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A N N U A L R E P O R T

Uncompromising Excellence.

Commitment to Care.



Carolinas HealthCare System



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Uncompromising Excellence. Commitment to Care.

One of the highlights of 2007 was the introduction of a new branding campaign, accented by a newly articulated corporate promise: *Uncompromising Excellence. Commitment to Care.*

The purpose of our campaign, of course, is to ensure that public perceptions about Carolinas HealthCare System (CHS) are completely accurate and up-to-date. Our “brand image,” simply stated, is a summation of all the things people think, feel or experience when they hear our name or see our logo. It's how we define ourselves in the hearts and minds of the people we serve.

It is vitally important that people respond to the tree of life logo with a sense of trust, confidence and appreciation of the varied missions that we fulfill.

When all is said and done, the key to success in any communications effort is having a good story to tell. For this reason, there is no doubt in my mind that our newly refreshed marketing and communications effort is going to resonate with the public.

Simply stated, great things are happening at CHS. The format of an annual report allows only a small sampling of these stories to be told. As you read the following summaries, however, I think you will be impressed by several things.

These include the rate of growth in our system; the thoughtful and considered approach to managing that growth; the commitment to quality at every level of our organization, and the desire to ensure that every aspect of our public service mission is carried out with competence and integrity.

In short, as you read about the facilities, services and people that gained prominence during 2007, I think you will agree that CHS is indeed “uncompromising” in both its high standards of excellence and extraordinary commitment to care.

Sincerely,

A handwritten signature in black ink that reads "Michael C. Tarwater". The signature is fluid and cursive, with a long horizontal stroke at the end.

Chief Executive Officer

LEVINE CHILDREN'S HOSPITAL

When it comes to “commitments,” it's hard to make one that tops \$85 million, the amount that CHS and the community invested in Levine Children's Hospital (LCH). The new hospital received its first patients in December of 2007, culminating a project of truly regional scope which had been in construction for three years - and in the talking stages for several years before that.

Motivations for the extraordinary new facility, which includes 234 licensed pediatric beds, were two-fold. On the one hand, CHS needed to prepare for explosive population growth that is expected to see the under-18 segment increase by more than 100,000 in the next 10 years. In addition, the project marshaled the physical facilities and staff expertise needed to support a variety of vital medical specialties not previously available in Charlotte.

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LEVINE CHILDREN'S HOSPITAL

LCH includes the region's only dedicated children's emergency department operating 24 hours per day, seven days per week. Other regional distinctions include the pediatric interventional cardiology and cardiac surgery program; the pediatric transplant program; a pediatric dialysis unit; and heart-lung bypass capabilities for newborns and pediatric patients. LCH also contains a pediatric rehabilitation unit and the Ricky Hendrick Centers for Intensive Care, comprised of a pediatric intensive care unit and cardiovascular intensive care unit.

The 248,000-square-foot hospital, which is the largest facility of its type between Washington, D.C., and Atlanta, has enabled residents of Charlotte and dozens of surrounding counties to receive highly specialized treatment closer to home.

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CMC-NORTHEAST MERGER

At mid-year, Carolinas HealthCare System and NorthEast Medical Center merged and the hospital became known as Carolinas Medical Center-NorthEast, taking advantage of the value traditionally attached to both institutions. It was the culmination of much work and heralded as perhaps the biggest healthcare story of the year in our region.

CHS will make investments of more than \$600 million for development of healthcare services in the communities served by CMC-NorthEast. The medical center maintains its commitment to treat all patients, regardless of ability to pay, and to medical education and training.

CMC-NorthEast will continue its mission as a tertiary level medical center serving those in the northern and northeastern areas of the CHS service area, complementing the quaternary role of Carolinas Medical Center. By joining together, CHS and NorthEast are well-positioned to sustain the growing demand for facilities levels of technology and professional staffing necessary to meet the continuing demand for excellent healthcare.

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COMMUNITY EDUCATION & WELLNESS

In 2007, CHS' public service commitment continued, with additional emphasis on community education and a major new focus on preventive health. Physicians and staff members routinely accepted public speaking engagements and lead workshops that provided timely information on a wide variety of common health conditions. CHS remained proactive in establishing support groups for families confronting serious illnesses, and providing practical instruction on topics like childbirth, effective parenting, tobacco cessation and diabetes management.

Charlotte Area Health Education Center (AHEC), a division of CHS, provided continuing education to healthcare professionals in dozens of medical, healthcare quality and managerial topics. Charlotte AHEC serves the region and additionally provides programming for health careers, student precepting, and housing for medical and pharmacy students.

Additionally, *LiveWELL Carolinas!*, a promotional umbrella that encompasses a wide variety of programs, both internal and external, encourages good health habits and rewards healthy choices. In a partnership considered both unique and trend-setting on a national basis, CHS and the YMCA of Greater Charlotte joined forces to enhance the availability of workplace-based wellness initiatives.

Finally, CHS sponsored the BODY WORLDS exhibit, an educational event of international significance, and the first-ever anatomical exhibition of preserved human bodies. By providing the resources necessary to bring this extraordinary exhibit to North Carolina - its first showing in the Southeast - CHS reinforced its leadership role in community education. The exhibit has appeared in more than 40 cities globally, attracting more than 25 million total visitors to date. CHS took advantage of its sponsorship to offer more than a dozen workshops on topics of current interest.



LiveWELL
Carolinas!



CORPORATE HEALTH

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CMC-PINEVILLE EXPANSION

The Charlotte region has seen some of the most dramatic growth in the U.S., challenging CHS to plan for future healthcare needs of the communities we serve. As such, CHS works continuously on developing strategies to ensure that our facilities will be ready to provide excellent care to an increasing population.

The area surrounding Pineville is a prime example, with a population of 835,000 in 2006 estimated to reach 971,000 by 2011. In 2007, CHS began transforming CMC-Pineville into a tertiary care medical center. At a cost of \$174 million, it is the largest individual construction project ever proposed by CHS with 285,000 square feet of new space, and renovation of nearly 50,000 square feet.

When complete, CMC-Pineville will provide open heart surgery and interventional cardiology; a 30-bed Intensive Care Unit; a Level III Trauma Center, and serve as a satellite facility of the Blumenthal Cancer Center.



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CAROLINAS REHABILITATION- MOUNT HOLLY

CHS' commitment to caring for all types of patients, in all types of settings, was demonstrated once again in 2007, when Carolinas Rehabilitation-Mount Holly (CR-Mount Holly) opened in Gaston County. With 40 licensed beds and ample space for outpatient services, the \$20 million, 48,000-square-foot hospital project positions CHS as one of the largest and most comprehensive rehabilitation programs in the United States.

The hospital's creation was a logical response to regional growth patterns being felt increasingly in Cleveland, Gaston, Lincoln and other neighboring counties located to the north and west of Charlotte. The location of CR-Mount Holly is a plus for patients who had been compelled to visit downtown Charlotte for services related to stroke, brain and spinal injury, cancer, or other debilitating conditions.

CR-Mount Holly is a significant economic development engine in a community emerging from the shadows of shuttered textile mills. It employs 100 people, and produces an economic impact estimated at \$15 million. CR-Mount Holly is just the latest addition to CHS' line of rehabilitation services, making it the largest provider in the entire Southeast.



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HEALTHPLEXES

The phenomenal growth of the Charlotte region brings a unique challenge to keep affordable and appropriate healthcare close to those areas experiencing the fastest population expansion. In 2007, CHS was approved by the state for two HealthPlex projects - free-standing emergency departments - for Harrisburg in the northeast and Steele Creek in the southwest.

The concept of a freestanding emergency department is relatively new but gaining momentum around the country. It is considered a cost-effective way to provide community health services in an underserved area. Each will feature a 10-bed emergency department with three additional observation beds; imaging services such as CT scanning, portable X-ray and fluoroscopy; ultrasound and other basic radiography services; two exterior pads for mobile technology, including MRI and PET; and satellite lab services for chemistry, hematology and diagnostic cardiology.

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DESTINATION CENTERS

Much more than merely medical office buildings, facilities opened by CHS in 2007 were true destination centers. The “crown jewel” was CMC-Morrocroft Medical Plaza with four physician practices, an urgent care center, and laboratory, pharmacy and imaging services, all within walking distance of the prestigious SouthPark mall. With the opening of CMC-Morrocroft, “one-stop” healthcare shopping became available.

Additionally, CMC-Matthews Medical Plaza and CMC-Mint Hill Medical Plaza opened by year's end, delivering a new level of primary and specialty pediatric and adult care, with supporting services, to residents in the growing areas surrounding Charlotte - and all in one convenient location.



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HUNTERSVILLE OAKS

With the opening of a new Huntersville Oaks in 2007, CHS joined an international movement to create skilled nursing and rehab facilities that are more residential and less institutional in design and practice. Gone are long hallways with traditional nurses' stations and hospital-like rooms. In its place, neighborhoods - each with two households - create an inviting place for rehab patients to enjoy home-like comforts during their stay, and residents to call home.

Huntersville Oaks now features private baths with roll-in showers, community living rooms and buffet-style kitchens, gardens, screened porches, cybercafés and play areas for visiting children. Its rehabilitation area includes a "Return to Home" cottage that prepares rehabilitation patients for independent living. At the Oaks, long-term-care residents form lasting relationships with staff and jointly make lifestyle decisions, returning an element of control to their lives.

Huntersville Oaks represents a new era in skilled nursing and rehab care that serves as a model for other CHS-operated nursing homes.



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NEW PARTNERSHIPS

In 2007, Wilkes Regional Medical Center in North Wilkesboro and Columbus Regional Healthcare System (CRHS) in Whiteville, N.C., joined CHS.

In a unique partnership, CHS, working in conjunction with the Board of Commissioners of the Town of North Wilkesboro, oversees day to day operations, finances and overall strategic direction of Wilkes Regional. And at Columbus Regional Healthcare System, CHS was chosen to assume management of the facility. The hospital opened in 1935 and has provided excellent care and earned the support of that area of eastern North Carolina.

These are just two examples of CHS working to preserve and enhance quality healthcare within rural areas of North Carolina - keeping it close to home, but with the support of the largest network of hospitals and management expertise in the Carolinas.

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CHS & STANLY REGIONAL STRATEGIC ALLIANCE

With facilities located throughout the Carolinas, CHS is committed to making community healthcare stronger. In 2007, we formed a strategic alliance with Stanly Regional Medical Center in Albemarle. Stanly Regional remains independent, and the community continues to own the hospital. Together, Stanly Regional and CHS will identify mutual opportunities to expand services in Stanly County.

With the construction of Stanly Regional West in Locust already under way, the new alliance is expected to offer additional specialists and services in the coming years.



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CMC-EXPRESS

Today's consumer lives a hectic lifestyle. Convenient access to healthcare is important to many busy people. That's why CMC partnered with Harris Teeter to open CMC-Express, a health clinic within Harris Teeter's supermarket in the Matthews Festival Shopping Center. Patients need no appointment and can be treated for a variety of minor illnesses and injuries or receive routine vaccinations. If this pilot project proves successful, CMC will consider expanding the concept to other locations.



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MEDICAL EDUCATION & ADVANCES

In 2007, the first U.S. study of a new noninvasive and removable device for the treatment of obesity and type 2 diabetes began at The Bariatric Center at Carolinas Medical Center-Mercy with the EndoBarrier™ Gastrointestinal Liner, designed to impact metabolic processes without surgery. The Bariatric Center was selected to lead the research because of the team's expertise in bariatric and diabetes care.

This past year, CHS performed the state's first microwave tumor ablation procedure and is working toward building a nationally recognized program to treat cancers of the liver, pancreas and bile ducts. Also in 2007, CHS became the first known healthcare provider in the U.S. to use scanners that identify healthcare consumers by the unique vein patterns in their hands, virtually eliminating the possibility that personal information could be misused during the patient registration process. The cradle that houses the scanner and the software were designed by a CHS information technology team.

CHS has also begun discussions with the UNC School of Medicine that could ultimately lead to an expansion of the medical school onto the campus of Carolinas Medical Center. If approved, 50 medical students would complete their fourth year of medical school at CMC. This plan would help the state graduate more physicians in an effort to address the growing problem of too few physicians in some areas.



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FINANCIALS

CONSOLIDATED & LEASED ENTITIES

MANAGED ENTITIES

GRAND TOTAL

NET REVENUE

	DOLLAR TOTAL	PERCENTAGE OF TOTAL	DOLLAR TOTAL	PERCENTAGE OF TOTAL	DOLLAR TOTAL	PERCENTAGE OF TOTAL
Tertiary & Acute Care Facilities	\$1,995,495	69%	\$689,644	89%	\$2,685,159	74%
Post-Acute Care Facilities & Divisions	63,705	2%	41,142	5%	104,847	3%
Specialty Facilities	74,872	3%	-	0%	74,872	2%
Physicians' Practices	509,096	18%	9,676	1%	518,772	14%
Other Facilities & Divisions	138,315	5%	13,575	2%	151,890	4%
Non-Operating Activities	97,809	3%	25,714	3%	123,523	3%
Totals	\$2,879,292	100%	\$779,771	100%	\$3,659,063	100%

NET EXPENSES

	DOLLAR TOTAL	PERCENTAGE OF TOTAL	DOLLAR TOTAL	PERCENTAGE OF TOTAL	DOLLAR TOTAL	PERCENTAGE OF TOTAL
Wages, Salaries & Benefits	\$1,633,480	57%	\$358,895	46%	\$1,992,375	54%
Materials, Supplies & Other	830,804	29%	295,601	38%	1,126,405	31%
Depreciation & Amortization	157,456	5%	46,380	6%	203,836	6%
Financing Costs	39,001	1%	15,119	2%	54,120	1%
Funding for Facilities, Equipment & Programs	218,551	8%	63,776	8%	282,327	8%
Totals	\$2,879,292	100%	\$779,771	100%	\$3,659,063	100%

Schedule of net revenue and expenses for the year ended December 31, 2007.

(dollars in thousands)

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C. Curtis Copenhaver, MHA
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Administrator, Levine Children's Hospital

James G. Cannon Research Center

Herbert L. Bonkovsky, MD
Vice President, Research

Huntersville Oaks

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Executive Director

Sardis Oaks

Renee Rizzuti, MHA
Executive Director

Anson Community Hospital

Fred G. Thompson, PhD
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- Valdese Hospital
- Grace Ridge Retirement Community
- Grace Heights Health & Rehab Center
- College Pines Health & Rehab Center
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- Bon Secours St. Francis Hospital
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- Wallace Thomson Hospital
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