

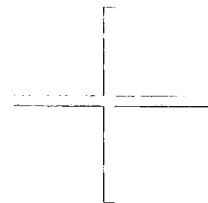
ANNUAL FINANCIAL

report 1994



For The University of North Carolina at Chapel Hill

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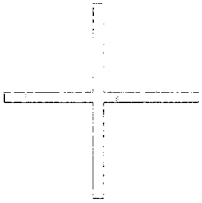
from the chancellor and vice chancellor

plishments of the University as it begins its third century of service to the people of North Carolina and the nation.

Fiscal year 1994 concluded with the University in an improved financial condition. Notable progress was made in providing competitive faculty salary levels, funding the needs of computing and telecommunications, and improving the resources for the library holdings. These needs continue to be of paramount importance as do the University's deferred maintenance needs for renovation and replacement of aged campus structures.

With an improved North Carolina economy, the University celebrated the successful bond referendum which provides the University with important funding for teaching and research facilities such as the Kenan-Flagler Business School, an addition to the School of Dentistry, and the Lineberger Cancer Research Center addition.

The Business and Finance Division achieved noteworthy objectives. The comprehensive workplace safety program, initiated last year, has been highly successful with employees assuming more responsibility. A new proactive worker's compensation return-to-work program reduced lost workdays in one year from 18.46 to 10.21 on average. The Public Safety Department took the lead in the "Click It or Ticket" campaign, winning an award from the Governor's Highway Safety Program. The University closed Quail Roost Conference Center to stem operating losses, and Doubletree Inns took over operation of the Carolina Inn, which will



To The Board of Trustees and Friends of The University of North Carolina at Chapel Hill:

We are pleased to present the University's Financial Report for the year ended June 30, 1994. The report includes the financial statements and the accompanying notes, the audit opinion letter of the North Carolina Office of State Auditor, and selected financial highlights.

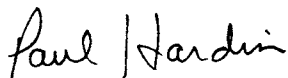
The University of North Carolina at Chapel Hill had a phenomenal year as it commemorated its birth as the nation's first state university. The Bicentennial Observance provided a celebration for the many accom-

close in November, 1994 to undergo extensive renovation.

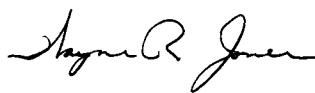
The University continues its efforts for total quality management and its commitments to identify and implement specific programs of quality improvement. The Carolina Quality program will continue to strive for improved practices which provide more efficient and effective services.

We would like to thank members of the General Assembly for their recognition and support which is essential to the University in fulfilling its teaching, research, and public service missions. We are grateful to the Board of Trustees for their leadership in maintaining the strength of the University. We also appreciate the efforts of President Spangler, his staff, and the Board of Governors on behalf of the University system and the Chapel Hill campus, in particular.

The University of North Carolina at Chapel Hill continually strives to make a difference in the lives of all those with whom it has come in contact, and we look forward to the University continuing its leadership role in education, research, and public service.



Paul Hardin
Chancellor



Wayne R. Jones
Vice Chancellor for Business & Finance



highlights

Current Operations

In fiscal year 1994, the University spent \$860 million fulfilling its mission of instruction, research, and public service. Approximately 54.5% of the total expenditures supported the instruction and research missions of the University including the academic and student support functions. Expenditures for the professional clinical services, which are self-supporting operations providing medical, dental, and other health care, were 11.3% of the total.

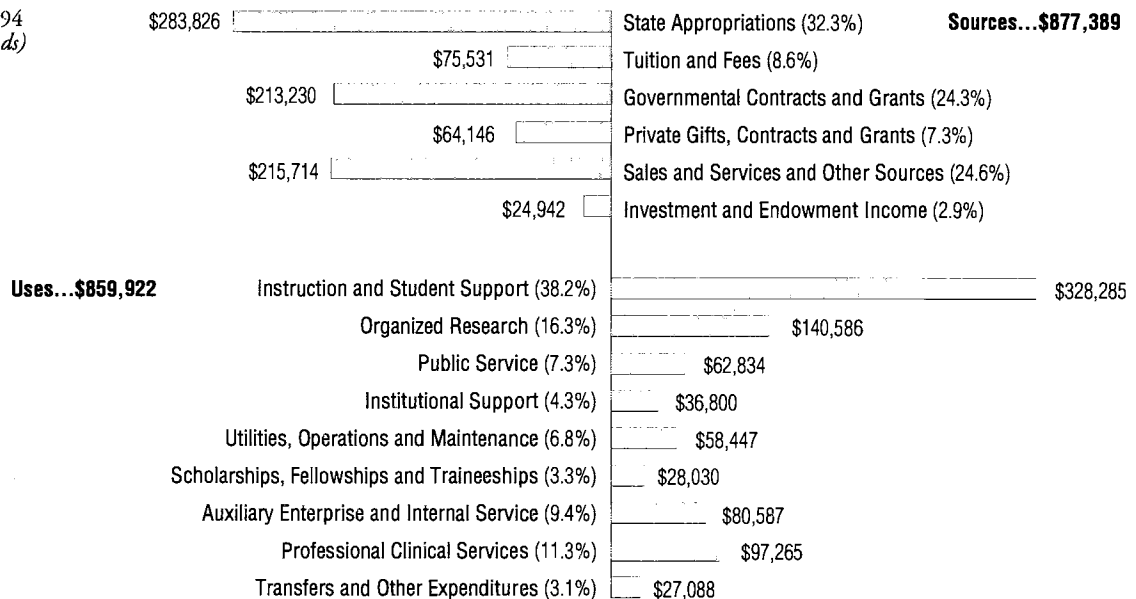
Other uses of operating resources were for public service (7.3%); institutional support (4.3%); utilities, operations, and maintenance (6.8%); scholarships, fellowships, and traineeships (3.3%); and self-supporting auxiliary and related operations (9.4%). Transfers and other deductions accounted for the remainder (3.1%).

Total expenditures have increased an average of 7.3% over the past five years. Resources supporting those expenditures have increased an average of 7.7% for the same period. The University has a diversified revenue base as the largest single source comprises less than one-third of the resources generated. State appropriations comprise 32.3% of the \$877 million in total revenues for fiscal year 1994. For fiscal year 1989, state appropriations comprised 39.5% of the total.

Governmental contracts and grants have increased at an annual average rate of 11.2% over the past five years and represent 24.3% of the total for fiscal year 1994. Sales and services primarily from the self-supporting health clinics and auxiliary operations comprise 24.0% of the total. Additional revenue sources are tuition and fees (8.6%); private gifts, grants and contracts (7.3%); and investment earnings and other sources (3.5%).

Current Funds

Year Ended
June 30, 1994
(in thousands)



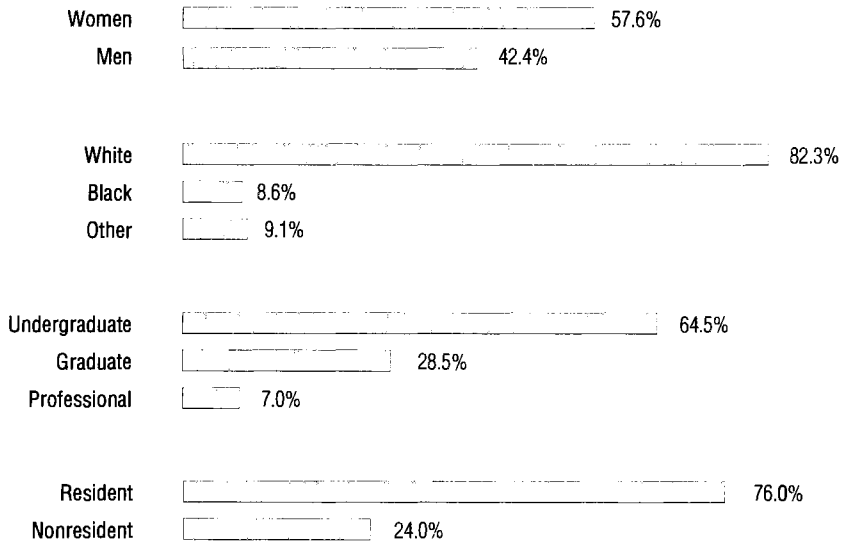
Students

Fall of Fiscal Year	Headcount	F T E
1994	24,299	21,758
1993	23,944	21,398
1992	23,794	21,391
1991	23,852	21,486
1990	23,592	21,326
1989	23,579	21,390



The student headcount of the University was 24,299 for the Fall semester of fiscal year 1994 which equated to 21,758 full-time equivalent students. Student enrollment has remained stable over the five years with an increase in headcount of 3.1%.

Student enrollment for fiscal year 1994 was composed of the following categories.



Capital Construction

Major Capital Construction <i>(in thousands)</i>	Funding Sources			
	Project Budget	State Appropriations	Debt Proceeds	Other Sources
Completed Projects:				
Student Recreation Center	\$4,810		\$4,810	
Old East-Old West Renovation	4,173		3,173	\$1,000
Koury Natatorium Addition	1,503			1,503
Construction in Progress:				
EPA Research Facility	32,065		32,065	
Medical Research Building	29,284	\$4,425	1,085	23,774
Parking Deck for Health Affairs	14,935		13,940	995
South Chiller Plant Expansion	13,023		12,343	680
Campus Fiber Optic Network	6,727			6,727
Parking Deck for School of Business	5,239			5,239
Institute of Marine Sciences (modernize laboratories)	2,232			2,232

The capital construction projects in progress and in planning include major additions and renovations to campus facilities and structures. The EPA Research Facility is being constructed for lease to the US. Environmental Protection Agency for the conduct of research and training activities of mutual interest to the EPA and the University. The Medical Research Building will provide the Medical School a facility for education, research, and interactions with other components of the University, the State, and private industry for the program of Molecular Biology and Genetic Engineering as well as provide facilities for the Musculoskeletal Diseases Center and the Alcohol Studies Center.

The fiber optic network is an important component for the development of a mod-

ern infrastructure to permit effective use of information technology. The campus-wide fiber optic network will support critical high-speed data, imaging, and video communications needs.

Other major projects will provide improved support services for parking and utilities.

Several major projects were in the planning stage during fiscal year 1994. The Carolina Inn renovation and expansion project of \$13.5 million will include the addition of a new wing as well as extensive renovations to greatly improve the existing facility.

The 1993 University Improvement Bonds will provide \$35.1 million in state appropriations to the Chapel Hill campus which will be combined with other resources to fund

several major projects including the construction of the \$33.1 million Kenan-Flagler Business School, the \$17.3 million addition to the School of Dentistry, and \$16.5 million Lineberger Cancer Research Center addition. The Kenan-Flagler Business School project is important because of the growth of the school and will allow it to locate in one building which can accommodate its computer technology. The School of Dentistry addition will provide the modern patient service facilities required for the school's teaching and research. The addition to the Lineberger Cancer Research Center will house the Clinical Research Program through which researchers study the causes of cancer, develop new treatments, and speed therapies from the laboratory to hospitals and clinics.

Endowment Fund

The Endowment Fund of the University provides investment earnings which are an important revenue source used to fund professorships, scholarships and fellowships, the library, and other important campus needs. Investment earnings of an endowment or term endowment support the purpose or program designated by a donor while the endowment principal remains intact. Quasi endowment funds have been designated by the University for investment to produce earnings to support particular purposes or programs.

The investment policy of the Endowment Fund is to protect the real value of principal and maintain the purchasing power of

Endowment Fund Market Value by Fund Type *(in millions)*

	1994	1993	1992	1991	1990
Permanent Endowment	\$206	\$151	\$142	\$121	\$113
Quasi Endowment Unrestricted	43	43	41	38	37
Quasi Endowment Restricted	36	27	24	20	19
Other	8	3	3	2	2

income distributions. The investment objective of the fund is to realize a total return which over time will exceed the inflation rate by at least 5% and will better the market indices for like investments. Investments of the University's Endowment Fund are pooled on a market value basis, unless required to be separately invested.

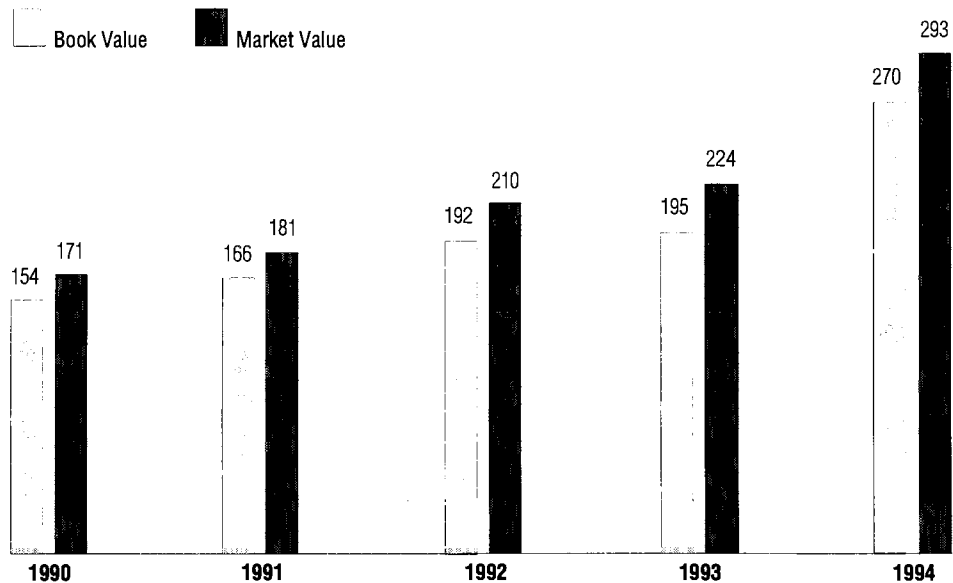
Fiscal year 1994 was a difficult year for the financial markets. Most asset classes posted only marginally positive, or negative results. In this environment, the pooled Endowment Fund earned a return of 1.8% which exceeded the return of both the Standard & Poor's 500 stock index, and the Lehman Brothers Aggregate Bond Index. Nevertheless, the long-term investment performance of the Endowment Fund contin-

ues to rank among the best endowments in the country. At year end the Endowment Fund's asset allocation stood at 31 percent domestic and foreign stock, 24 percent domestic and foreign bonds, 28 percent cash equivalents, and 17 percent alternative assets.

Investments of the Endowment Fund had a market value of \$293 million and a book value of \$270 million at June 30, 1994.

The Endowment Fund information displayed for June 30, 1994, includes investment and fund balances for an affiliated foundation which was blended into the University's financial statements based on a change in accounting principle.

Endowment Fund Investments
(in millions of dollars)



Contract and Grant Awards

The University receives contract and grant awards to sponsor research, training and public service activities. Contract and grant awards to the University totaled \$244.6 million for fiscal 1994, which represents a 7.5% increase over the prior year.

Awards from the federal government comprised 79.6% of the 1994 total, while state government awards comprised 5.7% of total awards. Private foundation, industry and other awards comprised 14.7%.

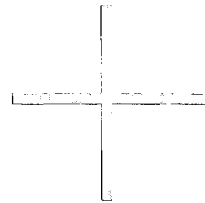
University faculty and staff submitted 2,553 proposals to various funding sources during fiscal 1994, a 7.2% increase over the prior year.



Comparison of Grant Awards, 1989 and 1994

(in thousands)

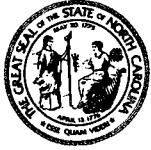
	1994	1989
Federal	\$195,000	\$117,000
Private and Other	36,000	22,000
State	14,000	5,000



summary

The University of North Carolina at Chapel Hill
 Condensed Summary of Sources and Uses of Current Funds
 Years Ended June 30, 1994-1990
 (in thousands)

	1994		1993		1992		1991		1990	
Revenues										
State Appropriations	\$283,826	32.3%	\$270,700	33.7%	\$255,003	34.4%	\$257,219	36.8%	\$252,585	38.5%
Tuition and Fees	75,531	8.6%	66,718	8.3%	60,247	8.1%	50,221	7.2%	46,719	7.1%
Governmental Contracts and Grants	213,230	24.3%	190,236	23.6%	163,054	22.0%	149,577	21.3%	132,966	20.3%
Private Gifts, Contracts and Grants	64,146	7.3%	60,820	7.6%	58,892	8.0%	53,685	7.7%	49,754	7.6%
Sales and Services	210,767	24.0%	187,390	23.3%	176,297	23.8%	166,182	23.8%	152,114	23.2%
Investment Income	13,047	1.5%	12,887	1.6%	13,508	1.8%	11,750	1.7%	11,647	1.8%
Endowment Income	11,895	1.4%	9,212	1.1%	8,040	1.1%	6,851	1.0%	7,307	1.1%
Other Sources	4,947	0.6%	6,279	0.8%	6,167	0.8%	3,923	0.5%	2,592	0.4%
Total Current Revenues	877,389	100%	804,242	100%	741,208	100%	699,408	100%	655,684	100%
Expenditures and Other Deductions										
Instruction and Student Support	328,285	38.2%	298,092	37.6%	282,320	38.8%	281,751	40.3%	271,694	41.3%
Organized Research	140,586	16.3%	130,570	16.5%	115,014	15.8%	103,139	14.8%	94,499	14.3%
Public Service	62,834	7.3%	56,111	7.1%	52,952	7.3%	47,723	6.8%	41,589	6.3%
Institutional Support	36,800	4.3%	32,118	4.0%	30,097	4.1%	27,124	3.9%	27,799	4.2%
Utilities, Operations and Maintenance	58,447	6.8%	49,606	6.3%	48,552	6.7%	42,947	6.2%	41,062	6.2%
Scholarships, Fellowships and Traineeships	28,030	3.3%	26,997	3.4%	23,715	3.3%	20,123	2.9%	19,390	2.9%
Total Educational and General	654,982	76.2%	593,494	74.9%	552,650	76.0%	522,807	74.9%	496,033	75.2%
Auxiliary Enterprises and Internal Services	80,587	9.4%	85,774	10.8%	73,199	10.1%	75,882	10.9%	72,033	10.9%
Professional Clinical Services	97,265	11.3%	85,187	10.7%	74,769	10.3%	71,229	10.2%	62,840	9.6%
Other Deductions	4,125	0.5%	1,197	0.2%	345	0.1%	401	0.1%	143	0.0%
Total Expenditures and Other Deductions	836,959	97.4%	765,652	96.6%	700,963	96.5%	670,319	96.1%	631,049	95.7%
Transfers and Additions/(Deductions)										
Refunded to Grantors	(1,079)	0.1%	(534)	0.1%	(295)	0.0%	(220)	0.0%	(471)	0.1%
Mandatory Transfers	(21,158)	2.4%	(18,140)	2.2%	(9,066)	1.2%	(16,046)	2.3%	(15,251)	2.3%
Non-Mandatory Transfers	2,071	0.2%	(6,357)	0.8%	(14,839)	2.0%	(9,846)	1.4%	(10,933)	1.7%
Interinstitutional Transfers	(2,797)	0.3%	(2,505)	0.3%	(1,851)	0.3%	(1,894)	0.2%	(1,579)	0.2%
Total Expenditures, Transfers and Other Deductions	859,922	100%	793,188	100%	727,014	100%	698,325	100%	659,283	100%
Excess of Restricted Receipts over Transfers to Revenues	1,912		14,960		8,579		11,355		13,930	
Net Increase in Fund Equity	\$19,379		\$26,014		\$22,773		\$12,438		\$10,331	



RALPH CAMPBELL, JR.
STATE AUDITOR

STATE OF NORTH CAROLINA
Office of the State Auditor

300 N. SALISBURY STREET
RALEIGH, N. C. 27603-5903
TELEPHONE (919) 733-3217
FAX: (919) 733-8443

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS

Board of Trustees
The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

We have audited the accompanying balance sheet of The University of North Carolina at Chapel Hill, Chapel Hill, North Carolina as of June 30, 1994 and the related statement of changes in fund equity and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 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 in the first paragraph above present fairly, in all material respects, the financial position of The University of North Carolina at Chapel Hill as of June 30, 1994 and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 10 to the financial statements, the university's financial reporting entity changed as of July 1, 1993.

As more fully described in Note 6B, the University is party to a claim filed by a construction contractor. The possible outcome of this claim is uncertain at this time. Accordingly, no provision for any liability has been made in the accompanying financial statements.

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

October 14, 1994



balance sheet

	Current Funds		
	Unrestricted		Restricted
	General	Proprietary	
Assets			
Cash and Cash Equivalents (Note 2)	\$59,112	\$66,579	\$61,927
Investments (Note 1D and 3)	170	61,599	23,924
Accounts Receivable-Students	277	121	
Accounts Receivable-Patients (Net)(Note 1E)		42,170	
Due from Federal Government			18,666
Accrued Investment Earnings	3,452	488	494
Other Receivables	2,473	3,448	7,919
Due from Other Funds	14,097	4,604	1,348
Due from State Agencies	1,318	321	3,810
Student Loans Receivable (Net)(Note 1E)			
Inventories (Note 1F)	1,193	11,084	24
Prepaid Expenses	78	72	
Land and Improvements			
Furniture and Equipment			
Buildings and Fixed Equipment			
Other Structures and Improvements			
Artworks and Literature			
Construction-In-Progress			
Total Assets	\$82,170	\$190,486	\$118,112
Liabilities			
Accounts Payable	\$2,266	\$3,245	\$4,039
Accrued Payroll	12,038	4,574	5,108
Claims Payable		10,346	
Other Payables			
Contracts Payable-Retainage			
Due to State Agencies	120	565	521
Due to Other Funds	4,604	6,160	12,769
Deposits Payable	2,568	717	
Interest Payable			
Accrued Vacation Leave	15,979	6,852	6,769
Deferred Revenue	491	7,273	
Notes Payable (Note 8)			
Bonds Payable (Note 8)			
Obligations Under Reverse Repurchase Agreements		23,656	11,067
Arbitrage Liability			
Unamortized Bond Discount			
Advance Refunding Escrow			
Obligations Under Capital Leases (Note 7)			
Funds Held for Others			
Total Liabilities	38,066	63,388	40,273
Fund Equity			
Net Investment in Plant			
U.S. Government Grants Refundable			
Endowment			
Term Endowment			
Quasi Endowment - Unrestricted			
Quasi Endowment - Restricted			
Annuity and Life Income Funds			
Renewal and Replacement			
Retirement of Indebtedness			
Restricted			77,839
Unrestricted	44,104	127,098	
Total Fund Equity	44,104	127,098	77,839
Total Liabilities and Fund Equity	\$82,170	\$190,486	\$118,112

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

The University of North Carolina at Chapel Hill
Combined Balance Sheet for All Fund Groups
 June 30, 1994
 (in thousands)

Fiduciary Funds			Plant Funds		
Loan	Endowment and Similar Funds	Agency	Unexpended	Debt Service	Investment in Plant
\$6,133	\$34,340	\$74,493	\$40,170	\$889	
1,004	269,675	151,035	14,961	16,818	
23	402	735	164	82	
		667	3,500	8	
				6,905	
28,501					
				193	
					\$6,439
					229,886
					550,018
					36,092
					171,134
					74,895
\$35,661	\$304,417	\$226,930	\$58,795	\$24,895	\$1,068,464
	\$66	\$348	\$2,737		
		8,751			
	1,152				
			2,624		
	1,348		2,073		
				\$3,632	
					\$2,292
			12,179	18,208	193,155
	31,640	63,582	4,232		
			120		
				(3,307)	
				(10,059)	
		154,249			101
0	34,206	226,930	23,965	8,474	195,548
					872,916
\$26,557	197,638				
	275				
	36,656				
	29,869				
	5,773				
				2,344	
				10,279	
8,719			30,464		
385			4,366	3,798	
35,661	270,211	0	34,830	16,421	872,916
\$35,661	\$304,417	\$226,930	\$58,795	\$24,895	\$1,068,464

changes in fund equity

	Current Funds		
	Unrestricted		Restricted
Revenues and Other Additions	General	Proprietary	
Unrestricted Current Funds Revenues	\$425,631	\$216,301	
State Appropriations for Capital Improvements			
Federal Contracts and Grants			\$193,077
State Contracts and Grants			24,250
Private Gifts, Contracts and Grants			55,365
Endowment Income			5,594
Investment Earnings			3,940
Realized Gain on Sale of Investments			16
Expended for Plant Facilities			
Retirement of Indebtedness			
Other Revenues and Additions			3,075
Total Revenues and Other Additions	425,631	216,301	285,317
Expenditures and Other Deductions			
Educational and General	419,526		235,456
Auxiliary Enterprises		76,560	
Internal Service		4,027	
Debt Service Fees			
Professional Clinical Services		97,265	
Indirect Costs Recovered			47,948
Refunded to Grantors			1,079
Administrative and Collection Costs, Loan Cancellations and Bad Debts			
Expended for Plant Facilities			
Retirement of Indebtedness			
Interest on Indebtedness			
Disposal of Plant Facilities			
Realized Loss on Sale of Investments	4,124		1
Other Expenditures and Deductions			
Total Expenditures and Other Deductions	423,650	177,852	284,484
Excess of Revenues Over (Under) Expenditures	1,981	38,449	833
Transfers - Additions (Deductions)			
Mandatory Transfers	(1,323)	(19,835)	
Non-Mandatory Transfers	7,378	(8,159)	2,852
Interinstitutional Transfers	(2,797)		
Net Transfers	3,258	(27,994)	2,852
Net Increase in Fund Equity	5,239	10,455	3,685
Fund Equity July 1, 1993 (Note 10)	38,865	116,643	74,154
Fund Equity June 30, 1994	\$44,104	\$127,098	\$77,839

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

The University of North Carolina at Chapel Hill
Statement of Changes in Fund Equity
Year Ended June 30, 1994
(in thousands)

Fiduciary Funds		Plant Funds		
Loan	Endowment and Similar Funds	Unexpended	Debt Service	Investment in Plant
		\$5,442		
	\$150			
\$2	13,554	1,347		\$1,321
51	239			
1,066	4	2,515	\$620	
43	12,184	653	21	
				42,900
				8,414
89	730	217		
1,251	26,861	10,174	641	52,635
			129	
2				
415		12,778		
			8,414	
			13,402	
				13,670
	4,707	3	76	
	1,380			4,675
417	6,087	12,781	22,021	18,345
834	20,774	(2,607)	(21,380)	34,290
22		(421)	21,557	
188	(8,711)	6,452		
	668	(22)		
210	(8,043)	6,009	21,557	
1,044	12,731	3,402	177	34,290
34,617	257,480	31,428	16,244	838,626
\$35,661	\$270,211	\$34,830	\$16,421	\$872,916

STATEMENT OF

current funds revenues,
expenditures, and other changesThe University of North Carolina at Chapel Hill
Statement of Current Funds Revenues,
Expenditures, and Other ChangesYear Ended June 30, 1994
(in thousands)

	Unrestricted			Restricted	Total Current Funds
	General	Proprietary	Total		
Revenues					
State Appropriations	\$283,826		\$283,826		\$283,826
Tuition and Fees	75,531		75,531		75,531
Federal Contracts and Grants	44,439		44,439	\$146,095	190,534
State Contracts and Grants	1,149		1,149	21,547	22,696
Private Gifts, Contracts and Grants	3,871	\$936	4,807	59,339	64,146
Endowment Income	3,419		3,419	8,476	11,895
Sales and Services	3,211	207,556	210,767		210,767
Investment Earnings	8,049	4,998	13,047		13,047
Realized Gain on Sale of Investments	701		701		701
Other Revenues	1,435	2,811	4,246		4,246
Total Current Revenues	425,631	216,301	641,932	235,457	877,389
Expenditures					
Educational and General					
Instruction	205,484		205,484	73,103	278,587
Organized Research	20,465		20,465	120,121	140,586
Public Service	44,650		44,650	18,184	62,834
Academic Support	37,558		37,558	2,949	40,507
Student Services	8,831		8,831	360	9,191
Institutional Support	34,131		34,131	2,669	36,800
Physical Plant Operations	57,816		57,816	631	58,447
Student Financial Aid	10,591		10,591	17,439	28,030
Total Educational and General	419,526	0	419,526	235,456	654,982
Auxiliary Enterprises		76,560	76,560		76,560
Internal Service		4,027	4,027		4,027
Professional Clinical Services		97,265	97,265		97,265
Realized Loss on Sale of Investments	4,124		4,124	1	4,125
Total Expenditures	423,650	177,852	601,502	235,457	836,959
Transfers and Additions/(Deductions)					
Excess of Restricted Receipts over Transfers to Revenues				1,912	1,912
Refunded to Grantors				(1,079)	(1,079)
Mandatory Transfers	(1,323)	(19,835)	(21,158)		(21,158)
Non-Mandatory Transfers	7,378	(8,159)	(781)	2,852	2,071
Interinstitutional Transfers	(2,797)		(2,797)		(2,797)
Net Increase in Fund Equity	\$5,239	\$10,455	\$15,694	\$3,685	\$19,379

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

Note 1: Significant Accounting Policies**A. Financial Reporting Entity**

The accompanying financial statements present all funds for which the University's Board of Trustees is accountable. The University of North Carolina at Chapel Hill Foundation, Inc. is governed by a 17 member board consisting of nine ex officio directors and eight elected directors. Ex officio directors include the Chairman of the Board of Trustees of the University of North Carolina at Chapel Hill, the Chancellor, the Vice Chancellor for Business and Finance, and the Vice Chancellor for Development (nonvoting). In addition, two ex officio directors are elected by the Board of Trustees from the membership of that board and three ex officio directors are elected by the Board of Trustees from the membership of the Board of Trustees of the Endowment Fund of the University of North Carolina at Chapel Hill who have not otherwise been selected. The eight remaining directors are elected to membership on the Foundation Board of Directors by action of the ex officio directors. Although legally separate, the Foundation is reported as if it were part of the University because its sole purpose is to aid, support, and promote teaching, research and service in the various educational, scientific, scholarly, professional, artistic and creative endeavors of the University. The Foundation's financial statements have been blended with those of the University. Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the

accompanying financial statements. The University of North Carolina at Chapel Hill is a constituent institution of The University of North Carolina which is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

B. Basis of Presentation

The accompanying financial statements are presented in accordance with generally accepted accounting principles guided by standards of the Financial Accounting Standards Board, except in circumstances where the Governmental Accounting Standards Board has issued a pronouncement applicable to public colleges and universities. The University also follows the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.

C. Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of fund accounting. Resources for various purposes are accounted for in separate and distinct funds established in accordance with the activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups.

Current Funds are used to account for all financial transactions of the general operations of the University. Proprietary funds showing the operations of the student stores, dormitories, and other auxiliary enterprises and internal service funds are shown separately from other unrestricted funds.

Fiduciary Funds are used to account for the Student Loan Funds, Endowment Funds, and Agency Funds held by the University. The Agency Funds are those funds of students and organizations held by the University as custodian. The transactions of the Agency Funds do not result in any revenue or expenditures for the University; therefore, these funds are not shown in the statement of changes in fund equity.

Plant Funds are used to account for Unexpended Plant Funds, Debt Service Funds, and Investment in Plant Funds. The Debt Service Funds include the Repair and Replacement reserves as well as the reserves for Retirement of Indebtedness.

D. Investments

Purchased securities are stated at cost. Investments acquired by gift or bequest are stated at market or appraised value at date of gift. Investments of the University's endowment funds are pooled, unless required to be separately invested, on a market value basis with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the month within which the transaction takes place. Investment return of the University's pooled endowment funds is predicated on the total return concept (yield

plus appreciation). Annual pay-outs from the University's pooled endowment funds, which can vary between 4% and 7% of market value, are determined by increasing the prior year pay-out per share by the inflation rate. To the extent that the total return for the current year exceeds the pay-out, the excess is added to principal. If current year earnings do not meet the pay-out requirements, the University uses accumulated income and appreciation to make up the difference.

E. Receivables and Allowance for Doubtful Accounts

The receivables for the UNC Physicians & Associates, the Dental Faculty Practice (both included in the current proprietary fund group) and the Student Loan Funds are shown in the accompanying financial statements net of the allowance for doubtful accounts of \$15,952,000, \$52,000, and \$1,142,000 respectively. The accounts and notes receivable for other funds are shown at book value with no provision for doubtful accounts considered necessary.

F. Inventories

Inventories are priced at cost or average cost except for the Student Stores inventory which is valued at the lower of cost or market.

G. Fixed Assets and Depreciation

Physical plant and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The University capitalizes equipment which has a value or cost in excess of \$500 at the date of acquisition and an expected useful

life of one or more years. Library books acquired prior to June 30, 1983 are valued on the basis of industry statistics and expert judgments. Depreciation on physical plant and equipment is not recorded.

H. Compensated Absences

The University accrues a liability for annual leave based on salary rates and accumulated leave balances at June 30. Employees may accumulate a maximum of 30 days annual leave which may be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Therefore, the accumulated annual leave at June 30 would equal the leave carried forward the previous December 31 plus the leave earned less the leave taken between January 1 and June 30.

The University has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

I. Current Funds Revenues

Current funds revenues include (1) all unrestricted gifts, grants, and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include restricted current funds received but not expended or resources that are restricted by external persons or agencies to other than current funds.

J. Interfund Borrowing

All temporary interfund borrowings have been made from current unrestricted general funds without interest. The amounts due are payable currently.

Note 2: Cash and Cash Equivalents

General Statutes require that all cash be deposited with the State Treasurer, except endowment funds, special funds, funds received for services rendered by health care professionals, and revenue bond funds. Special funds consist of monies for intercollegiate athletics and agency funds.

Cash and cash equivalents include cash on hand, cash on deposit with the State Treasurer, and commercial bank accounts, totaling \$343,643,000. At year-end, cash on hand was \$57,000. The carrying amount of the University's deposits with the State Treasurer was \$336,140,000 and the bank balance was \$346,282,000. The full amount of the bank balance was covered by federal depository insurance or by collateral and investments held by the State of North Carolina's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$7,446,000 and the bank balance was \$14,779,000. Of the bank balance, \$1,013,000 was covered by federal depository insurance or by collateral held by the University's agent in the University's name, and \$13,766,000 was uninsured and uncollateralized.

Note 3: Investments

The University is authorized by the University of North Carolina Board of Governors to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest by General Statutes.

General Statutes require that bond proceeds be invested in accordance with the bond resolutions. The University's bond resolutions require that bond proceeds and debt service funds be invested in obligations which will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

The University has entered into reverse repurchase agreements. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract

rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the University or provide securities or cash of equal value, the University would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was \$1,362,000.

The Board of Trustees of the Endowment Fund of The University of North Carolina at Chapel Hill has established a policy that emphasizes growth orientation in the investment of endowment funds.

Investments of Endowment and Similar Funds at June 30, 1994 were:

(in thousands)

	Market Value	Book Value
Investment by Fund Type:		
Endowment	\$206,338	\$189,547
Quasi Endowment Unrestricted	43,256	44,092
Quasi Endowment Restricted	36,130	29,057
Annuity and Life Income Funds	7,224	6,735
Term Endowment	266	244
Total	\$293,214	\$269,675
Pooled and Non-pooled:		
Money Market	\$9,821	\$9,821
Equities	147,487	125,492
Fixed Income	81,331	83,658
Other	54,575	50,704
Total	\$293,214	\$269,675

University investments are categorized below to give an indication of the level of risk at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the University's name.

Note 4: Pension Plans

A. Retirement Plans

Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program.

The Teachers' and State Employees' Retirement System is a defined benefit plan which is administered by the North Carolina State Treasurer. Additional detail information about the System can be located in the State of North Carolina's Comprehensive Annual

A summary of the University's investments at June 30, 1994 is presented below.

(in thousands)

	Category			Carrying Amount	Market Value
	1	2	3		
Categorized Investments:					
U.S. Government Securities	\$49,358	\$7,882	\$0	\$57,240	\$56,381
State and Municipal Securities	3,075	7,839		10,914	10,242
Corporate Bonds	16,605	4,989		21,594	21,911
Corporate Common Stocks	101,104	1,108	16,138	118,350	120,180
International Equity Securities	27,717	1	865	28,583	51,531
International Bonds--Government	26,778			26,778	24,979
International Bonds--Corporate	15	1,033		1,048	1,023
Subtotal	\$224,652	\$22,852	\$17,003	264,507	286,247
Investments Not Categorized:					
Investments Held by Broker - Dealers Under Reverse Repurchase Agreements - U.S. Government Securities				140,037	134,670
Money Market Funds				39,871	39,871
Mutual Funds				28,919	32,241
Real Estate				10,498	10,498
Certificates of Deposit				2,777	2,777
Limited Partnerships				49,891	54,917
Other Investments				2,686	2,681
Subtotal				274,679	277,655
Total				\$539,186	\$563,902

Financial Report. Employees contributed 6% of gross wages for the year ended June 30, 1994. The University contributed, for pension benefits, 8.38% of covered wages for the period July 1, 1993 through June 30, 1994. The University has no pension plan obligations beyond the matching already paid into the System.

The Optional Retirement Program (Program) is a defined contribution retirement plan which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Program offers plans administered by the Teachers' Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF), as well as Lincoln National Life Insurance Company, and the Variable Annuity Life Insurance Company (VALIC). Participant eligibility and contributory requirements are established by General Statute 135-5.1. Participants contribute 6% of their salary and the University matches with a 6.50% contribution for pension benefits. The University assumes no liability other than its contribution.

Participants in the Program are vested after five years of service, but plan administrators must return the value of the participant's and University's contribution to both the participant and the University if termination occurs prior to five years of service. Participants may direct their contributions to TIAA-CREF, Lincoln National, VALIC

or combinations of the aforementioned. Participants in all three plans may choose to invest among several alternatives, including fixed and variable accounts.

For the year ended June 30, 1994, the University had a total payroll of \$446,886,000 of which \$234,378,000 was covered under the Teachers' and State Employees' Retirement System and \$128,593,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$14,063,000 and \$19,641,000 respectively for the Teachers' and State Employees' Retirement System and \$7,716,000 and \$8,358,000 respectively for the Optional Retirement Program.

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. All costs of administering and funding the plan are the responsibility of the Plan. No costs are incurred by the University of North Carolina at Chapel Hill. All amounts, property and rights derived from deferred compensation and income earned on the deferred compensation are, until paid or made available to the employee or other beneficiary, solely the property and rights of the State of North Carolina, subject only to the claims of the State's general creditors. The State believes that it is very unlikely that it will use these assets to satisfy the claims of general creditors in the future. The voluntary contribu-

tions by employees amounted to \$410,000 for the year ended June 30, 1994.

IRC Section 401(k) Plan. All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income 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 University except for a 5% employer contribution for the University's law enforcement officers which is mandated under General Statute 143-163.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 1994 were \$52,000. The voluntary contributions by employees amounted to \$553,000 for the year ended June 30, 1994.

IRC Section 403(b) and 403(b)(7) Plans. All permanent University employees who are at least half-time can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employees' 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 non-profit institutions. All costs of administering and funding these plans are the responsibility of the plans. No costs are incurred by the University. The voluntary contributions by employees amounted to \$12,033,000 for the year ended June 30, 1994.

Note 5: Other Postemployment Benefits

A. Health Care

The University participates in state administered programs which provide health care benefits to permanent employees working at least three-fourths time and to retirees. Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report. The University contributes 2.00% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for retiree health care benefits. For the fiscal year ended June 30, 1994, the University's total contribution for retiree health care benefits was \$7,259,000. The University assumes no liability for retiree health care benefits provided by the programs other than its contribution.

B. Long-Term Disability

The University participates in the Disability Income Plan of North Carolina (the Plan). The Plan provides disability income to eligible participants. Eligible participants are employees that are members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Additional detailed information about the Plan can be located in the State of North Carolina's Comprehensive Annual Financial Report. The University contributes .42% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Plan. For the fiscal year ended June 30, 1994, the University's total contribution to the Plan was \$1,524,000.

The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

C. Death Benefit

After one year of membership in the Teachers' and State Employees' Retirement System, beneficiaries of employees who die while employed or within 180 days of the last day for which they were paid a salary are eligible for a death benefit. The benefit is based on salary with a minimum benefit of \$ 25,000 and a maximum of \$ 50,000. Benefits are paid from the Teachers' and State Employees' Benefit Trust fund (Trust Fund). Additional detailed information about the Trust Fund can be located in the State of North Carolina's Comprehensive Annual Financial Report. The University contributes .16% of covered payroll under the Teachers' and State Employees' Retirement System to the Trust Fund. For the year ended June 30, 1994, the University's total contribution to the Trust Fund was \$375,000. The University assumes no liability for death benefits provided by the Trust Fund other than its contribution.

Note 6: Commitments and Contingencies

A. Construction Commitments

The University had commitments of \$13,239,000 for various construction projects that include completion of buildings and replacement of the power plant and related steam lines. These commitments are funded by bond proceeds of \$5,588,000, state appropriations of \$3,188,000, University funds of \$4,450,000 and other outside sources in the amount of \$13,000.

B. Contingencies

The University is a party to various litigation and other claims in the ordinary course of its operations. A construction related claim in the amount of \$4,085,000 has been asserted against the University. Since it is not possible to predict the ultimate outcome of this matter, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any other matter will not have a material adverse effect on the financial position of the University.

Note 7: Leases

A. Capital Lease Obligations

The University had future minimum lease commitments for non-cancelable operating leases and capital lease obligations consisting of the following at June 30, 1994: (table at right).

B. Lease Agreements

During October 1989, the University entered into a 20 year lease agreement with an affiliated organization and simultaneously entered into a sublease agreement with another affiliated organization for the same time period. The University's obligation to make payments under this lease is limited to the rental income received during each fiscal year based upon its sublease of the subject facility. If the University complies with all of the terms of the lease agreement throughout the 20 year period, title to the facility will be conveyed to the University.

Capital Lease Obligations

Year Ended June 30, 1994
(in thousands)

	Fiscal Year	Operating Leases	Capital Leases
	1995	\$1,462	\$38
	1996	164	38
	1997	11	28
Minimum Lease Payments		\$1,637	104
Amount Representing Interest			3
Present Value of Future Lease Payments			\$101
Total rental expense for operating leases for the year ended June 30, 1994		\$5,497	

Note 8: Long-term Debt

The University was indebted for notes payable in the amount of \$2,292,000 at June 30, 1994 for the purposes shown in the following table.

(in thousands)

	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 06/30/94	Principal Outstanding 06/30/94
Security Services	86% of prime	Dec. 15, 1994	\$1,207	\$1,078	\$129
Food Service	62% of prime	Aug. 22, 1997	4,500	3,281	1,219
Office of Information Technology	10.87%	July 20, 1996	1,587	643	944
Total Notes Payable			\$7,294	\$5,002	\$2,292

The University was indebted for bonds payable in the amount of \$223,542,000 at June 30, 1994 for the purposes shown in the following table.

(in thousands)

	Series	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 06/30/94	Accretion on Capital Appreciation Bonds	Principal Outstanding 06/30/94
Student Family Housing	"A"	3.500%	Sept. 1, 2002	\$995			
	"B"	3.000%	Sept. 1, 1998	1,942			
Total Student Family Housing				2,937	\$2,169		\$768
Dormitory System	"A"	2.750%	Nov. 1, 1994	1,647			
	"E"	2.875%	Nov. 1, 2000	985			
	"F"	3.000%-3.750%	Nov. 1, 2003	2,544			
	"G"	3.000%	Nov. 1, 2005	3,000			
	1991	5.400%-6.400%	Nov. 1, 2011	9,830			
Total Dormitory System				18,006	5,330		12,676
Parking System	"B"	6.740%	June 1, 2009	11,800	1,385		10,415
Student Union	1967	3.000%	Nov. 1, 2007	2,000	995		1,005
Utility System	1993	4.000%-6.000%	Aug. 1, 2011	108,455			
	1992	3.000%-6.800%	Aug. 1, 2021	22,827		\$2,295	
Total Utility System				131,282	3,690	2,295	129,887
Kenan Stadium	1988	Variable	Nov. 1, 2007	5,000	750		4,250
Ambulatory Patient Care Facility	1990	Variable	July 1, 2012	20,000	500		19,500
Amb. Patient Care Fac. Equipment	1992	Variable	Oct. 1, 2002	3,000	0		3,000
Student Recreation Center	1991	5.300%-7.000%	June 1, 2011	4,665	275		4,390
U.S. Environmental Protection Agency Project	1991	8.250%-9.250%	Feb. 15, 2015	36,679	0	972	37,651
Total Bonds Payable				\$235,369	\$15,094	\$3,267	\$223,542

The schedule below shows the annual requirements to pay principal and interest on the long-term obligations at June 30, 1994.

(in thousands)

Fiscal Year	Annual Requirements (Principal and Interest)	
	Revenue Bonds	Notes
1995	\$17,140	\$771
1996	18,323	623
1997	18,437	1,031
1998	18,547	95
1999	18,513	0

Demand Bonds. Included in long-term debt is a variable rate demand bond issue, Kenan Stadium 1988, in the amount of \$5,000,000 that matures November 1, 2007. The bonds are special limited obligations of the University payable solely from the revenues pledged for the payment thereof. The proceeds of the bonds were used for certain additions and renovations to Kenan Memorial Stadium.

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the University's remarketing agent, Donaldson, Lufkin, and Jenrette Securities Corporation.

Under an irrevocable letter of credit issued by Wachovia Bank and Trust Company, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and the remarketing agent is entitled to draw amounts sufficient to pay the purchase price and accrued interest on bonds

delivered to it for purchase. In the event that the bonds cannot be remarketed, the letter of credit will provide the necessary financing. The letter of credit is valid through July 15, 2000.

The University has entered into a reimbursement agreement with Wachovia Bank in which it agreed to repay all amounts that are drawn under the letter of credit, which carries a variable interest rate. The University is required to pay an annual commitment fee for the Kenan Stadium letter of credit of .42% of the stated amount of the line of credit then in effect.

Capital Appreciation Bonds. The Series 1992 Utility System and the Series 1991 U.S. Environmental Protection Agency Project bond issues include capital appreciation bonds ("zero coupon") with an ultimate maturity value of \$97,500,000 and \$25,300,000, respectively. These bonds are recorded in the amounts of \$21,600,000 and \$4,800,000, respectively, which is the accreted value at ended June 30, 1994. These bonds mature in the years from 2010 to 2021.

Bond Defeasance

Carolina Inn:

In 1990 the University defeased \$665,000 of outstanding revenue bonds of the Carolina Inn, Series 1968. An irrevocable trust was created with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's balance sheet. At June 30, 1994 the outstanding balance of the defeased Carolina Inn bonds was \$370,000.

Utility System:

On February 12, 1993 the University issued \$108,455,000 of Utilities Systems Refunding Revenue Bonds, Series 1993 with a true interest cost of 5.22% to advance refund (defeas) the University of North Carolina at Chapel Hill Utilities Systems Revenue Bonds, Series 1986 with an average interest rate of 7.43%. The net proceeds of \$106,000,000 (after payment of \$2.4 million in discount, underwriter's fees and issuance costs) were used to purchase United States Treasury Notes. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1986 Series through August 1, 1996 at which time all the outstanding bonds will be called and redeemed. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet.

As a result of the advance refunding, the University reduced its total debt service requirements over the next 18 years by \$11.6 million which resulted in an economic gain (the difference between the present value of debt service payments on the old and new debt) of \$7.5 million.

At June 30, 1994 the outstanding balance of the defeased Utility System bonds was \$94,400,000.

Note 9: Subsequent Event

On September 27, 1994 the Board of Governors of the University of North Carolina issued University of North Carolina at Chapel Hill Taxable Carolina Inn Flexible Term Revenue Bonds, Series 1994 in the amount of \$13,475,000. The bonds are limited obligations of the University payable solely from the revenues of the Carolina Inn pledged for the payment thereof. The bonds mature in varying amounts beginning in 1998 and ending in 2019. The interest rate is variable and the bonds were originally marketed at 5.12% for a period of 90 days. Proceeds from the bonds will be used to renovate and expand the Carolina Inn.

Note 10: Prior Period Adjustment

As a result of implementing Governmental Accounting Standards Board Statement No. 14, the University has blended the financial statements of the University of North Carolina at Chapel Hill Foundation, Inc. in the accompanying financial statements. This change in accounting principle resulted in a restatement of beginning fund balance as follows:

	Unrestricted General	Restricted	Endowment	Unexpended Plant	Investment In Plant
Fund Balance June 30, 1993 as Previously Reported	\$37,536,000	\$66,205,000	\$212,158,000	\$20,573,000	\$838,186,000
Restatement Due to Implementation of GASB #14	1,329,000	7,949,000	45,322,000	10,855,000	440,000
Fund Balance July 1, 1993 as Restated	\$38,865,000	\$74,154,000	\$257,480,000	\$31,428,000	\$838,626,000

1993-94 Board of Trustees

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(The expiration date of each trustee's term is given in parentheses.)

The 1994 Financial Report of The University of North Carolina at Chapel Hill, was printed with non-state funds and prepared by the Controller's Office at the University of North Carolina at Chapel Hill.

The University of North Carolina at Chapel Hill is a constituent institution of The University of North Carolina.

Produced by Design Services for the UNC—
Chapel Hill Controller's Office.

