marked the fifth full year that the UNC HCS's performance-based compensation system has been in operation. The flexibility granted the UNC HCS enables us to award salary increases based on merit and relationship to market competition, rather than providing standardized across-the-board increases to all employees without regard to performance. The FY 07 operating budget included a 3.5% aggregate increase for employee compensation.

The aggregate compensation of the UNC HCS compared to the aggregate market reference points is used to measure the effectiveness of our compensation plan. The majority of the workforce should be compensated within 90-110% of the market average, according to the "market reference range." Our employee distribution and the end of FY 07 are as follows: 18% of employees are below 90%, 50% of employees are within 90-110%, and 32% of employees are at more than 110% of the market average. At the conclusion of FY 07, the UNC HCS's aggregate salary index was at 104.3% of the market average after all annual performance increases were awarded, thus allowing us to remain competitive in the healthcare market place. This does not reflect longevity pay, differentials, or sign-on bonuses, which are not calculated as part of the base wage for individual employees.

Sullivan Cotter and Associates, Inc. (Sullivan Cotter), a nationally recognized compensation survey organization, was retained by the HCS to conduct a focused compensation and pay practices survey for principal staff, clinical, and managerial/supervisory jobs among select healthcare organizations. Fifty-two organizations were invited to participate in the survey. Thirty-one participated, representing a response rate of 60%. Twenty-one of the 31 responding organizations (67%) reported being a Level I Trauma Center. The participating organizations provided data for 153 benchmark jobs. The selected benchmark jobs identified for survey covered approximately 70% of our employees in various job classes throughout the organization.

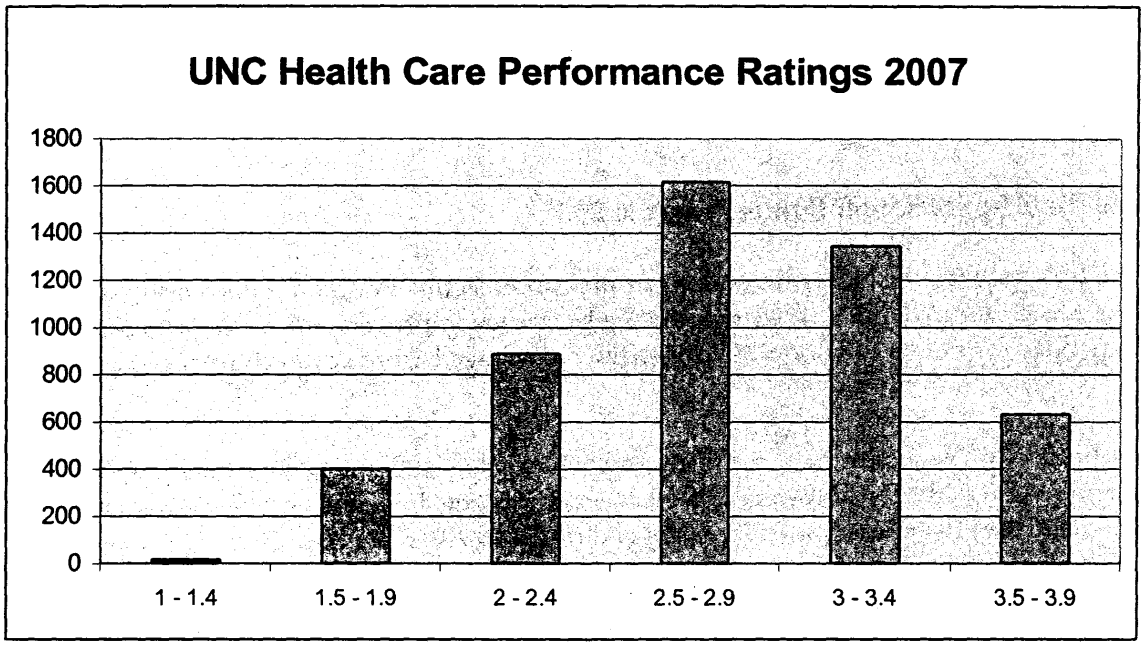
Several other salary databases are utilized in the design and maintenance of our compensation system. These databases include multiple purchased national surveys, regional surveys, statewide healthcare employer surveys, and in-house surveys. We analyze these surveys together or separately to gather the data relevant to developing a cohesive compensation scheme. Markets have been defined for each profession and job category. Salary markets may be local, regional, national, or any combination of these to assure reasonable and accurate comparability within data surveys. These salary market designations are reviewed and revised annually.

Reward and Recognition - Employee Bonuses

UNC HCS employees received a bonus in FY 07 as a reward for their dedicated contributions toward our many successes throughout the year and directly related to meeting our quality, patient satisfaction, employee satisfaction, and financial goals. The FY 07 bonus was budgeted and marked the third consecutive year for bonuses, and it represented the largest bonus in the series. The per capita bonus was the greater of $1,000 (pro-rated for employees working 20 hours or more per week) or 3% of each employee's annual salary.

Performance Management

The performance management system is linked to our compensation system (pay for performance) and requires that each employee's performance be rated within the calendar quarter of his/her employment anniversary. Managers rate employees on behavior standards and job-related functions with the overall totals for each of the two categories weighted at 50% of the total score. The resulting total performance score equates to "Not Met," "Achieves," or "Exceeds" with each having a designated range of scores on the performance continuum. This array of performance scoring provides the manager with the ability to reward actual performance at different rates for multiple employees at the "Achieves" level because of the distribution of the individual performance scores.



The distribution of FY 07 performance scores may be attributable to some major modifications in the performance management tool during the past fiscal year that directly effect and enhance manager/employee communication during the evaluation process. Overall, there appears to be a continuing trend toward a normal distribution of performance scoring.

The Position Compensation Management (PCM) unit manages the performance management system job functions and job element content. PCM reviews the set of job-related functions for each classification of work and ensures that the description of the work is relevant for the particular job. The result is a more meaningful criterion-based and easily managed evaluation process for both manager and employee. Managers and supervisors have the capability of choosing job-related functions that best describe the work for a particular employee from a PCM-approved list of relevant work functions and elements for the employee's job class. This capability to tailor the performance plan results in a more valid job content evaluation and works in tandem with PCM involvement to ensure a more timely update of the job classification content. Up-to-date job content is absolutely necessary for accurate market-based compensation survey comparisons.

Per Diem Nursing

This innovative program helps the UNC HCS retain qualified staff, thereby stabilizing our critical workforce by providing employment alternatives more attractive than those offered to travel/ contract nurses. The flexibility of the per diem option enables UNC Hospitals to staff inpatient care areas with the professional resources appropriate to fluctuating census and acuity levels. This model also offers advantages over other health care employers for nurses who do not require employment benefits. Per diem employees receive higher wages and greater scheduling flexibility but do not receive benefits or contributions to employee retirement funds. Also, they generally work fewer hours per week and are utilized to assure staffing consistency. As of June 30, 2007, the nursing division has 562 per diems which is a 585% increase since the inception of this staffing program in FY 03 when the division employed 96 per diems.

Nurse Retention/Appreciation Bonus Program 2007

FY 07 is the final year for the Nurse Retention/Appreciation Bonus Program. Funds designated for this program are reallocated in FY 08 to support the base wage improvements for nursing staff to bring the pay rates for nurses to within 2% of market on average before any performance pay is added.

A primary objective of the bonus plan has been to retain existing staff and reduce the number of traveler nurses required by UNC Hospitals. We have met this goal by reducing our traveler staff to a little less than half of what it was (i.e. to 65 at the end of FY 07). We feel this effort significantly benefits our patients through the continuity of care our staff nurses provide.

Nursing Professional Advancement Ladder

UNC Hospitals designed and implemented a Nursing Professional Advancement Ladder in FY 05, and at the close of FY 07 there are now 209 Clinical Nurse III and Clinical Nurse IV nurses on staff. This program is a four-tiered performance-based career advancement system that provides a professional framework for developing, evaluating, promoting, and rewarding RNs who are direct caregivers. The four levels are based on Patricia Benner's novice-to-expert model. [Benner, P. 1984 *From Novice to Expert: Excellence and Power in Clinical Nursing Practice.*] There are four levels of clinical practice: novice/advanced beginner, competent, proficient, and expert. The pathway from novice to expert is described in terms of how a nurse perceives, assimilates, interprets, and acts in response to clinical situations. By combining the novice and advanced beginner levels into a single-entry level of practice, the UNC Hospitals' Nursing Professional Advancement Ladder Committee defined a total of four distinct levels of practice: novice (Clinical Nurse I), competent (Clinical Nurse II), proficient (Clinical Nurse III), and expert (Clinical Nurse IV). All RNs are eligible for advancement to Levels III and IV when they meet the established criteria as described in this document. Advancement to Levels III and IV is voluntary. The purpose of the professional advancement system is to recognize that an individual has demonstrated the knowledge, skills, and abilities to advance to a new level once an opportunity is available. Advancement to the next level is granted when a nurse meets the qualifications for CNII, CNIII, or CNIV positions (as determined by the Nurse Manager for Level II or Professional Advancement Review Committees for Level III or IV). Eligibility for

advancement is determined by achieving the goals outlined in an individual's advancement performance plan. Nurses may not advance during active phases of performance discipline.

Nursing and Allied Health Educational Loan and Stipend Support Program

UNC Hospitals sponsors an educational loan and stipend support program that provides funds to students in nursing and allied health programs in exchange for a time-related work commitment. These funds are available for students pursuing four-year baccalaureate, community college, accelerated certificate, or bachelor degrees. Many educators cite this program as a strong incentive for students to pursue education and consider health care careers.

The program requires that students maintain a minimum 2.5 grade point average, agree by contract and promissory note to repay the loan through a commitment to work in clinical areas where UNC Hospitals has a staffing need, and agree to work a 36-40-hour week when employed. Students may choose the profession and field they would like to work in and may select the amount of funding support they desire. Work commitments range from 12 to 48 months to repay funding that ranges from $3,000 to $36,000. The higher support levels are designed to draw new graduates to nursing areas that are difficult to staff.

This program provides UNC Hospitals a recruitment advantage through the employment commitment of graduates who might otherwise consider offers from other employers. To date, 843 students have taken advantage of this funding program at a cost of $13.75M to the UNC HCS. These costs are offset by the benefits the program provides in eliminating the expense of costly traveler and contract staff and reducing general recruitment costs along with the need to recruit nationally and internationally. The need for traveler and contract staff has decreased from 166 in June 2003, 86 in June 2004, 72 in June 2005, and 44 in June 2006. It has been completely eliminated in radiology, pharmacy, and with nurse anesthetists, in part due to the use of education stipends.

Workforce Development for Employees in the UNC Health Care System

The UNC HCS provides significant tuition assistance for its employees. In FY 07, 350 employees took advantage of this assistance to pursue associate, bachelor, masters, and doctoral degrees at a total cost of $382,575. Further development of this benefit will encourage employee growth in strategically important skills and professions by steering employees toward programs that directly benefit the UNC HCS. A revised Academic Assistance/Educational Development Policy goes into effect in January 2008.

Employee Opinion Survey

Our Commitment to Caring is not only to our patients, but also to each other. Toward that end, it is important that we regularly measure our employee satisfaction as well as patient satisfaction. In May and June 2006, all UNC HCS employees had the opportunity to participate in an abbreviated progress survey as a follow up to a comprehensive 2005 Employee Opinion Survey. In evaluating our survey efforts in the prior two years, we determined that more comparative healthcare databases and broader consultative expertise from our vendor was required for our future efforts and progress. The UNC HCS selected Morehead Associates, a North Carolina firm with a national reputation for

leadership in healthcare employee opinion surveys, to conduct our surveys. Their data base is one of the most robust, not only in healthcare, but in academic medicine particularly. Morehead assisted us in conducting a confidential and comprehensive employee opinion survey from June 18-July 1, 2007. The survey process was available online and by paper and pencil. A Spanish version could also be accessed. The employee participation in this survey was at an all time high of 88%. Out of 383 departments, 206 (54%) had 100% employee participation. A pizza lunch was offered to all departments with participation of 90% or greater.

The FY 07 survey results were made available in July 2007 and will be used to create a new base line of organizational and work-unit employee satisfaction. These base lines will help us establish subsequent goals for annual improvement. Survey results will be made available electronically as will be suggestions for intervention and improvement. The employee Opinion Survey Team has been working with executive staff members to begin the process of data and comments analysis as well as action planning for improvements moving forward.

Learning and Organizational Development – Educational Focus on Diversity

FY 07 also included a focus on diversity with the UNC HCS. Learning and Organizational Development, the Diversity Education Team, and Employee Relations conducted several programs focused on understanding and appreciating differences. These programs included:

- A series of monthly "Dealing with Differences" workshops targeted mainly for nutrition and food services and environmental services staff.
    - Outcomes reported from the "Dealing with Differences" workshops included: more professionalism on the job, more positive employee attitudes, increased teamwork and communication, reduced tension between shifts among team members, and better a working relationship between management and staff.
- Workshops for nurses in radiology on cultural competence in caring for the Latino patients.
- Spanish for Healthcare Professionals.
- EEO Institute.
- Multicultural festival for all UNC HCS staff and patients to learn about and celebrate other cultural groups. Over 500 staff attended along with a large number of patients.

Learning Management System and Overall Learning Activity

The UNC HCS continues to provide an array of clinical and educational programs for staff to meet the needs for their professional needs through a mix of instructor-led and online course offerings. Our comprehensive Learning Management System allows for self registration, transcript tracking, and hosting for online learning. As the below chart documents, our trend of leveraging online learning technology to expand the scope and availability of learning opportunities continues to grow.

LMS Course Data	Prior to FY05	FY05	% Change FY05	FY06	% Change FY06	FY07	% Change FY07
Instructor Led Courses	557	836	33%	1,060	21%	1,735	64%
Online Courses	99	167	41%	2,335	93%	2,607	12%
Total Courses	656	1,003	35%	3,395	70%	4,342	28%
Instructor Led Course Registrations	12,389	53,904	77%	50,151	-7%	50,522	1%
Online Course Registrations	24,346	85,215	71%	121,172	30%	110,341	-9%
Total Registrations	36,735	139,119	74%	171,323	19%	160,863	-6%
Instructor Led Course Completions	11,129	51,266	78%	46,334	-11%	43,558	-6%
Online Course Completions	24,062	84,051	71%	116,630	28%	104,831	-10%
Total Completions	35,191	135,317	74%	162,964	17%	148,389	-9%

Note: While improved over FY 05, utilization has slowed in FY 07 as compared to FY 06). Possible reasons for this could be the open LMS Administrator position and/or the possibility that we have reached a certain level of saturation.

The UNC HCS leveraged advantages of e-Learning technology with our Learning Management System (LMS) by investing in pre-designed courseware and an online book library through a company called SkillSoft. A comprehensive catalog of over 1,000 business skill and computer courses is available online to all employees. The goal is to enhance employee satisfaction and productivity by putting tools and information in the hands of employees to meet their educational needs and interests for their jobs and/or careers. The hundreds of courses offered through the LMS can be accessed through one user-friendly site available from any computer in the workplace or from home 24-hours per day/7 days per week. All UNC HCS employees, including house staff, credentialed medical staff, and traveling/agency nurses, have access to the system. When organizations such as JCAHO, CMS, or the ACGME, want to know what percentage of our staff is in compliance with a required or recommended course, the LMS can easily provide data on the completion rate of mandatory courses for all of these users.

FLEXIBILITY IN PURCHASING

By nearly any measure, in FY 07 advances and improvements in supply chain services set records. Many of the advances either directly or indirectly result from purchasing flexibility. These benefits include important strides in cost savings, access to innovative programs, more effective capital equipment management, and implementing service and operational efficiency. Further, through our

partnerships with vendors, we have had important impact on revenue cycle management and our decision support infrastructure.

The most tangible measure of utilizing flexibility guidelines is savings realized. The Purchasing Department Annual Report accumulates acquisition savings. That information is submitted to the UNC Hospitals and UNC HCS CFOs quarterly. Purchasing Agents document savings achieved for each purchase. Validity is further assured through audits by the Purchasing Manager. These savings are reductions achieved above and beyond Group Purchasing Organization (GPO) prices or other applicable discounts.

Purchasing documented over $4.1M in cost savings in FY 08 grouped as follows:

- $3,428K in operational expense savings
- $501K in capital acquisition savings
- $137K savings for Chatham Hospital
- $38K savings in freight management

FISCAL YEAR	DOCUMENTED SAVINGS
FY 00	$ 1,078,942
FY 01	$ 1,999,671
FY 02	$ 1,598,958
FY 03	$ 1,411,289
FY 04	$ 2,880,312
FY 05	$ 3,443,312
FY 06	$ 3,838,145
FY 07	$ 4,105,103

Purchasing maintains statistics on departmental activities, volumes, and productivity. The following highlights the growth and our increased efficiency between FY 00 and FY 07.

Purchasing Stats	**FY 07**	**FY 00**
Total Spend	$331M	$179M
Total Number of P/Os	49,546	45,824
Total Number of P/O Lines	195,879	127,844
Average Number of Lines per P/O	3.9	2.8
Average Dollar per P/O	$6,680	$3,905
Average Dollar per P/O Line	$1,712	$1,394
Number of Purchasing Agents	8	9

The enormous strides in Purchasing came to fruition through multiple aspects of the Flexibility Legislation. Some of the most important include freedom to negotiate high cost items, cooperate with our physicians in contracting with vendors, manage accrued receipts, access innovative programs/partnerships, and proactively manage capital equipment acquisitions.

High Cost Items

Prior to the enactment of Flexibility, purchase orders over $10,000 were reviewed by the State of North Carolina's Department of Administration's Purchase and Contracts Division in Raleigh. This practice caused extensive processing delays and deferred resources costing UNC Hospitals time, money, and efficiency. In FY07, 80% of purchase expense related to these items. The Flexibility Report below demonstrates this trend.

Purchase Order Stats		
FY 00	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	46554	2858
Total Dollars*	$143,774,707	$87,507,181
Average Dollar Per PO	$3,088	$30,618
FY 01	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	45939	3079
Total Dollars*	$167,908,964	$111,976,967
Average Dollar Per PO	$3,655	$36,368
FY 02	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	48807	3592
Total Dollars*	$174,469,663	$114,703,994
Average Dollar Per PO	$3,575	$31,933
FY 03	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	50968	4558
Total Dollars*	$239,028,570	$174,444,765
Average Dollar Per PO	$4,690	$38,272
FY 04	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	49953	4444
Total Dollars*	$230,014,333	$165,902,468
Average Dollar Per PO	$4,605	$37,332
FY 05	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	48841	3673
Total Dollars*	$251,120,363	$191,778,602
Average Dollar Per PO	$5,142	$52,213
FY 06	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	47957	3872
Total Dollars*	$247,779,579	$188,369,248
Average Dollar Per PO	$5,167	$48,649
FY 07	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	49552	4143
Total Dollars*	$329,523,349	$263,266,258
Average Dollar Per PO	$6,650	$63,545
* Total Dollars includes all PO costs (i.e., Goods, Services, Tax, Freight, Handling Fees, etc.)		

Cooperation with Physicians

Materials Management, in partnership with the Department of Surgical Services and clinical departments from the School of Medicine, recently implemented a Program Account Model (PAM). The PAM is designed to enlist physicians' assistance to reduce the cost of Physician Preference Items (PPI). In this program, physicians support negotiations with vendors in an effort to reduce pricing. In return, a percentage of realized savings can be used by the clinical department for educational purposes. (This program is not to be confused with another program that some hospitals use known as gainsharing, where a percentage dollars saved is paid directly to the physicians.)

The first PAM implemented was in the area of spine products and resulted in savings of about $350,000. $105,000 is, in turn, being returned to the departments. PAM accounts are currently being designed employed for sports medicine, joint replacement and cardiology products.

Accrued Receipts Management

Products received without a corresponding invoice generate an expense accrual in our accounting system. The accrual reduces our income. Left unchecked, and if not eliminated when invoices are subsequently received, it can balloon. Purchasing continually reviews accruals to intervene in this cycle. At fiscal year end accruals greater than 90 days was reduced to below $500,000.

Access to Innovative Programs

The single most beneficial relationship we have entered is with MedAssets, our Group Purchasing Organization (GPO). In December 2006, the UNC HCS extended our agreement by 5 years. Since the inception of our relationship in June 2004, the expense savings associated with MedAssets contracts and supported by MedAssets resources approached $15M for UNC Hospitals, more than twice our initial target.

Through our contract extension, we now access many value-added products at highly favorable rates. These products include:

- Avega Decision Support System
- OSI Revenue Cycle Tools
- AP Crosswalk
- Aspen Healthcare Metrics and Consulting Services
- Increased customized resources for the health care system

The benefits from these products will contribute to improved decision making, increased revenues, greater compliance with governmental billing guidelines, further reductions in supply expense, and more accurate cost accounting.

Flexibility enables changes both great and small and contributes substantially to our successful operations. A granular example is a recently implemented surplus equipment and furniture disposal program. This year UNC Hospitals contracted with an auction house, Centurion Service Group. While Centurion's sales were only a modest $12,000 in FY 07, eliminating the excess efficiently has

expedited projects, reduced storage requirements/expense and enabled managers to focus on higher priorities.

Capital Equipment Management

Improving capital equipment management became a major focus for operational improvement this year. The Equipment Management Committee (EMC) implemented changes to organize and gather important information during the capital budgeting process. Key elements of the new practice include:

- Capital requests have a uniform format enabling the EMC and Purchasing to merge requests from all sources;
- Departments submit requests for the next two budget years. With two years of requests, we plan more effectively and further enhanced our ability to negotiate favorable prices and terms with vendors;
- Price estimates are gathered concurrently with submitting a request. Previously, managers relied on quotes from vendors. These quotes were often hastily submitted and may not have taken existing contracts or discounts into consideration. Now, Purchasing rigorously examines each quote, researches databases for market pricing, and searches for applicable discounts; and,
- IT considerations are identified early in the process. As a result, necessary resources are allocated for systems implementation, telecommunications, and biomedical support.

Service and Operational Efficiency

In the past year, Materials Management changed operational processes and built upon past successes to further improve service and operational efficiency. Specifically, we opened an off-campus warehouse, re-designed our central storeroom, changed how we work with our customers, further honed our accrual management process, introduced stockless management programs, and continued to take advantage of streamlining opportunities created by the flexibility legislation.

Central Distribution (CD) underwent major renovation in August 2006. The changes enabled a 45% reduction of CD's square footage. Executing four operational changes made the re-design successful:

- CD's space in the hospital was redesigned from top to bottom. The carefully planned new layout places stock in its many logical, convenient locations;
- CD developed a warehouse, The Distribution Annex (DA). Located 5 miles from UNC Hospitals, the DA maintains adequate inventory levels for high volume and surplus stock items. The DA makes multiple daily deliveries to CD,
- Stock forms were moved to Corporate Express, our business partner for office supplies. Corporate Express takes orders on-line and delivers next day; and,
- Custom packs for surgical procedures are assembled and delivered daily by Cardinal Health, another key UNC HCS vendor. Having Cardinal deliver enabled a transition to nearly stockless inventory in the hospital.

Despite an increase of locations served within the hospital, cycle time, stock outs and inventory levels have each been reduced. Further, all of these were accomplished with no interruption of service to our customers. The following key statistics demonstrate the activity levels between our on-site storeroom, the Central Distribution Department, and the off-site, Distribution Annex facility.

CD & DA FY 07 Volumes

	CD	DA
Items Stocked	1,956	187
Line Items Issued Annually	967,413	13,311
Inventory Lines Received Annually	43,563	11,697
Inventory Value	$670,246	$392,994

FLEXIBILITY IN PROPERTY MATTERS

Property Involving Leased Space for Clinical Programs

The UNC HCS Property Committee reviews new leases and also renews existing leases.

The following leases have been established since September 2006:

1. A temporary lease renewal was established for UNC Hospitals' Home Health Program which is located in Pittsboro (800 square feet). This program supports UNC Hospitals' Home Health Services in Chatham County. This temporary lease was established to coincide with a new lease for the Hospice program. Two separate leases are required for Medicare/Medicaid cost reports and these new leases are now in effect for three-year terms.

2. An existing lease was renewed to support UNC Health Care's Hospice Program in Chatham County. This space is located in Pittsboro and includes 3,957 square feet. A three-year lease was established to coincide with another lease for the UNC Home Health Program because two leases are required to comply with requirements for the Medicare/Medicaid cost reports.

3. A lease was established to accommodate UNC Hospitals' air and ground transport unit located at RDU Airport. This lease includes space for the vehicles, living quarters, and storage of materials related to this program.

4. The existing lease for space involving the UNC School of Medicine's (SOM's) Department of Ophthalmology was renewed. This space is located in Durham County and includes 1,765 square feet to support the department's clinical programs.

5. A lease was renewed to accommodate the SOM's Division of Pediatric Cardiology (Department of Pediatrics). This space is located in Wake County and provides 3,400 square feet to support the division's clinical programs.

6. The lease involving UNC Hospitals' Wound and Diabetes Clinic was renewed for six months to allow time for the pending relocation of this clinic to UNC Hospitals' main campus in Chapel Hill. This space is located in Durham County and includes 9,095 square feet. An Endocrinology Clinic will be placed in the space vacated by the Wound Clinic.

7. A lease involving a community-based clinic for the UNC HCS was renewed in Chatham County. This space includes 4,560 square feet and was extended for six months pending relocation to a new development named Williams Corner.

8. An existing lease involving the UNC SOM's Division of Nephrology was renewed. This space is located in Burlington and includes 1,610 square feet. The lease is renewed on an annual basis.

Property Involving Leased Space for Administrative Functions

There was no business conducted by the UNC HCS Property Committee regarding property matters involving space for administrative functions during the past year.

FLEXIBILITY IN CONSTRUCTION MATTERS

The Construction Bidding Oversight Committee uses approved criteria to determine when to utilize alternative forms of construction bidding (i.e., single-prime versus multi-prime, etc.). For the scale of our typical renovation project, single-prime contracting has proven very effective. This method still provides for public bidding of construction work as required. It also provides Project Managers with greater efficiency since they coordinate with only one entity instead of multiple entities. Therefore, the Construction Bidding Oversight Committee has approved the use of single-prime contracting for typical renovation projects. For non-typical projects, a formal presentation, review, and discussion of proposed alternative bidding methodologies is required.

During the past year, the following projects were initiated using single-prime bidding as approved by the Construction Bidding Oversight Committee:

- 3 West Flooring and Nurse Station – To add a nurse substation to improve efficiencies in caring for patients and to replace damaged flooring.
- PET/CT Scanner – To provide a second PET/CT Scanner.
- Cyberknife – To replace a linear accelerator with a new Cyberknife unit.
- Children's Café – To reconfigure the Children's Hospital Café to assume operation of retail food services.
- Chiller Plant 1 Renovations – To replace aging chiller equipment with high efficiency units.

- "Old Hospital" Window Replacement – To replace aged wood frame windows with energy efficient windows.
- 6 Neurosciences Hospital Porch Conversion – To convert open air porches to patient rooms as part of the 68 Bed Certificate of Need (CON).

Design contracts were approved for the following contracts in accordance with the designer selection procedures approved by the UNC HCS Board of Directors.

- Children's Café – To accommodate the Hospitals' assumption of retail food service operations.
- 6 Neurosciences Hospital Porch Conversion – To convert open air porches to patient rooms as part of the 68-bed CON.
- Cyberknife – To replace a linear accelerator with a new Cyberknife unit.
- MRI Addition – To provide an additional MRI unit in the Anderson Pavilion for a total of 6 MRIs.
- 1st Floor Women's Clinics – To reconfigure the Women's Hospital clinics to improve patient flow for outpatient services.
- 3 Women's Inpatient Unit – To convert the 3rd floor Women's Hospital from office space to inpatient bed space as part of the 68-bed CON. This project includes four additional beds in the PICU (Pediatric Intensive Care Unit) and related projects to accommodate offices displaced by the inpatient bed space.
- Patient Support Tower Inpatient Unit - Convert 6th floor PST (Patient Support Tower) from office to patient treatment space as part of the 68-bed CON. This work includes several related projects to replace office space that will also involve Med School Wings E and F.
- ED Holding Expansion – To expand the ED Holding function into space vacated by Urgent Care.
- Rapid Admission and Discharge Unit – To create a new unit to accommodate patients awaiting admission or discharge which will facilitate the efficient use of inpatient beds.
- Children's Day Hospital – To create an eight-bed unit to monitor pediatric patients rather than utilize inpatient beds for this purpose.
- Newborn Nursery Expansion – To increase Newborn Nursery capacity to meet increased demand for this program.

All Construction Bidding Oversight Committee discussions are documented and maintained for review.

FLEXIBILITY IN OTHER AREAS

The UNC HCS continues to benefit from the flexibility delegated to us by the State in ways that we might not have initially envisioned. This is an exciting time for the UNC HCS as we make improvements that would not be possible without our flexibility status. The following two areas

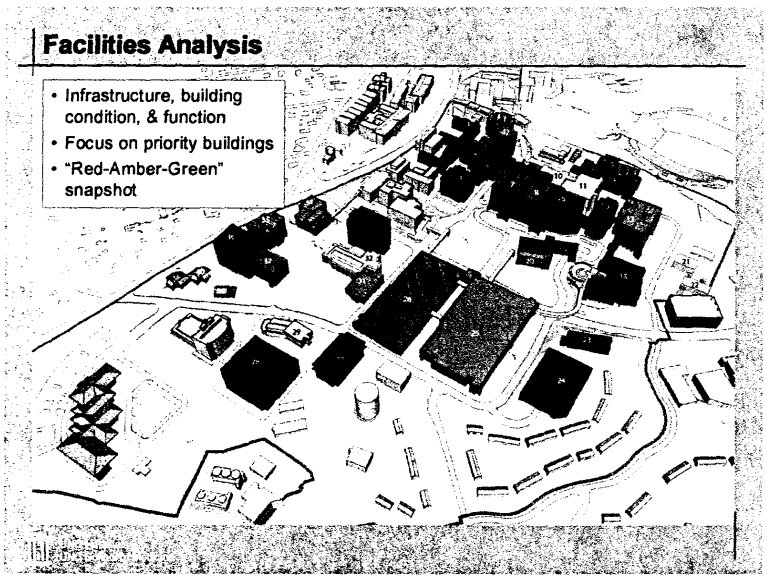
represent ways in which this status has allowed us to significantly improve our operations and better serve the people of North Carolina.

Special Projects

The UNC HCS continues to benefit from the generosity of the State. An excellent example of this support is the $3M appropriated for a Master Facility Plan that is focused on moving the UNC HCS from being very good to great. The master plan is being developed with two components. The first component includes facility evaluation and development. This facility plan also is coordinated with the second component which assesses the strategic needs for hospital expansion.

Master Facility Plan: The Master Facility Plan for UNC HCS and the SOM is being conducted by Tsoi/Kobus and Associates. Their efforts have focused primarily on the development of main campus facilities. The master plan now under development includes:

- An analysis of existing facilities because building replacement of older and outdated facilities is a significant driver of development over the master plan timeframe. The colored analysis shown below identifies those facilities that are candidates for replacement (red); those that need attention and have a limited life still available (yellow), and those that are in good condition (green) and are suitable for growth and capital investment. Some of these facilities are part of the SOM while some are UNC HCS facilities.



- The plan will result in the establishment of a phased plan for growth that aligns space needs developed from volume growth projections with building replacement, pedestrian and vehicular circulation, and infrastructure requirements. The development of this plan will be continuously evaluated based upon strategic priorities and capital availability.

Strategic Hospital Expansion Study: UNC Hospitals also engaged a consultant (Stroudwater Associates) to conduct a companion strategic hospital expansion study that provides a review of the

demographics of our patient population, patient origin, market share, and competitor analysis. The consultants are working on projections on volumes for the future that will enable UNC Hospitals to properly plan for facility needs as the population of the State and the demand for health care services grows. The information gathered through the strategic assessment forms the foundation for the growth projections for the master plan. This study also will enable UNC Hospitals to consider facility growth both on and off campus in order to meet the needs of patients from throughout the State and region.

The Strategic and Master Facility Plans provide a guide for the future of the UNC HCS and the SOM. As the plan evolves, we will be returning to the Board of Governors to request your support for critical programs such as:

- A new bed tower and patient care facilities to meet existing demand for inpatient services, outpatient care, and diagnostic and treatment services.
- A new medical education facility to help address the growing need for physicians in North Carolina.
- New research facilities that will expand UNC's tradition as an innovative leader in exploration and discovery.

This is an exciting time for the UNC HCS as we make improvements that would not be possible without the strong support of the Board of Governors and the Executive and Legislative Branches of State government.

Commitment to Caring

Caring for the people of North Carolina is our mission, it is the foundation of all that UNC HCS does. To advance to the next level of our mission the UNC HCS started a new "Commitment to Caring" initiative. It began with a series of kickoff sessions held May 1-3, 2007, featuring representatives of Baptist Leadership Institute.

In recent years, the UNC HCS has worked toward this moment through a number of internal programs and activities to provide patients and families the best experience possible, as well as to improve physician and staff satisfaction.

Perhaps most significantly, two years ago a vision for UNC Health Care was created: *To be the nation's leading public academic health care system.* The UNC HCS also identified its values:

We Care About

- *Our Patients and Their Families – Delivering quality health care and outstanding service it fundamental to everything we do.*
- *Our Team – Attracting and retaining the best team members is of paramount importance to our Health Care System. We will do this by becoming the health care employer of choice and by providing a practice environment that is professionally satisfying and financially rewarding*
- *Our Community – Dedicating ourselves to finding ways to improve the health of all North Carolinians is central to our leading, teaching, and caring.*

With the assistance of the Baptist Leadership Institute the UNC HCS will build on what has been accomplished at Baptist Health Care and other institutions and adapt it to the UNC HCS, in order to create a culture of extraordinary service and operational excellence. It places the patient at the center of everything the UNC HCS does.

Commitment to Caring is much more than just "another patient satisfaction improvement program." It provides a strategic framework for all UNC HCS initiatives and holds us accountable to achieve our measurable goals.

UNC Health Care System's Patient Access and Efficiency Initiative (PAcE)

In an effort to address long delays for patients accessing primary, specialty, and diagnostic/therapeutic outpatient services, the UNC Physicians & Associates (P&A) Board and Dean Roper's Executive Council have adopted a UNC HCS level charter to implement the Patient Access and Efficiency Initiative (PAcE) by December 2008. The PAcE Initiative has three objectives as outlined in the charter:

- Provide timely access to care for all patients visiting within the UNC HCS ambulatory clinics by reducing waiting times for appointments.
- Improve efficiency of clinics by reducing wait times and delays during patient visits.
- Implement registration, scheduling, and physician billing software applications that will enhance the clinics' ability to meet the objectives above by adopting best practice strategies, standardization, maximizing data integration, and improving physician billing metrics.

The appointment redesign component of the PAcE Initiative began in August 2006 with a group of 11 "first wave" clinic teams. The second wave (23 clinic teams) began work in the spring of 2007, and the final wave will begin in the fall of 2007. Using evidence-based change concepts that are known to work in health care to reduce waits and delays, the teams test and implement changes at the local level. Accountability for results has been designed at all levels of the initiative. Monthly reports are provided to the PAcE faculty and their sponsors to track improvement and identify barriers or setbacks. Monthly reports are provided to the teams giving detailed information by provider on supply and demand as well as information about patient satisfaction and appointment utilization. A PAcE monthly executive leader report is reviewed by the P&A Board and Executive Council with a focus on addressing system level barriers that will ensure success.

Simultaneously, a modern and efficient suite of GE Centricity Business applications is being designed and implemented to provide technology that will support the principles of access and efficiency, assisting in the goal of getting the right patient to the right provider at the right time. Through intelligent workflow processes, data will be captured, ensuring complete and accurate information to integrate with claim production for hospital and professional charges promoting timely adjudication and payment. Data captured throughout the registration, scheduling, and billing processes also will be used to create metrics for trending, benchmarking, and promoting continuous quality improvement efforts.

UNC Physicians and Associates

UNC P&A occupies a unique position in the UNC HCS. The SOM has 17 clinical departments, all of which are involved in teaching, research, and providing clinical care in both the inpatient and outpatient settings. These clinical activities are integrated through P&A and are a component of the UNC HCS. P&A is directed by Dr. Marschall Runge, President of UNC Physicians, and Mr. Keith Gran, Chief Operating Officer.

The importance of the clinical faculty and their medical practice cannot be overstated. The performance of any hospital is entirely dependent on the physicians who practice there. The only physicians who practice medicine at UNC Hospitals or in the UNC Ambulatory Clinics are faculty in the SOM, and the vast majority of their clinical practice occurs in these settings, although there are a small percentage of practices in Raleigh and other parts of North Carolina.

Major advantages of the position of P&A in the UNC HCS, which are not possible in a private practice model, include the potential to improve clinical care across all areas of practice and the potential to align the interests of our physicians with those of the UNC HCS.

To realize these goals, P&A relies on its two major roles in the UNC HCS. First, it represents a "group practice" of medicine. The decision-making process involves the analysis of new initiatives by the P&A Budget and Finance Committee, chaired by Dr. Alan Stiles. Recommendations from the Budget and Finance Committee are then discussed and further analyzed by P&A Board. Chaired by Dr. William Roper in his role as Dean and CEO of the UNC HCS, the P&A Board members include the chairs of all 19 clinical departments and 6 members elected by the faculty of the SOM. Final decisions are made by the P&A Board on a wide range of topics involving the practice of medicine, organizational and financial issues, managed care contracting, and the operation of P&A itself. It is not uncommon for the P&A Board to have to make decisions that may benefit one group of physicians (or component of the UNC HCS) while negatively impacting another.

In its second role, P&A is a service organization. As such, its role is to provide efficient and cost effective billing and collections for the clinical departments, leadership in the revenue cycle (related to billing and collections), managed care contracting expertise, and necessary insurance coverage (malpractice, supplemental health, life, disability, etc.) at the most competitive rates. In all of these functions, P&A works in collaboration with UNC Hospitals.

Since Dr. Runge and Mr. Gran assumed authority of P&A in March 2004, their goal has been to further improve the performance of the organization. As documented below, there have been substantial improvements in all areas. This has been done while improving the overall morale of the organization, substantially reducing turnover, and significantly reducing the costs associated with the principle functions of P&A.

FY 07 was another very productive year for P&A in all missions. In addition to the continued growth in clinical programs and improvement in business procedures, FY 07 has seen increased research in the clinical departments and continued excellence in medical (resident and fellow) educational programs. (Research and teaching accomplishments are described elsewhere in detail.)

With the leadership of Dr. Brian Goldstein, Chief of Staff and Executive Associate Dean for Clinical Affairs, we are continuing efforts to further improve the quality of our care delivery and patient

safety. P&A contributed $750,000 in additional funding in FY 07 to augment this endeavor. The UNC HCS Quality Council, the body that oversees performance improvement and patient safety activities, includes the chairpersons of every clinical department. P&A physicians continue to lead several improvement efforts begun in the past 1-2 years. Examples of such efforts include: 1) the creation of a Pediatric Medical Emergency Team to bring critical care expertise to patient outside the ICU; 2) a campaign to further improve hand hygiene (we have already documented that UNC's compliance is among the best in the nation); and 3) reducing the "door to balloon" time for patients who come to UNC in the midst of an acute heart attack. With heart attack victims, the sooner the blocked artery can be reopened (by balloon angioplasty +/- placement of a stent), the better the outcome. Our "door to balloon" times are now among the best in the nation. Additionally, we are actively participating in the Medicare Patient Quality Reporting Initiative.

As one part of these efforts, we continue our work on monitoring patient complaints and acting proactively with physicians and staff. We are observing positive results from our Patient Complaint Monitoring Committee, which is a joint effort between P&A and UNC Hospitals with guidance and consultation from Dr. Gerald Hickson and his colleagues at Vanderbilt University. Physicians who have an increased complaint index are identified and counseled, and we have seen substantial positive responses to this program. We believe that part of our favorable recent record in malpractice claims is due also to this program.

P&A, in collaboration with UNC Hospitals, initiated a project titled "PAcE" to improve patient access to outpatient services at UNC. At the start of the project, the average wait time for an appointment in many clinics was in excess of three months. The goal of the project is to reduce the time to an appointment to fourteen or less days or, in the case of an urgent visit, within 24 hours. Analysis of historical data indicated that many appointment slots were "wasted" due to patient no shows, thus providing an opportunity for efficiency gains. The improvement approach for the PAcE project is one of significant collaboration, with physicians and clinic staff generating improvements and sharing proven concepts with one another. We are beginning to see positive results from the PAcE project, with the average time to appointment down to 30%.

In conjunction with the PAcE project, P&A and UNC Hospitals are implementing a new scheduling and registration system that will dramatically modernize the available system logic and user interfaces. The new system is a key element in support of the PAcE process changes. Furthermore, P&A is implementing a new physician billing system that will be integrated with the registration system. The new billing system will substantially increase the efficiency and accuracy of our billing and collections process.

P&A is fully engaged in the UNC HCS Commitment to Caring initiative. There is broad-based participation of our physician faculty, management and staff. At this early stage, we already are beginning to see a shift in the culture as evidenced by increased levels of congeniality and assistance.

P&A and UNC Hospitals have focused extensively on collection policies in FY 07, with a particular concentration on ensuring access to care for the citizens of North Carolina and making certain our billing practices are reflective of our compassion for our patients. For example, P&A no longer utilizes the Attorney General's office as a routine tool for the collection of delinquent accounts. P&A also reduced the required monthly payment for the interest free payment plans offered to patients. There has been a measurable decrease in patient complaints as a result of these changes. Furthermore, there has been a material reduction in our collections as well, making it even more

important to optimize collections from insurance carriers and to pursue the development of alternative revenue streams.

Financially, P&A and clinical department performance continues to be positive.

1. Physician productivity increased by 9%.
2. The net gain for the P&A for FY 07 was $3.2M. This is at a time when many academic practice plans have seen major losses.
3. We continue to do our utmost to control expenses while striving to achieve faculty compensation levels that promote retention and recruitment of outstanding physicians and physician scientists.
4. We have successfully renegotiated several managed care contracts, resulting in increased reimbursement levels from these carriers. As the cost of providing care increases, these enhancements in contract rates are essential.

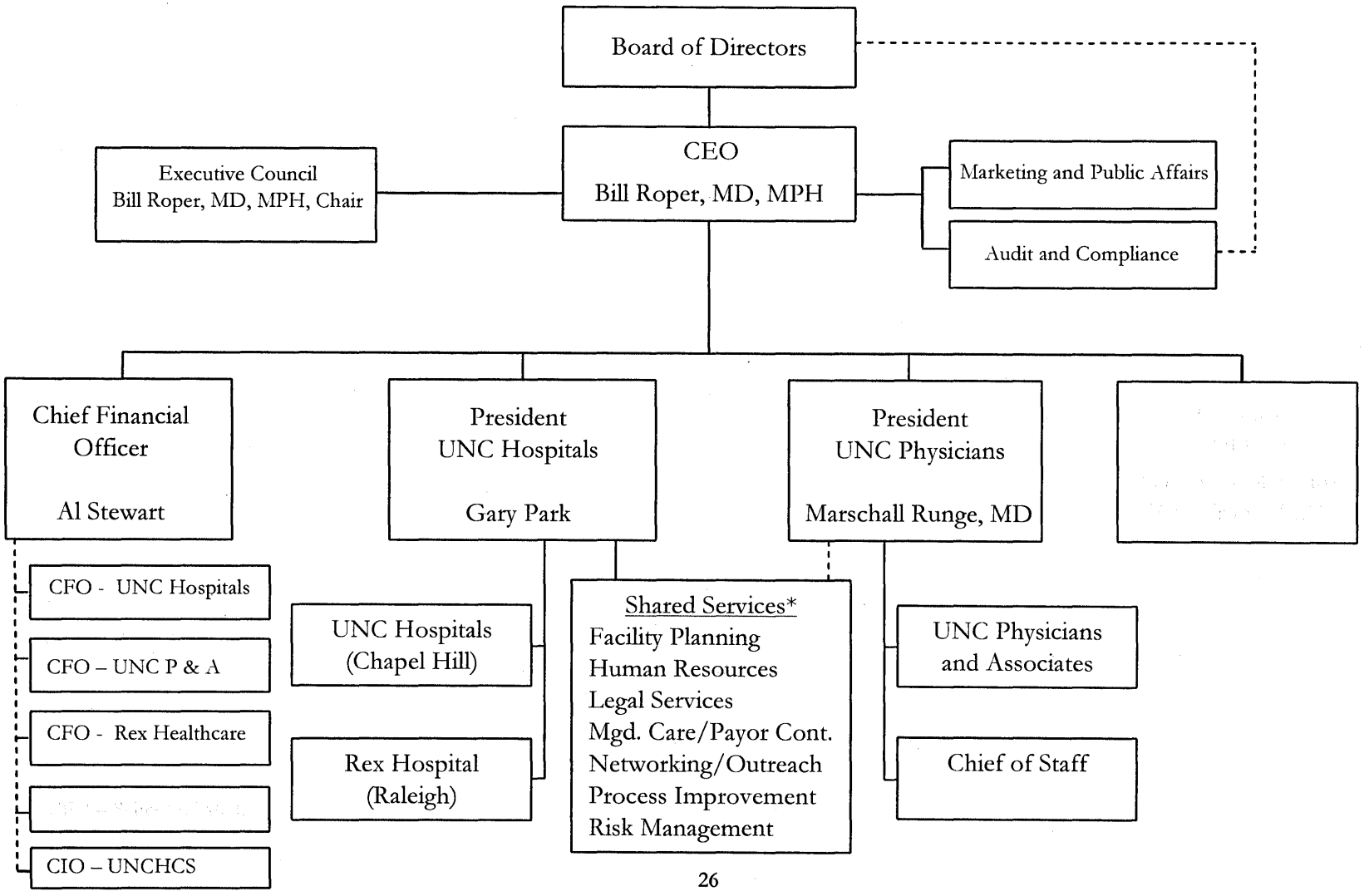
The performance of P&A continues to benefit from the ever increasing integration and cooperation across the UNC HCS. Our department chairs and clinical leaders are our greatest resource, the importance of which cannot be overemphasized. Three years into our leadership of P&A, we have continued to make important but less widespread changes and to put forth great effort communicating these changes. Mr. Gran continues to host town hall meetings at which we have added presentations by premier UNC researchers and care providers to boost employee knowledge of and pride in our organization. Dr. Runge continues to work closely with the clinical chairs and hospital directors to address new challenges and problems. He has continued his weekly newsletter and worked with others in seeking to provide communication on upcoming changes across the UNC HCS.

Ambulatory operations continue to improve under the leadership of Dr. Allen Daugird (Medical Director and Vice President of Ambulatory Care). Patient satisfaction in our clinics is at an all-time high, particularly in the area of access to clinics. We also are developing new clinical initiatives throughout the community. Dr. Runge and Mr. Brian Toomey (Director of Piedmont Health Services) continue collaborations between the UNC HCS and Piedmont Health Services that we believe will very much enhance our ability to care for under-served people throughout North Carolina.

We anticipate that the enhancement of the delivery of clinical care, and the quality and safety of such care, will continue in FY 08.

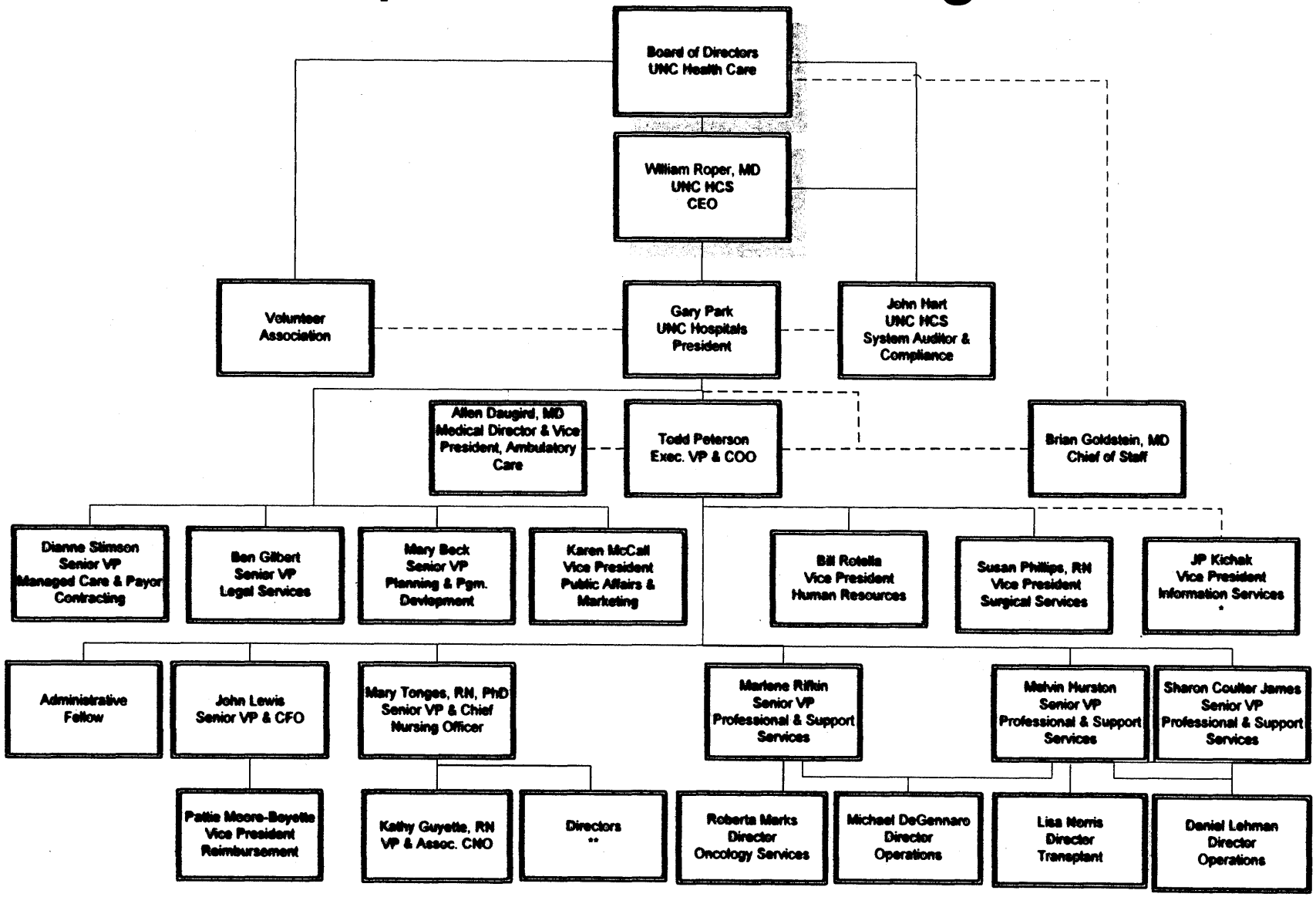
UNC HEALTH CARE

Organizational Chart
August 2007



** The shared services components work collaboratively across the UNCHCS, and Mr. Park and Dr. Runge will work in partnership in these areas.*

UNC Hospitals Table of Organization



* Mr. Kichak's primary reporting is to UNC HCS CFO.

** Ms. Madigan – Heart Center & Oncology Services; Ms. McCawley – Surgery Services; Ms. Merryman – Medicine Services; Ms. Spahl – Psych & Rehab Services; Mr. Strickler – Emergency Services; Ms. Viall - Women's & Children's Services

June, 2007

Appendix 2

University of North Carolina Hospitals

Analysis of Uncompensated Care(Charges) by County for the period July 1, 2006 through June 30, 2007

	1	2	3	4 = 2+3	4 / 1	4 / Total of 4
County Name	Charges	Charity	Bad Debt	Total Uncomp Care	Pct of Charges	Pct of Uncomp Care
ALAMANCE	129,905,388	12,399,888	6,681,657	19,081,545	14.69%	15.59%
ALEXANDER	1,229,442	7,660	20,411	28,071	2.28%	0.02%
ALLEGHANY	186,484	120	747	867	0.46%	0.00%
ANSON	2,900,433	97,466	28,365	125,831	4.34%	0.10%
ASHE	797,644	18,927	262	19,189	2.41%	0.02%
AVERY	768,732	897	9,601	10,498	1.37%	0.01%
BEAUFORT	4,660,870	61,898	24,901	86,798	1.86%	0.07%
BERTIE	2,037,935	8,217	19,256	27,473	1.35%	0.02%
BLADEN	7,290,849	217,954	445,720	663,674	9.10%	0.54%
BRUNSWICK	12,664,313	705,218	151,762	856,980	6.77%	0.70%
BUNCOMBE	4,879,209	63,145	24,865	88,009	1.80%	0.07%
BURKE	1,868,465	20,473	4,247	24,720	1.32%	0.02%
CABARRUS	2,107,178	65,978	23,025	89,003	4.22%	0.07%
CALDWELL	1,158,898	10,837	3,773	14,610	1.26%	0.01%
CAMDEN	116,327	8,489	-	8,489	7.30%	0.01%
CARTERET	7,455,112	262,466	96,264	358,730	4.81%	0.29%
CASWELL	9,817,324	508,322	610,093	1,118,415	11.39%	0.91%
CATAWBA	2,463,269	60,482	61,910	122,392	4.97%	0.10%
CHATHAM	94,166,798	4,736,851	3,441,608	8,178,459	8.69%	6.68%
CHEROKEE	274,933	48,136	855	48,990	17.82%	0.04%
CHOWAN	1,050,084	8,593	4,456	13,049	1.24%	0.01%
CLAY	132,861	-	-	-	0.00%	0.00%
CLEVELAND	2,198,709	34,314	45,644	79,958	3.64%	0.07%
COLUMBUS	9,435,253	203,965	217,852	421,817	4.47%	0.34%
CRAVEN	9,545,606	195,231	103,669	298,901	3.13%	0.24%
CUMBERLAND	75,246,480	2,381,329	1,710,154	4,091,482	5.44%	3.34%
CURRITUCK	333,445	854	575	1,429	0.43%	0.00%
DARE	2,908,248	92,074	19,816	111,890	3.85%	0.09%
DAVIDSON	3,027,990	90,525	112,742	203,267	6.71%	0.17%
DAVIE	761,203	29,649	7,438	37,087	4.87%	0.03%
DUPLIN	6,794,551	299,020	153,690	452,710	6.66%	0.37%
DURHAM	85,236,624	6,147,927	3,999,407	10,147,334	11.90%	8.29%
EDGECOMBE	5,959,858	324,302	142,472	466,774	7.83%	0.38%
FORSYTH	5,346,407	87,063	111,973	199,036	3.72%	0.16%
FRANKLIN	9,915,089	215,210	481,677	696,887	7.03%	0.57%
GASTON	9,148,154	95,418	134,675	230,093	2.52%	0.19%
GATES	360,957	-	-	-	0.00%	0.00%
GRAHAM	300,973	18,520	-	18,520	6.15%	0.02%
GRANVILLE	9,167,442	269,429	315,943	585,373	6.39%	0.48%
GREENE	1,459,364	14,852	43,703	58,556	4.01%	0.05%
GUILFORD	29,493,482	1,129,767	504,512	1,634,279	5.54%	1.34%
HALIFAX	13,591,000	257,155	308,953	566,107	4.17%	0.46%
HARNETT	32,494,973	2,553,459	1,885,477	4,438,936	13.66%	3.63%
HAYWOOD	1,331,725	12,630	6,702	19,332	1.45%	0.02%
HENDERSON	954,175	25,186	49,581	74,767	7.84%	0.06%
HERTFORD	1,689,200	24,627	34,650	59,277	3.51%	0.05%
HOKE	9,229,436	244,320	468,628	712,948	7.72%	0.58%
HYDE	138,538	-	59	59	0.04%	0.00%
IREDELL	2,096,418	46,378	5,081	51,459	2.45%	0.04%
JACKSON	744,685	20,010	19,537	39,547	5.31%	0.03%
JOHNSTON	37,247,205	2,370,602	1,356,683	3,727,284	10.01%	3.05%
JONES	1,063,199	5,996	36,500	42,496	4.00%	0.03%
LEE	58,046,291	3,181,686	2,391,899	5,573,585	9.60%	4.55%
LENOIR	5,909,974	123,062	128,433	251,496	4.26%	0.21%
LINCOLN	1,007,734	4,616	11,027	15,643	1.55%	0.01%

Appendix 2

University of North Carolina Hospitals

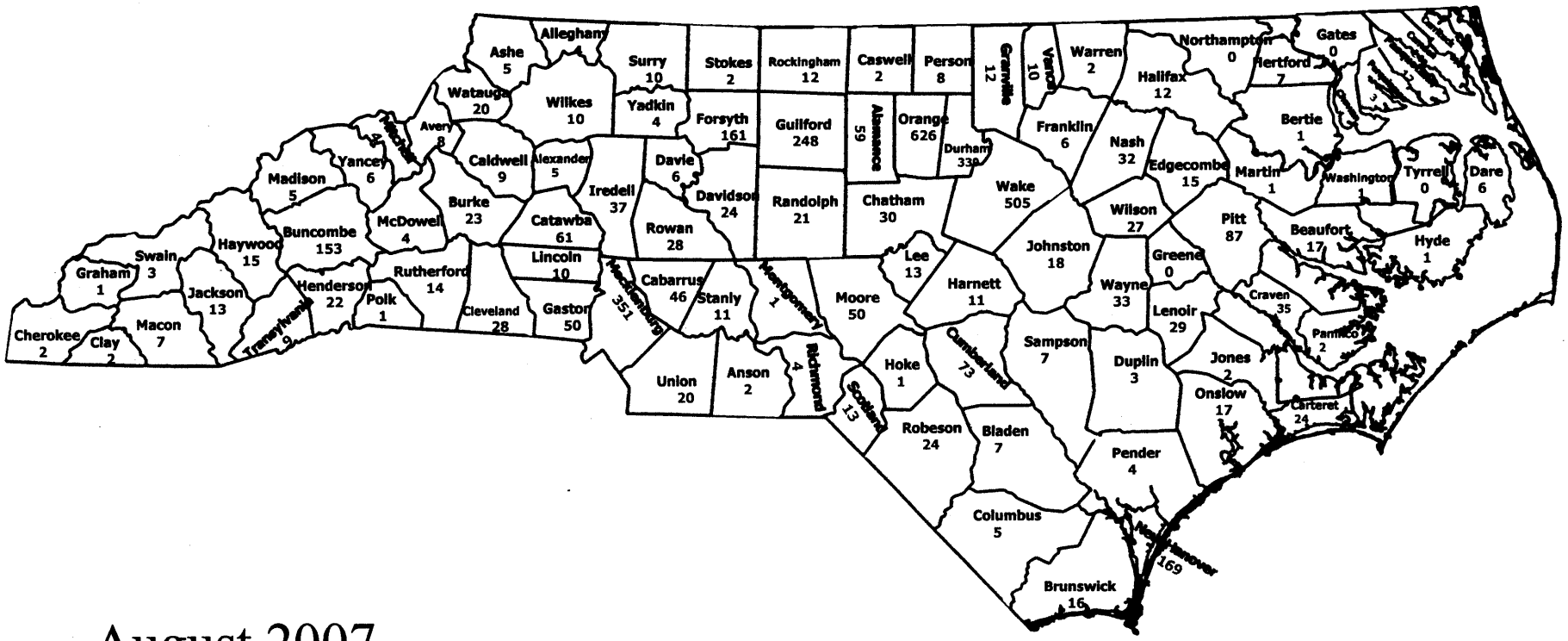
Analysis of Uncompensated Care(Charges) by County for the period July 1, 2006 through June 30, 2007

	1	2	3	4 = 2+3	4 / 1	4 / Total of 4
County Name	**Charges**	**Charity**	**Bad Debt**	**Total Uncomp Care**	**Pct of Charges**	**Pct of Uncomp Care**
MCDOWELL	509,770	8,090	24,865	32,954	6.46%	0.03%
MACON	849,149	16,787	653	17,440	2.05%	0.01%
MADISON	107,178	1,094	223	1,318	1.23%	0.00%
MARTIN	1,836,097	11,968	4,899	16,867	0.92%	0.01%
MECKLENBURG	11,725,327	285,886	314,300	600,186	5.12%	0.49%
MITCHELL	326,008	1,265	4,663	5,928	1.82%	0.00%
MONTGOMERY	6,543,505	289,868	390,620	680,488	10.40%	0.56%
MOORE	29,739,534	1,356,564	862,995	2,219,559	7.46%	1.81%
NASH	16,690,649	448,591	330,499	779,090	4.67%	0.64%
NEW HANOVER	21,115,756	339,725	284,643	624,367	2.96%	0.51%
NORTHAMPTON	5,078,558	50,982	85,348	136,330	2.68%	0.11%
ONSLOW	17,689,420	241,770	404,119	645,889	3.65%	0.53%
ORANGE	259,580,157	12,712,719	9,808,838	22,521,556	8.68%	18.40%
PAMLICO	1,870,677	26,495	31,734	58,230	3.11%	0.05%
PASQUOTANK	601,432	719	2,425	3,144	0.52%	0.00%
PENDER	6,353,291	237,145	138,249	375,394	5.91%	0.31%
PERQUIMANS	467,783	3,516	1,067	4,583	0.98%	0.00%
PERSON	11,700,049	994,558	530,108	1,524,666	13.03%	1.25%
PITT	10,038,460	104,165	577,116	681,281	6.79%	0.56%
POLK	65,127	1,058	183	1,241	1.91%	0.00%
RANDOLPH	19,511,699	2,482,929	711,378	3,194,307	16.37%	2.61%
RICHMOND	14,495,902	771,163	480,060	1,251,224	8.63%	1.02%
ROBESON	33,684,304	799,315	971,681	1,770,996	5.26%	1.45%
ROCKINGHAM	5,210,008	121,693	59,630	181,323	3.48%	0.15%
ROWAN	4,096,998	14,370	2,459	16,829	0.41%	0.01%
RUTHERFORD	1,268,307	11,557	22,550	34,106	2.69%	0.03%
SAMPSON	23,149,648	1,188,040	1,137,244	2,325,284	10.04%	1.90%
SCOTLAND	12,794,597	328,892	466,397	795,289	6.22%	0.65%
STANLY	1,314,434	4,172	6,108	10,280	0.78%	0.01%
STOKES	645,695	10,343	20,311	30,654	4.75%	0.03%
SURRY	1,256,862	21,303	38,677	59,980	4.77%	0.05%
SWAIN	568,394	2,688	400	3,088	0.54%	0.00%
TRANSYLVANIA	432,341	783	-	783	0.18%	0.00%
TYRRELL	698,075	3,551	2,292	5,843	0.84%	0.00%
UNION	2,134,216	24,782	18,745	43,528	2.04%	0.04%
VANCE	11,041,184	545,216	363,068	908,284	8.23%	0.74%
WAKE	171,849,331	5,946,964	4,359,076	10,306,040	6.00%	8.42%
WARREN	5,140,989	129,096	120,851	249,947	4.86%	0.20%
WASHINGTON	680,119	16,401	5,462	21,863	3.21%	0.02%
WATAUGA	1,571,877	51,396	15,641	67,037	4.26%	0.05%
WAYNE	17,043,627	516,136	147,302	663,438	3.89%	0.54%
WILKES	1,090,676	50,282	11,008	61,290	5.62%	0.05%
WILSON	9,740,051	184,451	150,545	334,996	3.44%	0.27%
YADKIN	1,611,048	396	489	885	0.05%	0.00%
YANCEY	358,516	2,060	5,001	7,061	1.97%	0.01%
Out of State	43,740,681	751,429	2,094,824	2,846,253	6.51%	2.35%
	1,508,134,446	70,923,567	51,471,672	122,395,239	8.12%	100.00%
FY06 Totals	1,318,557,003	52,961,060	43,189,342	96,150,402	7.29%	
Net Change	189,577,443	17,962,507	8,282,330	26,244,837		
Percent Change	14.38%	33.92%	19.18%	27.30%		

UNC-CH School of Medicine Alumni and Former Residents, UNC Hospitals

(duplicates eliminated)

Total of unique individuals: 3860



August 2007