

FINANCIAL REPORT



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

Chapel Hill, North Carolina
FISCAL YEAR ENDED JUNE 30, 1995

## Comprehensive Annual

FINANCIAL REPORT

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

## Table of CONTENTS

Introductory Section	
Message from the Chancellor	4
Letter of Transmittal	6
Board of Trustees	18
Chancellor's Administrative Council	18
Organization Chart	19
University Mission	20
Financial Section	
Report of the Independent Auditor	23
Basic Financial Statements	
Balance Sheet	24
Statement of Changes in Fund Equity	26
Statement of Current Funds Revenues, Expenditures, and Other Changes	28
Index to the Notes to the Financial Statements	29
Notes to the Financial Statements	30
Statistical Section	
Schedule of Current Funds Revenues by Source	48
Schedule of Current Funds Expenditures and Mandatory Transfers by Function	50
Schedule of Revenue Bond Coverage	52
Schedule of Debt Service to Current Funds Expenditures	52
Faculty and Staff Statistics	53
Admissions, Enrollment and Degree Statistics	54

## Introductory

SECTION



## Message from the Chancellor

The University of North Carolina at Chapel Hill is at a turning point. As the State's flagship and nation's first public university, Carolina's history is unique. If North Carolina's first university is to sustain its impressive tradition and provide the State with the quality service it needs and deserves in the next century, we must take a hard look at the way we do business.

Two hundred years of exemplary service is a legacy to be proud of — but not to rest on. In the face of tough financial constraints, we have carried out our mission with facility and enthusiasm. The challenges ahead will demand even more dedication and creativity. We must reinforce the extraordinary efforts of faculty, staff, and administrators with prudent planning and priority-driven resource allocation.

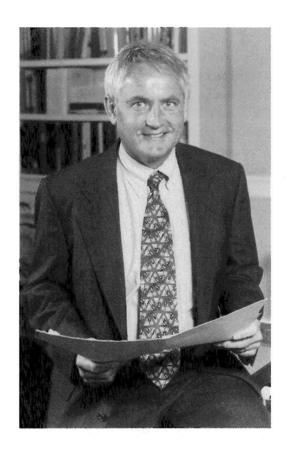
As this document indicates, the University has a strong foundation to build on. The 1995 Financial Report clearly shows that UNC-Chapel Hill is a responsible steward of the resources entrusted to it by the State, the federal government, and the private sector. Investments in our faculty, facilities, and technical infrastructure are paying off for our students and for the State's economic development.

I am convinced that if the University is effectively to promote North Carolina's leadership in the transition from an energy-based to a knowledge-based economy, two fundamental changes must occur:

First, the University must squarely face new external realities and internal limitations. I know, for instance, that we can do better at managing administrative costs. Effective management in today's environment requires that we shift existing resources to mission-critical, high-quality programs. To do this, the internal community must determine its top priorities and develop good measures of quality. Only by knowing how well we are doing can we chart an aggressive course for improvement.

Real gains will depend on a highly-efficient, focused administrative structure. That structure exists solely to promote the best work of our faculty and students. Greater management efficiency and productivity will yield the sound strategic decisions that will enable the University to flourish in every sphere of operation as it redefines its future.

The second fundamental change that we must bring about is a new partnership with the State. This tighter and stronger bond should emerge rapidly as the University increases its accountability, and as the State recognizes that it will need more and better graduates, service, and research if it is to compete successfully in the global economy. Reciprocity and trust will be the key elements of this new partnership. This 1995 Report on the University's finances and operations is a first step in that direction.



Michael Hooker, Chancellor
The University of North Carolina at Chapel Hill

Many thanks are due to the citizens of North Carolina and the members of General Assembly whose essential support promotes UNC-Chapel Hill's contributions to the State's economic, social, and cultural vitality. The University is indebted as well to the Board of Governors, the University of North Carolina's General Administration, the Board of Trustees, and the many staff employees and faculty members whose daily work is Carolina's lifeblood.

Having set our sights on the complementary goals of increased accountability and greater reciprocity, I ask that we work diligently together to realize them. The labor may be strenuous at times, of course. But it will pay off handsomely — for us and for the generations to come.



## THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

Office of Business and Finance

CB# 1000, 300 South Building University of North Carolina at Chapel Hill Chapel Hill, N.C. 27599-1000

#### LETTER OF TRANSMITTAL

November 1, 1995

To Chancellor Hooker, Members of The Board of Trustees, and Friends of The University of North Carolina at Chapel Hill:

#### INTRODUCTION

This Comprehensive Annual Financial Report includes the financial statements for the year ended June 30, 1995, in addition to other information useful to those we serve and to those to whom we are accountable. Responsibility for the accuracy of the information and for the completeness and fairness of its presentation, including all disclosures, rests with the management of the University. We believe the information is accurate in all material respects and fairly presents the University's financial position, as well as revenues, expenditures, transfers, and other changes in fund balances. The Comprehensive Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the University's operations for the year ended June 30, 1995. The report is organized into three sections.

The Introductory Section includes a message from the Chancellor, the transmittal letter, a listing of the University Board of Trustees, the Chancellor's Administrative Council, and an organization chart. Also included is information on major University initiatives, as well as financial and economic data. This section is intended to acquaint the reader with the organization and structure of the University, the scope of its operations, its financial activities, the significant factors

contributing to the current fiscal environment, and anticipated factors influencing our future.

The Financial Section presents the basic financial statements and a report of the Office of the State Auditor. The basic financial statements are prepared 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, which allows for reasonable comparisons of the University's financial position, as well as revenues, expenditures, transfers, and other changes in fund balances with peer institutions.

The Statistical Section contains selected financial, statistical, and demographic information. This information is intended to present to readers a broad overview of trends in the financial affairs of the University.

The financial statements in the Financial Section present all funds for which the University's Board of Trustees is accountable. Although legally separate, The University of North Carolina at Chapel Hill Foundation, Inc. is reported as if it were part of the University based on Governmental Accounting Standards Board Statement 14. The Foundation's sole purpose is to aid, support, and promote teaching, research and service in the vari-

ous 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 sixteen campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

#### **ECONOMIC CONDITION AND OUTLOOK**

For many years, economic growth in North Carolina has outpaced that of the United States as a whole and 1995 continued this trend. In 1929, total personal income in North Carolina represented 1.22 percent of the United States. By 1945, the North Carolina share had grown to 1.76 percent, and in 1994, it was 2.45 percent, exactly double the 1929 share. For the period 1945-1995, personal income growth in North Carolina averaged 8.22 percent per year, well above the national average of 7.5 percent a year.

Most of this growth in the North Carolina share of total personal income has come more from rising incomes in relation to the national average rather than from population growth. While the population of North Carolina was 7,070,000 people in 1994, up 100.7 percent from 1945, the entire United States had a population increase of 95.2 percent over the same period. The North Carolina share of total United States population was 2.72 percent in 1994, up only slightly from the 2.64 percent share recorded in 1945. Population growth was 1.45 percent per year from 1945-1994, only slightly above the 1.37 percent per year growth rate for the entire United States.

Total personal income in 1995 will average about \$150 billion in North Carolina, giving us an economy that is the 13th largest in the United States.

North Carolina consistently has the lowest unemployment rate among the eleven leading industrial states. The unemployment rate should average around 4.6 percent for 1995, a full percentage point below the national average.

The North Carolina economy is one of the most diversified in America, with a significant part of its growth coming from knowledge-based industries such as computers, pharmaceuticals, specialty chemicals, and telecommunications. Health-based industries are also major sources of employment growth. The University of North Carolina at Chapel Hill is a major contributor to these trends.

In March, 1996, the current economic expansion will be 60 months old. This will make it the third longest expansion in the postwar period.

Economic growth should continue throughout 1996 and beyond. There is no sign of an increase in the rate of inflation that is usually a harbinger of an impending recession.

The state of North Carolina has seen the number of people employed increase faster than the national average for over 50 years now. Similarly, the increases in personal income in North Carolina have also been better than the total United States. There is no reason to expect that these trends will not continue for 1996 and 1997 and well into the 21st century.

#### **MAJOR INITIATIVES**

#### Reaffirmation of Accreditation

An institutional self-study report was developed in preparation for reaffirmation of accreditation by the Commission on Colleges of the Southern Association of Colleges and Schools. The reaccreditation self-study reaffirmed that teaching, research, and public service are three mutually enriching aspects of the University's indivisible mission and that our faculty overwhelmingly consider teaching their highest priority. Faculty actively engage undergraduate students in learning outside of traditional classroom settings, helping them achieve by far the highest graduation rate for a public university in North Carolina and the third

highest nationally among public institutions in the Association of American Universities.

The visiting team of senior administrators concurred with our assessment, noting in its report, "The education of students appears unmistakably as the central mission of the University." It commended the faculty as a singular group of teachers and scholars as well as for their contribution to the quality of learning, especially for undergraduate students.

The team praised the self-study, calling it exemplary in both content and creation, especially commending the involvement of the whole campus. "We hope that other institutions may look to this self-study for guidance in framing their own approaches to assessment," the team said. The team also commended the University for its comprehensive public service program, the consistent integrity of its athletic programs, the College of Arts and Sciences, the libraries, the Department of University Housing, and for the clear path that it has charted toward implementation of the self-study's suggestions.

#### College of Arts and Sciences

The College of Arts and Sciences (College) won a \$300,000 Ford Foundation grant for campus diversity initiatives. This grant funds summer institutes for faculty and FOCUS, an undergraduate mentoring program to encourage minorities to enter graduate school for teaching and research careers. Members of the faculty within the College were recognized with honors and were elected Fellows of such organizations as the National Academy of Sciences, American Academy of Arts and Sciences, American Association for the Advancement of Science and National Academy of Engineering. Professor Ernest L. Eliel in Chemistry was awarded the prestigious Priestly Medal from the American Chemical Society.

#### School of Education

U.S. and News and World Report's national panel of 1,000 school superintendents ranked the School of Education (School) second among public schools of education and fifth overall. The School initiated child development and family studies, a

new four-year program focusing on birth to kindergarten that combines instructional expertise from across the campus. The program, with its first students enrolling fall 1995, prepares teachers to work in community settings for infants, tod-dlers, preschoolers, and their families with special emphasis on at-risk populations. This program will be headed by the new William C. Friday Distinguished Professor established by the School of Education after a successful \$1 million fundraising campaign.

#### School of Law

An innovative program using oral history techiques to teach ethics and professional values earned a \$200,000 grant from the W.M. Keck Foundation. The School of Law also took the lead in designing and implementing the African Law Initiative, an effort of the American Bar Association, with 15 other United States law schools and 11 law schools in eight African countries to begin collaborative work under auspices of the U.S. Information Agency. In celebrating its sesquicentennial, the School of Law produced a special program on early North Carolina legal history and the role of lawyers, which aired on WUNC TV.

#### University Library

The breadth and depth of the libraries' databases expanded significantly this year with four new programs, including GPO Access, a government-sponsored electronic gateway to such heavily used sources as the Congressional Record and General Accounting Office reports. Only six other United States libraries offer this resource. The Library once again ranked first in the Southeast and 19th among research libraries in the United States and Canada.

#### Institute of Government

Providing a unique service to people across the State and throughout the world, the Institute of Government added NCINFO, offering free, 24-hour access to data ranging from legislative updates to background on proposed rules affecting local government. The project is a collaboration

among the Institute, the North Carolina League of Municipalites, and the North Carolina Association of County Commissioners.

#### School of Social Work

Planning for two new programs benefiting the State of North Carolina is underway in the School of Social Work. The Frank A. Daniels Institute for Human Services Policy Information will take human service data collection and interpretation to a level not found in many other states. The Institute for Families focuses on stengthening families through collaborative work across the campus and the State. It will provide technical assistance, education, and training to policy makers, program leaders, and service providers to develop creative approaches to stengthening families.

#### Kenan-Flagler Business School

Executive education continues to grow and enrich corporate-university partnerships. The School received an \$8 million gift from the William R. Kenan, Jr. Charitable Trust to create the Paul J. Rizzo Center for Executive Education scheduled to open at the same time as the School's eagerly anticipated new building in July 1997. The School serves as a trailblazer in providing customized executive education programs for corporations such as Kaiser Permanente, Armstrong World, and Johnson & Johnson. These corporateuniversity partnerships provide unique opportunites to assist the business community and to enrich the University's research and teaching mission, not only in business, but also in other disciplines across campus.

#### School of Jouranalism and Mass Communication

Students in the School of Journalism and Mass Communication (School) earned the School a third place in photojournalism and a fifth in writing competition in the Hearst contest, a contest which is often referred to as the Pulitzer Prize of college journalism. Faculty member, Chuck Stone, was awarded the Free Spirit Award from the Freedom Forum. The School's first accelerated Ph.D. students were chosen for The Freedom

Forum Ph.D. Program. Further, the School's Ph.D. program was ranked second among programs in the United States by the Association for Education in Journalism and Mass Communication (AEJMC), a ranking based on research presentations by graduate students at AEJMC conferences during the past six years.

#### School of Information and Library Science

The most recent national study conducted ranking schools of this type ranked the School of Information and Library Science's faculty and programs among the top five, and its master's degree program as number two in the nation. Further, a study of research and publication productivity of faculty in schools of information and library science found the University of North Carolina at Chapel Hill's School to be tied for the most productive in the nation. Presently, the School's faculty concluded that an undergraduate information systems minor should be investigated for inauguration in the near term.

#### Graduate Studies and New Initiatives in Research

During fiscal year 1995, research programs at The University of North Carolina at Chapel Hill attracted \$274 million in grants and contracts. The University's 8,500 graduate and professional students supported much of this productivity. One of the nation's top-ten public universities in graduate education, the University produces about 375 new PhDs each year. In 1995, eight of the University's graduate programs ranked in the top third nationally, according to *U. S. News and World Report*.

The University has launched several new initiatives to increase the application and productivity of research. The Office of Technology Development, created to direct licensing, patenting, and activities related to the commercial application of research, accelerated the transfer of new technologies in business and medicine. For fiscal 1995, the University filed 71 patents and disclosed 91 inventions. Many of these inventions may result in new economic growth for North Carolina. Since 1979, five new high-tech companies have been created as a direct result of

University inventions. During the same period, people with ties to the University created 11 new companies that now employ a total of 1,240 people in North Carolina alone.

The Proposal Development Initiative, a cooperative project of several University divisions, teaches grantwriting to faculty and assists during proposal preparation. The Office of Research Development expanded its research and academic relationships with Hoechst Celanese, DuPont, Corning Life Sciences, Glaxo-Wellcome, and other companies, creating an array of new projects and interactions. The University accelerated development of its computer-based information systems to support research. During fiscal 1995, the GrantSource service of the Office of Research Services provided access for more than 56,000 online searches to faculty and students pursuing new funding.

#### Division of Health Affairs

The Office of the Vice Chancellor for Health Affairs has been awarded a grant from the Pew Health Commission to further the efforts of our faculty to increase the number of courses in which students learn through their work on site in community settings. Given the major developments that are occurring in the delivery of health care in the United States, it has become vitally important to educate students who can function effectively as members of multi-disciplinary teams in a variety of community settings. Ours is the only one of the 18 Pew-funded projects to involve all five human health disciplines: Dentistry, Medicine, Nursing, Pharmacy, and Public Health.

#### School of Dentistry Service Growth

As part of our commitment to serve the people of North Carolina, each school within the Division of Health Affairs continues to place considerable emphasis on providing cutting edge continuing education to the state's health professionals. The School of Dentistry experienced a particularly notable year in this regard. Fifty faculty members presented 175 courses throughout the state via the AHEC program in 1994-1995, up from the previous all time high of 152 courses. Over 5,000 den-

tal professionals in North Carolina attended these programs. In addition, the faculty presented another 46 courses serving 3,292 participants through the School's Office of Continuing Dental Education.

#### Cystic Fibrosis (CF) Research

The School of Medicine continued its multifaceted attack on cystic fibrosis. New accomplishments included the initiation of the first human gene transfer study to be conducted at the University. Twelve CF patients were admitted to the General Clinical Research Center and received intranasal solutions containing a replication-defective adenovirus carrying the Cystic Fibrosis Transmembrane Conductance Regulator (CFTR) gene. The patients were later examined for expression of the CFTR gene and for changes in transmembrane potential. On another front, a team of surgeons successfully performed the state's first bilateral-lobe lung transplant from living, related donors of a cystic fibrosis patient in December, 1994.

#### School of Medicine Grant and Award

The Kate B. Reynolds Charitable Trust funded a \$2.4 million program in the School of Medicine's Department of Medical Allied Health to study the effectiveness of technology designed to help individuals with movement, sensory, or communications impairments. This effort, led by Dr. David Yoder, is directed at disabled adults in rural and other underserved areas of North Carolina.

Oliver Smithies, D.Phil., Excellence Professor of Pathology, School of Medicine, received the 1994 Alfred P. Sloan, Jr. Award for the nation's most outstanding recent basic science contributions to cancer research. Dr. Smithies shared the award with Mario Capecchi, Ph.D., of the Howard Hughes Medical Institute.

#### School of Nursing Initiative

This was a banner year for the School of Nursing (School). In an article published in *Nurse Educator* in early 1995, the School was ranked by nursing deans and scholars as ninth in the nation, up from 30th in the last survey completed in

1988. In another article, published in *U.S. News* and *World Report* this spring, the School's graduate program was ranked sixth in the nation. A report issued this spring by the National Institutes of Health noted that the School was ranked fourth in the country in total research dollars awarded to schools of nursing.

Within the School of Nursing, the Center for Research on Preventing and Managing Chronic Illness in Vulnerable People (Center) was created. The long-term goal of the Center is to identify ways to help vulnerable individuals and groups to establish and maintain effective preventive and illness-management activities. The new Center is funded by a five-year, \$1.6 million grant from the National Institute for Nursing Research.

#### Global Health Focus

While the large majority of our faculty's efforts to keep health professionals up-to-date with developments in their fields is concentrated in North Carolina, other programs are designed for people elsewhere in the nation and world when the need exists. A particularly shining example of one such program is the Executive Program in Health and Population for Developing Countries, directed by Prof. Sagar Jain, Department of Health Policy and Administration, School of Public Health. The program, located both in India and Chapel Hill, provides coursework leading to a Masters in Public Health degree for 12-15 students each year from a variety of developing nations. The first class graduated in July, 1994. The program was awarded the First Place Award for Excellence, Innovation, and Cost-Effectiveness by the National University Continuing Education Association Division of Certificate and Non-Traditional Degree Programs.

#### Summer Minority Public Health Institute

The Department of Biostatistics within the School of Public Health held the first annual Summer Minority Public Health Institute in June, 1995. The Institute is designed to improve research methods, decision-making, policy development, and planning for minority health. It focuses on issues and solutions concerning collecting and analyzing data for minority populations, studying the

relationship between race and socioeconomic status, reducing barriers to conducting research in minority communities, and devising surveys to study minority populations.

#### Injury Prevention Research Center

For the first time in ten years, the Division of Health Affairs added a major, independent research center, the Injury Prevention Research Center (Center). The Center continues and expands the work it began in 1987 as a joint program of the Center for Health Promotion and Disease Prevention and the Highway Safety Research Center. The Center's mission is to stimulate and participate in interdisciplinary research and to facilitate the translation of research into injury control policies and programs for prevention, acute care, and rehabilitation, with particular emphasis on issues of state and regional significance.

#### Development Bicentennial Campaign Roundup

The largest fund-raising campaign in Carolina's history ended June 30, 1995, with more than \$440.2 million in gifts, grants and pledges. This total for a completed campaign is the fourth largest ever at a public university. The Bicentennial Campaign met — and exceeded — its campaign goals twice. In 1994, the original goal of \$320 million was met 15 months early, and in January of this year, the campaign reached the revised goal of \$400 million.

Of the \$440 million given and pledged, approximately one third will be allocated to the University's endowment including affiliated foundations. The endowment has increased by more than \$82 million in gifts paid, with another \$66 million gifts pledged. By the broadest measure, the University's endowments now exceed \$500 million, including the endowment funds held by affiliated foundations.

More than 600 individual endowment funds were created during the campaign to benefit nearly every area of the University. Students will benefit from 135 new funds to support undergraduate scholarships and 80 funds for graduate and professional fellowships. Also, 90 new funds will sup-

port faculty members. University libraries will benefit from 85 new funds to support book purchases, journal subscriptions, and technology enhancements.

#### Campaign Highlights

Gifts of all sizes made the campaign a success. A total of 122,000 individuals, corporations, and foundations contributed. The largest donors to the campaign were the Kenan family and William R. Kenan Charitable Trust with nearly \$31 million in contributions. At the other end of the spectrum, thousands of donors gave \$100 or less. Yet those gifts, added up, will provide many new opportunities to departments, programs, and libraries campuswide.

The second largest share of campaign contributions, 28 percent, came from foundations. In 1994, Carolina ranked 4th in the nation among public universities for grants received from foundations, 18th among all universities, and 25th among all charitable organizations, as reported by *The Chronicle of Philanthropy*, May 18, 1995.

Alumni contributed the largest single share of campaign dollars at 35 percent, for a total of \$151.8 million. Carolina's alumni are among the most generous in the nation. In 1994, the University of North Carolina at Chapel Hill ranked 3rd nationwide among public universities for total dollars donated by alumni.

Faculty and staff members were generous contributors. Their total, through the six-year campaign, was \$9.9 million. They were particularly generous during the 1993 Campus Campaign, when 34 percent of all faculty and staff members gave despite feeling the pinch of several lean State budget years.

Most schools and units met their campaign goals, and most University-wide subgoals were met or exceeded. But some needs will remain after the campaign. One such need is capital funds, which are invested in long-lived assets such as new buildings. The campaign goal for capital projects was \$94.5 million; \$65.2 million, or 67 percent, has been raised. University fund-raisers will continue to seek gifts for capital projects even though the campaign is officially at an end.

In June, 1995, the University was notified that for the second year in a row it had been picked to receive a CASE Circle of Excellence in Educational Fund Raising Award. Only 11 schools in the nation received this award in the category of public research universities.

#### University Career Services

University Career Services is continuing to use technology to provide state-of-the-art programs and services to students and employers. Recently, with a subsidy from Procter & Gamble, the department purchased ViewNet, a desk-top video interview system. ViewNet allows employers to interview students from a remote location without the high cost of travel and time generally incurred by a campus visit. Video interviewing is especially useful for employers who wish to screen a few candidates for internships or before bringing them to the company location for a full on-site interview. The University is part of a consortium of ACC-SEC universities that has agreed to share ViewNet equipment in order to extend its use by employers. For example, an employer located in Atlanta may use Georgia Tech's ViewNet equipment to interview Carolina students.

University Career Services has also implemented electronic registration for students. Seniors and graduate students wishing to register with University Career Services are given a pre-formatted diskette with a skeleton resume. Students complete the information on the diskette and return it to be copied into a registrant database. The database allows University Career Services to print students' resumes and send them to employers seeking candidates for specific job openings. The database allows University Career Services to search for specific skills as well as other criteria sought by an employer, such as "students who speak Spanish, have spreadsheet skills, and are graduating in December."

#### Capital Construction

Eight capital projects totaling \$68.3 million were completed during the year, including a \$32.9 million Thurston Bowles Building housing the Center for Alcohol Studies and the Arthritis Research

Center, and a \$32 million building for the Environmental Protection Agency. Construction is underway on 15 projects with construction budgets totaling more than \$103 million. Major projects include a \$31.1 million building for the Kenan-Flagler School of Business and a \$18.8 million addition to the Lineberger Cancer Research Center Building. The \$10.1 million Tate Turner Kuralt Building for the School of Social Work was dedicated in June 1995.

The University received an allocation of \$8.4 million from the State's Reserve for Repairs and Renovations, which is a significant increase over previous funding levels for deferred maintenance and utilities projects. The allocation was based on efforts by the State to designate funds using a formula that recognized plant replacement values. This allocation will allow the University to begin to address the most pressing deferred maintenance needs with the hope that this increase in funding will continue in the future.

#### Planning Initiatives

Several planning initiatives for our third century were started during fiscal year 1995, and a University-wide planning committee was formed to coordinate those initiatives and provide an umbrella organization that will facilitate the entry of our new chancellor into the planning process. Subjects being studied by the various planning groups include land-use planning, post-campaign development strategies, the Graduate School, and issues of special concern to women and minorities. The University has actively involved our host communities in land-use planning, especially with respect to the Horace Williams and Mason Farm properties.

#### Process Improvement Initiatives

Several units within the University have begun using the management strategy commonly known as continuous quality improvement to enhance University processes. Units actively using the strategy are Business and Finance, Student Affairs, University Legal Counsel, School of Dentistry, and School of Nursing. Medical School faculty have participated in UNC Hospitals' continuous quality improvement effort. The Kenan-Flagler

Business School and the School of Public Health offer instruction in quality strategies.

The Division of Business and Finance is currently sponsoring several cross functional teams comprised of division employees and campus customers. One team is reducing the time and cost for building renovations. Another is reducing the time and cost for small purchases by implementing a purchase card. A third team is reducing the number of signatures required on business forms, in order to speed up transactions. Two other Business and Finance teams are examining additional uses for the University OneCard and improving access to Human Resources information. In addition to saving time and money and enhancing customer satisfaction, the teams are improving communication across functional lines.

#### FINANCIAL INFORMATION

#### Internal Control Structure

The Business and Finance Division of the University is responsible for establishing and maintaining an effective system of internal control. The objectives of an internal control structure are to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with appropriate authorization and recorded properly in the financial records to permit the preparation of financial statements in accordance with generally accepted accounting principles. Accordingly, organizational structure, policies, and procedures have been established to safeguard assets, ensure the reliability of accounting data, promote efficient operations, and ensure compliance with established governmental laws, regulations and policies, University policies, and other requirements of sponsors to whom the University is accountable.

As a recipient of federal financial awards, the University is responsible for ensuring compliance with all applicable laws and regulations relating to such assistance. A combination of State and University policies and procedures, integrated with the University's system of internal controls, pro-

vides for this compliance. The University undergoes an annual examination of its federal financial assistance programs in accordance with U. S. Office of Management and Budget Circular A-128, Audits of State and Local Governments.

#### **Budgetary Controls**

The University is responsible for controlling its budget and using the funds to fulfill its educational and other missions and also for planning, developing, and controlling budgets and expenditures within authorized allocations and in accordance with University, State, and federal policies and procedures. The University maintains budgetary controls to ensure compliance with provisions embodied in the annual appropriated budget approved by the North Carolina General Assembly. Project-length financial plans are adopted for capital projects.

After the budget has been approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. Business and Finance issues periodic interim budget statements to department heads to guide them in managing their budget allocations. Monthly financial reports are provided on each fund to individual managers responsible for the fund. Financial reports are also provided at the State level. When

actual conditions require changes to the budget, revisions are prepared, and these revisions are appropriately approved and communicated to those affected. Changes to the budget are approved at the University level and/or the State level as required. Based on the State's management flexibility legislation, the University has received delegated authority for designated budget changes.

The University maintains an encumbrance accounting system as another method to ensure that imposed expenditure constraints are observed.

#### Current Funds Revenues and Expenditures

In fiscal year 1995, the University expended \$919 million fulfilling its mission of instruction, research, and public service. The \$919 million consists of \$916 million in expenditures and mandatory transfers and \$3 million in refunds to grantors and other transfers. Approximately 55.5% 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 10.8% of the total.

Other uses of operating resources were for public service (7.4%); institutional support (4.1%); physical plant operations (6.5%); student

Current Funds For Year Ended June 30, 1995 (in thousands)

\$302,337		State Appropriations (32.0%) Sources\$943,469		
	\$81,465	Tuition and Fees (8.6%)		
	\$235,196	Governmental Contracts and Grants (24.9%)		
\$67,668		Private Gifts, Contracts and Grants (7.2%)		
	\$230,501	Sales and Services & Other Sources (24.5%)		
	\$26,302	Investment and Endowment Income (2.8%)		
Instruction, Acad	lemic Support and Student Services (38.7%)	\$354,744		
	Organized Research (16.8%)	\$154,817		
Uses\$919,129	Public Service (7.4%)	\$68,317		
2000	Institutional Support (4.1%)	\$37,698		
	Physical Plant Operations (6.5%)	\$59,662		
	Student Financial Aid (3.2%)	\$29,595		
Auxil	liary Enterprises and Internal Service (9.7%)	\$89,532		
	Professional Clinical Services (10.8%)	\$99,140		
	Transfers and Other Deductions (2.8%)	\$25,624		

financial aid (3.2%); and self-supporting auxiliary and related operations (9.7%). Mandatory and other transfers, refunds to grantors, and investment losses accounted for the remainder (2.8%).

Total expenditures of \$919 million represent an increase of 6.9% over the prior year. Auxiliary enterprises and internal service operations increased 11.1% over the prior year while the professional clinical services increased 1.9%. Other significant increases included organized research (10.1% increase over prior year), public service (8.7%), instruction, academic support and student services (8.1%), and student financial aid (5.6%). Lower increases were incurred for physical plant operations (2.1% increase over prior year), and institutional support (2.4%).

Resources of \$943 million supporting these expenditures increased 7.5% over the prior year which, when combined with restricted receipts of \$8 million not transferred to revenues, resulted in a \$32 million increase to the Current Funds balances. The University has a diversified revenue base as the largest single source comprises less than one-third of the resources generated. State appropriations were the largest single revenue source for fiscal year 1995 (32.0% of total, 6.5% increase over prior year). Remaining revenue sources were tuition and fees (8.6% of total, 7.9% increase), governmental contracts and grants (24.9% of total, 10.3% increase), sales and services and other sources (24.5% of total, 6.9% increase), private gifts, grants, and contracts (7.2% of total, 5.5% increase), and investment and endowment earnings (2.8% of total, 5.5% increase).

The student headcount of the University was 24,463 for the Fall semester of fiscal year 1995. Student enrollment has remained relatively stable over the last five years with an increase in headcount of 3.6%. Student enrollment for fiscal year 1995 was composed of the following categories:

Women	57.6%
Men	42.4%
White	1 11 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
African American	8.8%
Other	9.2%
	28.0%
	76.0%

#### Fund Accounting

In order to ensure observance of limitations and restrictions placed on the resources available to the University, the accounts of the university are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying comprehensive annual financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. The University's self-balancing fund groups are as follows:

Current Funds - include all unrestricted and restricted resources which are available for the operating purposes of performing the primary missions of the University. Current Funds are considered unrestricted unless restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Proprietary Funds reflecting the operations of the student stores, dormitories, and other auxiliary enterprises and internal service funds are shown separately from other Unrestricted Funds. Receipts that are restricted

are recorded as additions to Restricted Fund balances and recognized as revenue to the extent that such funds are expended for restricted purposes during the current fiscal year.

Fiduciary Funds - include Loan Funds, Endowment and Similar Funds, and Agency Funds. Loan Funds include resources received from donors, governmental agencies, and mandatory institutional matching grants which are restricted for use in making student loans. Endowment and Similar Funds are further categorized as Endowment Funds, Term Endowment Funds, Quasi-endowment Funds, and Annuity and Life Income Funds. Endowment Funds are subject to restrictions of gift instruments whereby principal is invested and only income is utilized. Term Endowment Funds are similar to Endowment Funds, except that all or part of the principal may be used after a stated period of time or on the occurrence of a certain event. Quasiendowment Funds have been established by the governing board for the same purposes as Endowment Funds, and any portions of Quasiendowment funds may be expended. Annuity and Life Income Funds are received by the University under deferred-giving agreement contracts that provide income to the donor and/or the donor's designee for life or for a fixed period of time. At the termination of the contracts, the funds become available for general institutional purposes or for any restricted purpose designated by the donor in the contract. 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 - include Unexpended Plant Funds, Debt Service Funds, and Investment in Plant Funds. Unexpended Plant Funds account for the resources utilized to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Debt Service Funds account for resources specifically accumulated for interest and principal payments, debt service reserve funds, and other debt related charges. Investment in Plant Funds account for all long-life assets of the University, construction in progress, and related debt for funds borrowed and expended for the acquisition of Plant Fund assets.

#### **Debt Administration**

The University of North Carolina at Chapel Hill has \$236.7 million of revenue bonds outstanding and \$1.4 million of notes outstanding at June 30, 1995. The bonds were issued to finance the construction and/or renovation of student housing facilities, student union facilities, parking facilities, football stadium expansion, student recreation facilities, utilities systems, ambulatory patient care facilities, hotel facilities, dental clinic facilities and a facility to be leased to the United States Environmental Protection Agency. The bonds are payable both as to principal and interest from the net revenue generated by the operations of the aforementioned facilities and are consistently rated in the AA and AAA categories by Standard and Poor's Corporation. The notes were issued for the renovation of student food service facilities and for the purchase of computer equipment. The notes are paid from fees assessed to students and from departmental funds.

#### Cash Management

The cash management plan of the University addresses control of receipts, management of disbursements, and investment of funds to maximize earnings on the investment of cash. State law requires that State appropriated funds be deposited with the State Treasurer with investment earnings accruing to the State. Many other current funds, loan funds, and unexpended plant funds are not appropriated by the State but must be deposited with the State Treasurer with investment earnings accruing to the University. Endowment, debt service, and designated other funds are invested by the University in accordance with its investment policies.

The University administers a short-term investment pool for funds not required to be on

deposit with the State Treasurer. The investment pool is administered in conjunction with cash receipts and disbursing requirements to minimize idle cash and to generate current income without loss of capital at a rate of return comparable to the North Carolina State Treasurer. The University uses the State's cash management control system to improve cash flow by electronically recording cash receipts and disbursements for funds deposited with the State Treasurer.

#### Risk Management

The University is exposed to various risks of loss related to property and employees. These risks are addressed in several ways, including participation in various State-administered risk pools, purchase of commercial insurance, and self retention of certain risks. Refer to Note 10 of the Notes to the Financial Statements for more detailed information concerning the University's risk management program.

#### OTHER INFORMATION

#### Audits

State law, federal guidelines, and certain bond covenants require that the University's accounting and financial records be audited by the Office of the State Auditor each year. Additionally, the University's Internal Auditors perform fiscal, compliance and performance audits. The reports resulting from these audits are shared with University management.

The audit of the University's federal financial assistance programs is performed by the Office of the State Auditor in conjunction with the statewide Single Audit. The accounting and financial records of the Athletic Department are audited by a public accounting firm in addition to the State Auditor review.

All of the audit reports are available for public inspection.

#### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awards certificates of achievement to governmental units that publish readable and efficiently organized Comprehensive Annual Financial Reports which conform to the Association's program standards and satisfy both generally accepted accounting principles and applicable legal requirements.

The University is participating in the GFOA program by submitting this and future reports for review and comment by GFOA. The University will strive to meet all GFOA requirements and to receive the certificate of achievement.

#### Acknowledgments

Preparation of this Comprehensive Annual Financial Report in a timely manner would not have been possible without the coordinated efforts of the University community, with special assistance from the Chancellor's Office, Academic Affairs, Health Affairs, Institutional Research, the Institute of Government, Research Services, University Career Services, News Services, the Office of Development, University Design Services, and Dr. James F. Smith, Professor of Finance in the Kenan-Flagler Business School. In addition, the Office of the State Auditor provided invaluable assistance.

Wayne R. Jones

Vice Chancellor for Business and Finance

Agne R June

## **Board** OF TRUSTEES

The University of North Carolina at Chapel Hill

David J. Whichard II Chair, Greenville, N.C.

William J. Armfield IV Vice Chair, Greensboro, N.C.

Anne W. Cates

Secretary, Chapel Hill, N.C.

Angela R. Bryant Rocky Mount, N.C.

Thomas E. Capps Richmond Va.

Walter R. Davis Kitty Hawk, N.C.

John W. Harris Charlotte, N.C. William R. Jordan Fayetteville, N.C.

Charles A. Sanders

Research Triangle Park, N.C.

Robert L. Strickland Winston-Salem, N.C.

Cressie H. Thigpen Jr. Raleigh, N.C.

Annette Fairless Wood Edenton, N.C.

George Battle

Ex Officio, Chapel Hill, N.C.

## Chancellor's ADMINISTRATIVE COUNCIL

The University of North Carolina at Chapel Hill

Michael Hooker

Chancellor

Stephen Birdsall

Dean, College of Arts and Sciences

Jane Brown Chair, Faculty

Robert J. Cannon Equal Opportunity Officer

Douglas Dibbert

President, General Alumni Association

Susan H. Ehringhaus

Assistant to the Chancellor and Senior University Counsel

Elson S. Floyd

Vice Chancellor and Chief of Staff

Garland Hershey

Vice Chancellor for Health Affairs

Douglass Hunt

Adviser to the Chancellor for Governmental Affairs

Wayne R. Jones

Vice Chancellor for Business and Finance

Matt Kupec

Associate Vice Chancellor for Development

Clifton Metcalf

Associate Vice Chancellor for University Relations

Thomas J. Meyer

Vice Chancellor for Graduate Studies and Research

Richard Richardson, Interim

Provost and Vice Chancellor for Academic Affairs

Mike Simmons

Dean of the School of Medicine

John Swofford

Director of Athletics

Harold Wallace

Vice Chancellor for University Affairs

Edith Wiggins, Interim

Vice Chancellor and Dean of Student Affairs

#### **Organization** CHART The University of North Carolina at Chapel Hill November 1, 1995 **Board** of Governors D. Samuel Neill. Chair President The University of North Carolina C. Dixon Spangler Jr. **Board** of Chancellor General Alumni The University **Trustees Association** of North William J. Anne W. Cates, Carolina at Armfield IV, Chair **Chapel Hill** Chair Douglas Dibbert, Michael Hooker President Chancellor's **Faculty** General Administrative Council Faculty Council Secretary **Assistant** Secretary **Special** Vice Chair Equal **Internal Auditor** Assistant to the Chancellor Opportunity of the of the of the Phyllis C. and Chief to the Chancellor Officer University **Faculty Faculty** Petree and Senior of Staff Chancellor Brenda W. Robert J. Jane Brown George University Vacant Elson S. Cannon Kirby Lensing Counsel Floyd Susan H. Ehringhaus Director Vice **Provost and** Vice Vice Vice Vice **Associate Associate** of Athletics Chancellor Vice Chancellor Chancellor Chancellor Chancellor and Vice Vice Chancellor Chancellor **Business** and Chancellor **Health Affairs** Graduate University Dean of John Academic Studies and **Development** University **Finance** Affairs Student Garland Swofford **Affairs** Research **Affairs** Relations Wayne R. Jones Harold Matt Kupec Hershey Richard Thomas J. Wallace Edith Clifton Metcalf Meyer Richardson. Wiggins, Interim Interim

## University MISSION

The University of North Carolina at Chapel Hill has been built by the people of the State and has existed for two centuries as the nation's first state university. Through its excellent undergraduate programs, it has provided higher education to ten generations of students, many of whom have become leaders of the State and nation. Since the nineteenth century, it has offered distinguished graduate and professional programs.

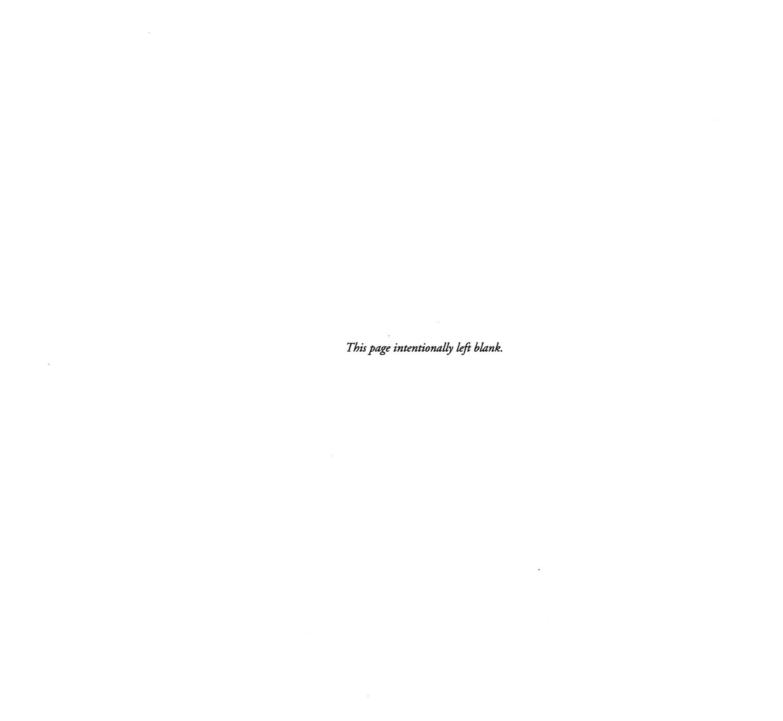
The University is a research university. Fundamental to this designation is a faculty actively involved in research, scholarship, and creative work, whose teaching is transformed by discovery and whose service is informed by current knowledge.

The mission of the University is to serve all the people of the State, and indeed the nation, as a center for scholarship and creative endeavor. The University exists to teach students at all levels in an environment of research, free inquiry, and personal responsibility; to expand the body of knowledge; to improve the condition of human life through service and publication; and to enrich our culture.

To fulfill this mission, the University must: (1) acquire, discover, preserve, synthesize, and transmit knowledge; (2) provide high quality undergraduate instruction to students within a community engaged in original inquiry and creative expression, while committed to intellectual freedom, to personal integrity and justice and to those values that foster enlightened leadership for the State and nation; (3) provide graduate and professional programs of national distinction at the doctoral and other advanced levels to future generations of research scholars, educators, professional, and informed citizens; (4) extend knowledge-based services and other resources of the University to the citizens of North Carolina and their institutions to enhance the quality of life for all people in the State; and (5) address, as appropriate, regional, national, and international needs.

This mission imposes special responsibilities upon the faculty, students, staff, administration, trustees, and other governance structures and constituencies of the University in their service and decision-making on behalf of the University.

Financial SECTION



# 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, a component unit of the State of North Carolina, as of June 30, 1995 and the related Statement of Changes in Fund Equity and Statement of 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 above present fairly, in all material respects, the financial position of The University of North Carolina at Chapel Hill as of June 30, 1995, 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.

The introductory and statistical sections, identified in the table of contents, were not audited by us, and accordingly, we do not express an opinion thereon.

Ralph Campbell, Jr.

State Auditor

October 13, 1995



## Combined BALANCE SHEET

		Current Funds	20 A
		Unrestricted	Restricted
Assets	General	Proprietary	
Cash and Cash Equivalents (Note 2)	\$59,010	\$69,183	\$72,534
Investments (Note 1D and 3)	4,705	76,855	23,282
Accounts Receivable-Students	1,344	562	
Accounts Receivable-Patients (Net)(Note 1E)		38,129	
Due from Federal Government			24,370
Accrued Investment Earnings	2,582	673	403
Other Receivables	2,363	4,502	11,238
Due from Other Funds	17,827	365	
Due from State Agencies	1,319	121	2,265
Student Loans Receivable (Net)(Note 1E)			
Inventories (Note 1F)	1,038	12,351	29
Prepaid Expenses	70	78	
Land and Improvements			
Furniture and Equipment			
Buildings and Fixed Equipment			
Other Structures and Improvements			
Artworks and Literature			
Construction-In-Progress			
Total Assets	\$90,258	\$202,819	\$134,121
	1		
Liabilities			
Accounts Payable	\$1,985	\$4,066	\$4,346
Accrued Payroll	12,912	5,240	5,417
Claims Payable		11,321	
Other Payables			
Contracts Payable-Retainage			
Due to State Agencies	1	527	
Due to Other Funds	365	7,478	16,639
Deposits Payable	8,040	780	
Interest Payable			
Accrued Vacation Leave	16,479	7,363	7,343
Deferred Revenue	750	4,025	
Notes Payable (Note 8)			
Bonds Payable (Note 8)			
Obligations Under Reverse Repurchase Agreement	ts	21,590	8,790
Arbitrage Liability			
Unamortized Bond Discount			
Advance Refunding Escrow			
Obligations Under Capital Leases (Note 9)			
Funds Held for Others			
Total Liabilities	40,532	62,390	42,535
Fund Equity			
Net Investment in Plant			
U.S. Government Grants Refundable			
Endowment			
Quasi Endowment « Unrestricted			
Quasi Endowment - Restricted			
Annuity and Life Income Funds			
Renewal and Replacement Retirement of Indebtedness			
			91,586
Restricted	40.724	140 420	91,280
Unrestricted	49,726	140,429	01.506
Total Fund Equity	49,726	140,429	91,586
Total Liabilities and Fund Equity	\$90,258	\$202,819	\$134,121

	Fiduciary Funds			Plant Funds	
Loan	Endowment and Similar Funds	Agency	Unexpended	Debt Service	Investment in Plan
****	*****		451.55	*	
\$6,271	\$35,220	\$78,186	\$64,552	\$1,013	
1,032	278,156	185,716	17,099	18,033	
2/			170	22	
26	444		170	22	
				8,728	
29,598					
				314	
					\$6,439
					245,922
					625,260
					39,830
					184,168
40.000	#212.000	*****	401.001	******	30,417
\$36,927	\$313,820	\$263,902	\$81,821	\$28,110	\$1,132,036
	\$2,629		\$3,419		
	\$2,029	\$9,823	\$5,419		
	1,798				
	1,700		2,566		
	334		2,104		
				\$3,527	
					\$1,442
			20,126	20,142	196,466
	35,611	61,534	4,837		
			111		
				(3,132)	
				(9,500)	(5
		192,545			65
0	40,372	263,902	33,163	11,037	197,973
					934,063
\$27,452					
	200,922				
	34,988				
	29,947 7,591				
	. ,			2,525	
			4/ 000	11,310	
9,106			44,000	940	
9,106 369 36,927	273,448	0	44,000 4,658 48,658		934,063

## **Statement** of changes in fund equity

	Current Funds			
	Uni	restricted	Restricted	
Revenues and Other Additions	General	Proprietary		
State Appropriations	\$302,337			
Tuition and Fees	81,465			
Federal Contracts and Grants	45,638		\$214,333	
State Contracts and Grants	1,347		28,727	
Private Gifts, Contracts and Grants	4,209	\$780	61,897	
Sales and Services	3,642	220,958	5,208	
Endowment Income	3,399	220,770	4,467	
Investment Earnings	6,501	6,003	175	
Realized Gain on Sale of Investments	222	0,003	*//	
Expended for Plant Facilities				
Retirement of Indebtedness				
Other Revenues and Additions	2,401	3,278	4,333	
Total Revenues and Other Additions	451,161	231,019	319,140	
1 otal Revenues and Other Additions	451,161	231,019	319,140	
Expenditures and Other Deductions				
Educational and General	443,544		261,289	
Auxiliary Enterprises		83,823		
Internal Service		5,709		
Debt Service Fees				
Professional Clinical Services		99,140		
Indirect Costs Recovered		a 2000 ma	49,491	
Refunded to Grantors			717	
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	1 201			
	1,391			
Other Expenditures and Deductions	444,935	188,672	311,497	
Total Expenditures and Other Deductions  Excess of Revenues Over (Under) Expenditures	6,226	42,347	7,643	
	0,220	12,517	7,013	
Transfers - Additions (Deductions)	(402)	(20, 269)	(0)	
Mandatory Transfers	(482)	(20,268)	(8)	
Non-Mandatory Transfers	2,187	(8,748)	6,112	
Interinstitutional Transfers	(2,309)			
Net Transfers	(604)	(29,016)	6,104	
Net Increase in Fund Equity	5,622	13,331	13,747	
Fund Equity July 1, 1994	44,104	127,098	77,839	
Fund Equity June 30, 1995	\$49,726	\$140,429	\$91,586	

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

	Plant Funds		iduciary Funds	1
Investment in Plan	Debt Service	Unexpended	Endowment and Similar Funds	Loan
		\$29,105		
\$2,092		689	\$9,589	\$23
+-,-,-				
	w trainer		353	51
	\$375	2,099	112	1,064
	91		12,714	29
68,590				
7,104		417	2,414	50
77,780	466	32,310	25,182	59 1,226
77,700	100	52,510	23,102	1,220
	142			
				227
		26,405		
	7,104			
10.01	14,085			
12,818			10,300	
3,82			4,436	
16,639	21,331	26,405	14,736	227
61,147	(20,865)	5,905	10,446	999
	21,517	(809)		50
	21,517	8,777	(8,545)	217
		(45)	1,336	
	21,517	7,923	(7,209)	267
61,147	652	13,828	3,237	1,266
072.014	16 (2)	15,626	3,23/ 270,211	1,266

34,830

\$48,658

16,421

\$17,073

872,916

\$934,063

35,661

\$36,927

270,211

\$273,448

## **Statement** of current funds, revenues, expenditures and other changes

The University of North Carolina at Chapel Hill Fiscal Year Ended June 30, 1995 (in thousands)

		Unrestricted			Total Curren
	General	Proprietary	Total	Restricted	Funds
Revenues					
State Appropriations	\$302,337		\$302,337		\$302,337
Tuition and Fees	81,465		81,465		81,465
Federal Contracts and Grants	45,638		45,638	\$163,164	208,802
State Contracts and Grants	1,347		1,347	25,047	26,394
Private Gifts, Contracts and Gran	nts 4,209	\$780	4,989	62,679	67,668
Sales and Services	3,642	220,958	224,600		224,600
Endowment Income	3,399		3,399	10,399	13,798
Investment Earnings	6,501	6,003	12,504		12,504
Realized Gain on Sale of Investm	ients 222		222		222
Other Revenues	2,401	3,278	5,679	Company of the Compan	5,679
Total Current Revenues	451,161	231,019	682,180	261,289	943,469
Expenditures					
Educational and General					
Instruction	218,397		218,397	82,926	301,323
Organized Research	22,600		22,600	132,217	154,817
Public Service	46,298		46,298	22,019	68,317
Academic Support	40,398		40,398	3,025	43,423
Student Services	9,573		9,573	425	9,998
Institutional Support	35,500		35,500	2,198	37,698
Physical Plant Operations	58,896		58,896	766	59,662
Student Financial Aid	11,882		11,882	17,713	29,595
Total Educational and General	443,544	0	443,544	261,289	704,833
Auxiliary Enterprises		83,823	83,823		83,823
Internal Service		5,709	5,709		5,709
Professional Clinical Services		99,140	99,140		99,140
Realized Loss on Sale of Investme	ents 1,391		1,391		1,391
Total Current Expenditures	444,935	188,672	633,607	261,289	894,896
Transfers and Additions/(Deduct	ions)				
Excess of Restricted Receipts over					
Transfers to Revenues				8,360	8,360
Refunded to Grantors				(717)	(717)
Mandatory Transfers	(482)	(20,268)	(20,750)	(8)	(20,758)
Non-Mandatory Transfers	2,187	(8,748)	(6,561)	6,112	(449)
Interinstitutional Transfers	(2,309)	7-5. E-5	(2,309)	-,	(2,309)
Net Increase in Fund Equity	\$5,622	\$13,331	\$18,953	\$13,747	\$32,700

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

# Index TO THE NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies	30
A. Financial Reporting Entity	30
B. Basis of Presentation	30
C. Fund Accounting	30
D. Investments	31
E. Receivables and Allowance for Doubtful Accounts	31
F. Inventories	31
G. Fixed Assets and Depreciation	31
H. Compensated Absences	31
I. Current Funds Revenues	32
J. Interfund Borrowing	32
Note 2 - Cash and Cash Equivalents	32
Note 3 - Investments	32
A. Mortgage Backed Securities	34
B. Other Asset Backed Securities	34
C. Futures	35
D. Options	35
E. Indirect Derivative Holdings	36
Note 4 - Interfund Receivables and Payables	37
Note 5 - Pension Plans	38
A. Retirement Plans	38
B. Deferred Compensation and Supplemental Retirement Income Plans	39
Note 6 - Other Postemployment Benefits	40
A. Health Care	40
B. Long-Term Disability	40
C. Death Benefit	40
Note 7 - Commitments and Contingencies	40
A. Construction Commitments	40
B. Contingencies	40
Note 8 - Long-term Debt	41
A. Demand Bonds	42
B. Capital Appreciation Bonds	44
C. Bond Defeasance	44
Note 9 - Leases	44
A. Capital Lease Obligations	44
B. Lease Agreements	45
Note 10 - Risk Management and Insurance	45

## **Notes** TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

#### A. Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Chapel Hill is a constituent institution of the sixteen campus University of North Carolina System which is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

The University of North Carolina at Chapel Hill is a primary entity, and serves as a reporting entity for its component units, for which the elected officials of the primary entity are financially accountable. The accompanying financial statements present all funds for which the University's Board of Trustees is accountable. Although legally separate, The University of North Carolina at Chapel Hill Foundation, Inc. (Foundation) is reported as if it were part of the University. The Foundation's 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 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.

The Foundation's financial statements have been blended with those of the University. Separate financial statements for the Foundation may be obtained from 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.

#### 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 with the unrestricted and restricted funds shown separately. 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 Loan Funds, Endowment and Similar Funds, and Agency Funds held by the University. The Agency Funds are those funds belonging to students and organizations which are 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 market value per unit 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 average 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 Loan Funds are shown in the accompanying financial statements net of the allowance for doubtful accounts of \$19,473,000, \$105,000, and \$956,000 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 and 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

The General Statutes of North Carolina 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 moneys 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 \$385,969,000. At year-end, cash on hand was \$60,000. The carrying amount of the University's deposits with the State Treasurer was \$379,710,000 and the bank balance was \$384,166,000. It is the State Treasurer's policy and practice for the deposits not covered by federal depository insurance to be covered by collateral 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 \$6,199,000 and the bank balance was \$9,330,000. Of the bank balance, \$1,105,000 was covered by federal depository insurance or by collateral held by the University's agent in the University's name, and \$8,225,000 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. North Carolina General Statutes 147-69.1(c) and 147-69.2 authorize the State Treasurer to invest in the following:

Obligations of or fully guaranteed by the United States and the obligations of certain federal agencies; Repurchase agreements; Obligations of the State of North Carolina; Savings certificates issued by specified savings and loan associations; Certificates of deposit issued by specified banks; shares of or deposits in specified savings and loan associations; Prime quality commercial paper bearing specified ratings; Bills of exchange or time drafts drawn on and accepted by specified commercial banks and eligible for use as collateral by member banks in borrowing from a Federal Reserve Bank; General obligations of other states in the United States; General obligations of cities, counties, and special districts in North Carolina; Asset-backed securities (whether considered debt or equity) bearing specific ratings; Obligations of any company, other organization or legal entity bearing specified ratings; Notes secured by mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration on real estate located within the State of North Carolina; Limited partnership interest in partnerships which are managed primarily for the purpose of investment in venture capital or corporate buyout transactions, not to exceed \$30 million; Obligations or securities of the North Carolina Enterprise Corporation, or of a limited partnership in which the North Carolina Enterprise Corporation is the only general partner, not to exceed \$20 million.

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 \$4,305,000.

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, 1995 were:

(in thousands)

		(III II) OUSLING
	Market Value	Book Value
Investments by Fund Type:		
Endowment	\$237,153	\$195,358
Quasi Endowment Unrestricted	44,141	41,551
Quasi Endowment Restricted	40,362	29,225
Annuity and Life Income Funds	13,410	12,012
Term Endowment	10	10
Total	\$335,076	\$278,156
Pooled and Non-pooled:		
Money Market	\$5,810	\$5,810
Equities	149,007	108,380
Fixed Income	105,052	98,851
Other	75,207	65,115
Total	\$335,076	\$278,156

University investments are categorized below to give an indication of the level of credit 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 financial institution'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 a financial institution's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 1995 is presented below.

ties are neid by the imancial ins	stitution's trust	mems a	t June 50, 1	by is presented	DCIOW.
		Category		Carrying	Market
(in thousands)	1	2	3	Amount	Value
Categorized Investments:					2
U.S. Government Securities	\$76,828	\$836	\$0	\$77,664	\$82,116
Collateralized Mortgage Obligations	30,782	0	0	30,782	31,446
State and Municipal Securities	10,866	0	0	10,866	10,668
Corporate Bonds	25,076	0	0	25,076	26,841
Corporate Stock	107,340	250	635	108,225	131,449
International Bonds-Corporate	3,183	0	0	3,183	3,397
International Stocks	31,511	5	0	31,516	61,293
Total Categorized Investments	\$285,586	\$1,091	\$635	\$287,312	\$347,210
Investments held by Broker-Dealers Unde Repurchase Agreements - U.S. Gove				135,724	136,493
Repurchase Agreements - U.S. Gove	ernment Securities			135,724	136,493
Money Market Funds				34,545	34,545
Mutual Funds				59,941	62,257
Real Estate				9,923	9,923
Certificates of Deposit				3,167	3,167
Limited Partnerships				71,681	83,844
Other Investments				2,585	2,709
Total Investments Not Categorized				\$317,566	\$332,938
Total Investments				\$604,878	\$680,148

The University believes it is in compliance with all legal, regulatory or contractual provisions including the investment policy of the University and the University Foundation, and the laws and regulations of the State of North Carolina

#### A. Mortgage Backed Securities

The University invests in mortgage backed securities issued by an agency of the United States Government, GNMA, government sponsored enterprises (FHLMC, FNMA), private trusts and private corporations. The securities held by the University as of June 30, 1995, include mortgage pass-through securities and collateralized mortgage obligations (CMOs). The book value of these securities reflects their cost or amortized cost.

The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The values of mortgage backed securities are generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. Mortgage pass-through securities pay the holder of the security the principal and interest amounts received from the underlying pool of mortgages as these amounts are collected from the mortgage holders. In a CMO, cash flows from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple classes with different priority claims and payment streams (commonly referred to as tranches.) A holder of the security thus chooses the class of security that best meets risk and return objectives. Both passthrough securities and CMOs are subject to significant market risk due to fluctuations in interest rates, prepayment rates and various liquidity factors related to their specific markets.

The mortgage pass-through securities held by the University are issued by GNMA, FNMA and FHLMC. The pass-through securities held by the University do not include non-traditional pass-through securities such as interest-only or principal-only strips. The mortgage pools underlying the GNMA pass-through securities are made up of FHA-insured or VA-guaranteed mortgage loans. The FNMA and FHLMC securities are collateral-

ized by pools of GNMA, FNMA or FHLMC securities.

The CMOs held by the University are issued by FNMA, FHLMC and by certain trusts and private corporations. These securities are collateralized by pools of GNMA, FNMA and FHLMC securities.

Both traditional pass-through securities and CMOs are subject to credit related losses in the event of non-performance by the issuers of these instruments. The securities issued by GNMA are backed by the full faith and credit of the U.S. government. FHLMC and FNMA have guaranteed full and timely payment of principal and interest from the underlying pools of mortgages. The University does not expect any issuers, including the private trusts and corporations, to fail to meet their obligations given their high credit ratings. As of June 30, 1995, all pass-through securities and CMOs held by the University had AAA ratings by Standard & Poor's and Moody's Investors Service.

#### B. Other Asset Backed Securities

The University invests in various asset backed securities. As of June 30, 1995, these securities include mortgage servicing rights issued through the United States Small Business Administration (SBA), automobile loan securitizations and credit card securitizations. The University also invests in securities issued through the SBA which pay monthly interest at a rate equal to the prime rate minus 2% and the par value of the security at maturity. The book value of these securities reflects their amortized cost.

The University invests in the various asset backed securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities. The SBA floating rate securities are used as a hedge against a rise in the level of interest rates.

The values of these securities are generally based on the cash flows to be received from the underlying pools of assets. Accordingly, these securities are subject to significant market risk due to fluctuations in interest rates, prepayment rates and various liquidity factors related to their specific markets. For the SBA floating rate securities, the coupon income from holding these securities

varies with the level of interest rates. As interest rates rise, these securities pay higher levels of coupon income, and as rates fall, the interest income declines.

These security holdings are subject to credit related losses in the event of non-performance by the issuers or counterparties to these instruments. However, the University does not expect any issuers or counterparties to fail to meet their obligations given their high credit ratings. The credit risk is reduced by the assets that collateralize these securities which could be liquidated at market values at the time of non-performance. The SBA floating rate securities are backed by the full faith and credit of the U.S. government.

#### C. Futures

The University purchases and sells equity index futures and futures on domestic and foreign securities and currencies. The University uses the futures market to securitize excess cash holdings, to gain exposure to non-U.S. markets, to exploit foreign interest rate yield opportunities, to diversify its overall investment portfolio, to lower its transaction costs and to improve its liquidity.

Futures contracts are traded on margin on various futures and options exchanges. Since there is no direct cost in establishing any given futures position, the book value of these securities is recorded at a \$0. The margin amounts remitted by the University to the brokerage houses are reflected in the University's cash and cash equivalent or government securities holdings. Gains or losses from trading the futures are recognized in income when the futures positions are closed or liquidated. Unlike most securities investments, the losses on futures contracts can exceed their cost of \$0. As of June 30, 1995, the futures held by the University had an unrealized gain of \$319,716.

The market value of a futures contract is dependent on the value of its underlying cash market security or securities. Accordingly, the futures contracts held by the University are sensitive to changes in their respective foreign currency rates or security values. They are also sensitive to changes in the level of interest rates.

The University trades futures on organized exchanges which mitigates its credit risk of default by a counterparty. As of June 30, 1995, the futures contracts held by the University had expiration dates not exceeding September 1995.

#### D. Options

The University purchases and sells options on futures of foreign securities and currencies. All options are traded through domestic and foreign exchanges.

The University uses the options to hedge certain of its futures positions, to gain exposure to non-U.S. markets, to exploit foreign interest rate yield opportunities, and to further diversify its overall investment portfolio.

The University records the book values of long and short call and put option contracts at the option premium paid (if the option is purchased) or collected (if the option is written). The University records the book value of the options in an investment account at an amount equal to the quantity of contracts purchased (sold) at the respective option premium price paid (collected). When the option contract expires, or is repurchased or exercised, the University records any resulting gain or loss in related income accounts. Certain of these options were purchased with a foreign currency. The cost of the positions have been converted to U.S. dollar equivalents using the applicable spot market exchange rate on the date they were established. Unlike purchased options and most securities investments, losses on written options can exceed their cost. As of June 30, 1995, the University had purchased and outstanding option transactions with an original net premium (in U.S. dollar equivalents) of \$129,992 and a market value of \$64,455 and (written) and outstanding option transactions with an original net premium (in U.S. dollar equivalents) of (\$47,955) and a market value of (\$38,157).

The option contracts held by the University vary with changes in the market price of their underlying futures contracts and accordingly also fluctuate with changes in their respective foreign currency rates or security values.

The University's option contracts are traded on organized exchanges which mitigates its credit

risk of default by a counterparty. As of June 30, 1995, the option contracts held by the University have expiration dates not exceeding September 1995.

#### E. Indirect Derivative Holdings

The University uses various external money managers to identify specific investment funds and limited partnerships that meet asset allocation and investment management objectives. The University invests in these funds and partnerships to increase the yield and return on its investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. These investments generally include equity and bond funds. Certain of these investments expose the University to significant amounts of market risk by trading or holding derivative securities and by leveraging the securities in the fund. The book value of these investments reflects their cost.

The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes. The largest fund investments which utilize derivative securities for the fiscal year ending June 30, 1995, are described below. The amounts shown below represent the book value of the University's investment in a fund or group of funds and are not the book values of the derivatives each fund is holding.

#### The GMO Trust

The GMO trust is an open-end management investment company that offers 20 diversified and non-diversified portfolios that each have unique investment objectives and strategies. The University participates in eight of these portfolios which invest in a variety of currency, interest rate and indexed derivative securities including futures, options on futures, structured notes, structured securities, forwards and swaps. The book value of the University's investments in the portfolios as of June 30, 1995, is as follows:

Total funds invested in GMO Trust portfolios \$31,171,565
Less: Amounts due to private foundations 9,249,274
Net University funds invested \$21,922,291

The University's net holdings in the GMO Trust represent approximately 5.23% of its total investments.

#### Jaguar Fund N.V. (the "Jaguar Fund")

The Jaguar Fund intends to pursue an aggressive investment posture. Its primary investment objective is capital appreciation. The Jaguar Fund invests principally in capital stocks, warrants, bonds debentures, notes and options. The Jaguar Fund takes short positions with respect to such securities and borrows money from brokerage firms and banks on a demand basis to make such investments. The Jaguar Fund investment manager also purchases options on equity securities, stock market indices, debt securities and foreign currencies. The investment manager trades commodity futures contracts and commodity options contracts. The Jaguar Fund's assets may be further leveraged or hedged by the writing of calls and puts or by the use of commodity futures contracts and commodity options contracts. University's net book value in the Jaguar Fund as of June 30, 1995, is as follows:

Total funds invested in the Jaguar fund \$29,095,585 Less: Amounts due to private foundations 8,634,340 Net University funds invested \$20,461,245

The University's net holdings in the Jaguar Fund represent approximately 4.88% of its total investments.

### Oppenheimer Institutional Horizon Ltd. (Oppenheimer)

The Oppenheimer investment objective is to maximize total return through capital appreciation and current income from a diversified portfolio of investments in primarily securities and other obligations of companies which are experiencing significant financial or business difficulties. Oppenheimer may invest in debt obligations of troubled companies, acquire private claims and obligations of troubled companies, participate in or fund a plan of reorganization, engage in debtor in possession financing, or purchase or write covered options on individual securities. Trading options is not expected to constitute a significant portion of Oppenheimer's investment program. The University's net book value in Oppenheimer as of June 30, 1995, is as follows:

 $\begin{aligned} & \text{Total funds invested in Oppenheimer fund} & \$22,300,000 \\ & \text{Less: Amounts due to private foundations} & \underline{5,809,170} \\ & \text{Net University funds invested} & \underline{\$16,490,830} \end{aligned}$ 

The University's net holdings in Oppenheimer fund represent approximately 3.93% of its total investments.

### Teton Partners, Limited Partnership ("Teton L.P.")

The investment objective of the Teton L.P. is to achieve above-average capital returns through an actively managed portfolio of investments in companies located throughout the world. The Teton L.P. holds primarily equity and equity related securities, including options on certain securities. The investment advisor makes substantial investments in repurchase and reverse repurchase agreements, foreign currencies, commodities, futures and forward contracts and other money market instruments. Generally the securities are purchased or sold on the stock exchange in the country where the issuing company is organized, although from time to time securities, including non-publicly traded securities, may be purchased in private transactions. The University's net book value in the Teton L.P. as of June 30, 1995, is as follows:

Total funds invested in the Teton L.P.	\$20,000,000
Less: Amounts due to private foundations	5,599,200
Net University funds invested	\$14,400,800

The University's net holdings in the Teton L.P. represent approximately 3.44% of its total investments.

### Pequot Endowment Fund Limited Partnership ("Pequot L.P.")

The objective of Pequot L.P. is to invest, reinvest and trade in securities and other financial instruments and rights and options relating thereto. The Pequot L.P. invests in and sells short a variety of securities. It also writes, purchases, holds and sells and otherwise deals in call and put options on stocks and stock market indices. The University's net book value in the Pequot L.P. as of June 30, 1995, is as follows:

Total funds invested in Pequot L.P.	\$ 8,000,000
Less: Amounts due to private foundations	2,449,650
Net University funds invested	\$5,550,350

The University's net holdings in the Pequot L.P. represent approximately 1.32% of its total investments.

#### Raptor Global Fund Ltd. (the "Raptor Fund")

The Raptor Fund invests for long-term appreciation in a broad range of securities. These securities are primarily equity securities, but will also include debt securities, futures, and forward contracts, and various other derivative and hybrid instruments on a fully discretionary basis. Some of the positions taken are through leveraged transactions. The University's net book value in the Raptor Fund as of June 30, 1995, is as follows:

Total funds invested in the Raptor Fund	\$ 7,500,000
Less: Amounts due to private foundations	2,099,700
Net University funds invested	\$ 5,400,300

The University's net holdings in the Raptor Fund represent approximately 1.29% of its total investments.

### NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

Due from/to Other Funds as of June 30, 1995 are summarized below (in thousands):

Due From	Unrestricted General	Proprietary Funds	Debt Service Funds	Total Due From
Unrestricted General		\$365		\$365
Proprietary Funds	\$817		\$6,661	7,478
Restricted Funds	16,639			16,639
Endowment and Similar Funds	334			334
Unexpended Plant Funds	37		2,067	2,104
Total Due To	\$17,827	\$365	\$8,728	\$26,920

#### 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 of North Carolina or the Optional Retirement Program.

The Teachers' and State Employees' Retirement System (System) is a cost-sharing multiple-employer public employee retirement system (PERS) established and administered by the State of North Carolina to provide pension benefits for employees of the State. After five years of creditable service, employees qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.73% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

The funding policy for the Teachers' and State Employees' Retirement System provides for periodic employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets needed to pay benefits when due. The system is funded by member contributions of 6% of compensation and by employer contributions of 8.38% of covered payroll for the period July 1, 1994 through June 30, 1995, in addition to investment income. Benefit and contribution provisions are established by G.S. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

For the year ended June 30, 1995, the University had a total payroll of \$478,307,000 of which \$246,700,000 was covered under the Teachers' and State Employees' Retirement

System. Total employee and employer contributions for pension benefits for the year were \$14,802,000 and \$20,673,000 respectively. The University has no pension plan obligations beyond the matching already paid into the System.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method, if any, used to determine contributions to the System.

The Teachers' and State Employees' Retirement System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at December 31, 1994, for the System as a whole, as determined through an independent actuarial valuation, was approximately \$19,702,816,000. System net assets available for benefits at December 31, 1994 (valued at cost) were approximately \$20,394,957,000. The market value of System net assets available for benefits at December 31, 1994 was approximately \$21,865,246,000.

Additional detailed information, including the significant actuarial assumptions for the plan, and historical trend data for the System can be located in the State of North Carolina Comprehensive Annual Financial Report.

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 6.58% 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, 1995, the University had a total payroll of \$478,307,000 of which \$142,462,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$8,548,000 and \$9,374,000 respectively for the 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. The plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or due to financial hardships if approved by the Board of Trustees of the plan. The plan is accounted for as an agency fund of the State and is included in the Comprehensive Annual Financial Report of the State of North Carolina. 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 maintains a fiduciary responsibility for due diligence in the handling of plan assets and believes that it is very unlikely that it will use these assets to satisfy the claims of general creditors in the future. The voluntary contributions by employees amounted to \$410,000 for the year ended June 30, 1995.

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, 1995 were \$48,000. The voluntary contributions by employees amounted to \$681,000 for the year ended June 30, 1995.

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 employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other 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 \$12,691,000 for the year ended June 30, 1995.

#### A. Health Care

The University participates in State administered programs which provide health care benefits to eligible former employees. These benefits are established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-asyou-go basis. 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, 1995, the University's total contribution for postemployment health care benefits was \$7,783,000. The University assumes no liability for retiree health care benefits provided by the programs other than its contribution. Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report.

#### B. Long-Term Disability

The University participates in the Disability Income Plan of North Carolina (the Plan). The Plan, established by Chapter 135, Article 6, of the General Statutes, provides disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. 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, 1995, the University's total contribution to the Plan was \$1,634,000. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the Plan can be located in the State of North Carolina's Comprehensive Annual Financial Report.

#### 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). 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, 1995, the University's total contribution to the Trust Fund was \$395,000. The University assumes no liability for death benefits provided by the Trust Fund other than its contribution. Additional detailed information about the Trust Fund can be located in the State of North Carolina's Comprehensive Annual Financial Report.

#### NOTE 7: COMMITMENTS AND CONTENGENCIES

#### A. Construction Commitments

The University had commitments of \$54,191,000 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 \$9,276,000, state appropriations of \$20,492,000, University funds of \$21,467,000 and other outside sources in the amount of \$2,956,000.

#### B. Contingencies

The University is a party to various litigation and other claims in the ordinary course of its operations. Two construction related claims of \$4,085,000 and \$2,000,000 respectively have been asserted against the University. An additional claim related to an expansion project is expected to be submitted in an estimated amount of \$2,000,000. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. 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 8: LONG-TERM DEBT

The University was indebted for notes payable in the amount of \$1,442,000 at June 30, 1995 for the purposes shown in the following table.

thousands) Purpose	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 06/30/95	Principal Outstanding 06/30/95
Food Service	62% of prime	Aug. 22, 1997	\$4,500	\$3,656	\$844
Office of Information					
Technology	6.7%	July 20, 1996	1,587	989	598
Total Notes Payable			\$6,087	\$4,645	\$1,442

The University was indebted for bonds payable in the amount of \$236,734,000 at June 30, 1995 for the purposes shown in the following table.

(in thousands)

Purpose	Series	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 06/30/95	Accretion on Capital Appreciation Bonds	Principal Outstanding 06/30/95
Student Family Housing	"A"	3.500%	Sept. 1, 2002	\$995			
	"B"	3.000%	Sept. 1, 1998	1,942			
Total Student Family Housing				2,937	\$2,281		\$656
Dormitory System	"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				16,359	4,318		12,041
Utility System	1993	4.000% -					
Othity System	1,,,,	6.000%	Aug 1, 2011	108,455			
	1992	3.000% -		100,155			
		6.800%	Aug 1, 2021	22,827		3,775	
Total Utility System				131,282	7,541	3,775	127,516
Parking System	"B"	6.740%	June 1, 2009	11,800	1,795		10,005
Student Union	1967	3.000%	Nov. 1, 2007	2,000	1,055		945
Kenan Stadium	1988	Variable	Nov. 1, 2007	5,000	950		4,050
Ambulatory Care Facility	1990	Variable	July 1, 2012	20,000	1,100		18,900
Amb. Care Fac. Equipment	1992	Variable	Oct. 1, 2002	3,000	200		2,800
Student Recreation Center	1991	5.300% -					
		7.000%	June 1, 2011	4,665	425		4,240
U.S. Environmental Protection	1991	8.250% -					
Agency Project		9.250%	Feb. 15, 2015	36,679		1,427	38,106
Carolina Inn	1994	Variable	Nov. 15, 2019	13,475			13,475
School of Dentistry	1995	Variable	Sept. 1, 2010	4,000			4,000

The schedule below shows the annual requirements to pay principal and interest on the long-term obligations at June 30, 1995.

(in thousands)

Annual Requirements (Principal and Interest)

	Revenue	
Fiscal Year	Bonds	Notes
1996	\$19,353	\$411
1997	19,516	1,031
1998	19,612	95
1999	19,904	0
2000	20,055	0
2001-2005	99,705	0
2006-2010	95,361	0
2011-2015	81,619	0
2016-2020	53,981	0
2021-2025	19,500	0
Total Requirements	\$448,606	\$1,537

#### A. Demand Bonds

Included in long-term debt are several variable rate demand bond issues. The bonds are special limited obligations of the University payable solely from the revenues pledged for the payment thereof. The bonds are subject to purchase on the demand of the holder at the purchase price on the purchase date upon proper notice to the University's remarketing or paying agents.

#### Kenan Stadium, Series 1988:

In 1988 the University issued variable rate demand bonds in the amount of \$5,000,000 that have a final maturity date of November 1, 2007. The bonds are subject to mandatory sinking fund redemption that began on November 1, 1989. The proceeds of this issuance were used for certain additions and renovations to Kenan Memorial Stadium. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Alex Brown & Sons.

Under an irrevocable letter of credit issued by Wachovia Bank of North Carolina, 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 terminates on 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.

#### Ambulatory Care Clinic, Series 1990:

In 1990 the University issued money market municipal demand bonds in the amount of \$20,000,000 that have a final maturity date of July 1, 2012. The bonds are subject to mandatory sinking fund redemption that began on July 1, 1993. The proceeds of this issuance were used for financing the acquisition, construction and equipping of clinical facilities at the University's School of Medicine and for paying the issuance costs of the 1990 bonds. The bonds were converted from money market municipal bonds to weekly rate bonds effective May 31, 1995. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's paying agent, Bankers Trust Company.

The University has arranged a standby bond purchase agreement with The Sumitomo Bank, Limited, whereby the bank will loan money to purchase bonds on a purchase date at the purchase price when remarketing proceeds or other funds are not available. This liquidity facility pays only the principal portion of the purchase price and

does not secure payment of the prinicpal of or interest on the bonds.

The University is required to pay an annual commitment fee for the liquidity facility of .125% of the stated amount of the line of credit then in effect. The liquidity facility terminates on May 15, 1996.

#### Ambulatory Care Clinic, Series 1992:

In 1992 the University issued tax-exempt adjustable mode demand notes in the amount of \$3,000,000 that have a final maturity date of October 1, 2002. The bonds are subject to mandatory sinking fund redemption that began on October 1, 1994. The proceeds of this issuance were used to provide equipment for the ambulatory care building used by UNC Physicians and Associates and to pay the issuance costs of the notes. The notes are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Wachovia Bank of North Carolina, N.A.

The University has arranged a standby note purchase agreement with Wachovia Bank of North Carolina, N.A., whereby Wachovia will purchase notes tendered or deemed tendered for purchase on any purchase date at the purchase price when remarketing proceeds or other funds are not available. The liquidity facility terminates not earlier that 180 days following delivery of a termination notice by Wachovia. As of June 30, 1995, the earliest such termination date is December 27, 1995. The University is entitled to terminate the liquidity facility with 45 days notice to Wachovia.

Notes held by Wachovia under this liquidity facility are subject to mandatory redemption 180 days after the date of purchase by Wachovia at an amount equal to the principal plus accrued interest. The University is required to pay an annual commitment fee for the liquidity facility of .30% of the stated amount of the line of credit then in effect.

#### Carolina Inn, Series 1994:

In 1994 the University issued taxable flexible term demand bonds in the amount of \$13,475,000 that have a final maturity date of November 15, 2019. The bonds are subject to mandatory sinking fund redemption that begins on November 15, 1998. The proceeds of this issuance were used to renovate and expand the Carolina Inn and to pay the costs incurred in connection with the issuance of the bonds. The bonds are subject to purchase on each interest payment date and on delivery to the University's paying agent, NationsBank of North Carolina, N.A.

The University has arranged a standby bond purchase agreement with NationsBank of North Carolina, N.A., whereby NationsBank will purchase bonds on a purchase date at the stated amount of principal plus accrued interest when remarketing proceeds or other funds are not available. The term of this agreement is automatically extended for successive 364 day periods from the closing date, unless a notice of non-extension is received 365 days prior to the expiration date. NationsBank may determine to extend the term of this agreement in its sole discretion and no course of dealing or other circumstance shall require any extension by NationsBank.

The University is required to pay an annual standby fee for the liquidity facility of .10% of the stated amount of the line of credit then in effect. The University has agreed to pay interest on each liquidity bond at an annual variable rate equal to the liquidity rate.

#### School of Dentistry, Series 1995:

On June 28, 1995 the University issued taxexempt adjustable mode demand bonds in the amount of \$4,000,000 that have a final maturity date of September 1, 2010. The bonds are subject to mandatory sinking fund redemption that begins on September 1, 1999. The proceeds of this issuance are for the construction of a building called Tarrson Hall to house the majority of the School of Dentistry's patient care and clinical teaching facilities. Tarrson Hall will house clinical programs which are currently housed in Brauer Hall which opened in 1952. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Wachovia Bank of North Carolina, N.A.

Under an irrevocable letter of credit issued by Wachovia Bank of North Carolina, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. In the event that the bonds cannot be remarketed, the letter of credit will provide the necessary financing. As of June 30, 1995, the letter of credit terminates on August 5, 1996. However, the letter of credit automatically extends each month so that termination will not occur until 13 months after notice is received from Wachovia that the letter of credit will not be extended.

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 at the prime rate for the first 90 days and prime plus 1.5% thereafter. The University is required to pay an annual commitment fee for the School of Dentistry letter of credit of .35% of the stated amount of the line of credit then in effect.

#### B. 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 \$23,100,000 and \$5,300,000 respectively, which is the accreted value at the year ended June 30, 1995. These bonds mature in the years from 2010 to 2021.

#### C. 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 established 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, 1995 the outstanding balance of the defeased Carolina Inn bonds was \$285,000.

#### **Utility System:**

In 1993 the University defeased \$99,000,000 of outstanding Utility System Revenue Bonds, Series 1986. 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. The trust assets and the liability for the defeased bonds are not included in the University's balance sheet. At June 30, 1995 the outstanding balance of the defeased Utility System bonds was \$91,830,000.

#### **NOTE 9: 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, 1995:

(In thousands)

	Fiscal Year	Operating Leases	Capital Leases
	1996	\$2,193	\$38
	1997	1,055	28
	1998	752	
	1999	601	
Minimum Lease Payments		\$4,601	66
Amount Representing Interest			1
Present Value of Future Lease Payments			\$65

#### B. Lease Agreements

In 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.

#### NOTE 10: RISK MANAGEMENT AND INSURANCE

The University is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in various state-administered risk pools, purchase of commercial insurance, and self retention of certain risks.

Tort claims of up to \$150,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$1,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the University directly to the insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses for all operations supported by the State's General Fund is provided at no cost to the University. Other operations not supported by the State's General Fund are charged for fire coverage. The University also purchased through the Fund extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft and "all risks" for buildings and contents. The Fund charges premiums for this coverage discounted from industry

manual rates. The Fund generally insures fire losses up to \$1.1 million and extended coverage losses up to \$100,000 per building and \$500,000 per occurrence. All losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft that carries a \$1,000 per occurrence deductible. The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund.

The Liability Insurance Trust Fund (Trust Fund) was created by Chapter 116, Article 26, of the General Statutes and The University of North Carolina Board of Governors Resolution of June 9, 1978 to provide medical malpractice protection for program participants and individual health care practitioners working as employees, agents, or officers of The University of North Carolina Hospitals at Chapel Hill and The University of North Carolina at Chapel Hill Physicians and Associates. Coverage is self-funded by contributions from participants and investment income. Contributions are based on the actuarially determined funding level for a given plan year.

Coverage is provided on an occurrence basis. Current Trust Fund liability limits are \$5 million per occurrence with no limitation in the aggregate. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has the authority to borrow funds. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date.

State-owned vehicles are covered by liability insurance handled by the State Department of Insurance. The State is self-insured for the First \$250,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$250,000. The liability limits for losses incurring in-state are \$150,000 per claimant and \$5,000,000 per occurrence. The University is charged premiums to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

The University is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is handled by the State Department of Insurance with coverage of \$5,000,000 per occurrence and a \$10,000 deductible.

Other coverage not handled by the State Department of Insurance is purchased through the State's insurance agent of record.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, an internal service fund of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University is self-insured for workers' compensation.

Term life insurance (death benefit) is provided through the Death Benefit Plan to all members of the Teachers' and State Employees' Retirement System who have completed at least one full calendar year of membership in the System. The benefit is based on salary with a minimum benefit of \$25,000 and a maximum of \$50,000. This self insured death benefit is administered by the State Treasurer's Office and funded via employer contributions, more fully described in Note 6c.

Additional details on the state-administered risk management programs are disclosed in the State's Comprehensive Annual Financial Report, issued by the Office of State Controller.

# Statistical SECTION



### Current Funds REVENUES BY SOURCE

(in thousands)

#### For the Year Ended June 30,

	1995	1994	1993	1992	1991
Current Funds Revenues					:
State Appropriations	\$302,337	\$283,826	\$270,700	\$255,003	\$257,219
Tuition and Fees	81,465	75,531	66,718	60,247	50,221
Federal Contracts and Grants	208,802	190,534	172,288	147,556	136,059
State Contracts and Grants	26,394	22,696	17,948	15,498	13,518
Private Gifts, Contracts and Grants	67,668	64,146	60,820	58,892	53,685
Sales and Services	224,600	210,767	187,390	176,297	166,182
Endowment Income	13,798	11,895	9,212	8,040	6,851
Investment Earnings	12,504	13,047	12,887	13,508	11,750
Realized Gain on Sale of Investments	222	701	1,647	2,320	611
Other Revenues	5,679	4,246	4,632	3,847	3,312
Total Current Funds Revenues	\$943,469	\$877,389	\$804,242	\$741,208	\$699,408

For the Year Ended June 30,

	1995	1994	1993	1992	1991		
	%	%	%	%	%		
Current Funds Revenues							
State Appropriations	32.0	32.3	33.7	34.4	36.8		
Tuition and Fees	8.6	8.6	8.3	8.1	7.2		
Federal Contracts and Grants	22.1	21.7	21.4	19.9	19.5		
State Contracts and Grants	2.8	2.6	2.2	2.1	1.9		
Private Gifts, Contracts and Grants	7.2	7.3	7.6	8.0	7.7		
Sales and Services	23.8	24.0	23.3	23.8	23.8		
Endowment Income	1.5	1.4	1.1	1.1	0.9		
Investment Earnings	1.3	1.5	1.6	1.8	1.7		
Realized Gain on Sale of Investments	0.1	0.1	0.2	0.3	0.0		
Other Revenues	0.6	0.5	0.6	0.5	0.5		
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0		

(percent of total current funds revenues)

#### The University of North Carolina at Chapel Hill Last Ten Fiscal Years

(in thousands)

#### For the Year Ended June 30,

	1990	1989	1988	1987	1986
Current Funds Revenues					
State Appropriations	\$252,585	\$239,732	\$230,780	\$214,774	\$200,093
Tuition and Fees	46,719	40,237	37,258	34,399	36,374
Federal Contracts and Grants	123,352	117,896	105,266	93,850	85,982
State Contracts and Grants	9,614	7,807	6,191	5,658	5,673
Private Gifts, Contracts and Grants	49,754	43,227	38,433	33,491	28,484
Sales and Services	152,114	142,211	140,301	123,822	102,229
Endowment Income	7,307	5,177	4,683	4,390	3,944
Investment Earnings	11,647	9,138	8,576	7,003	7,050
Realized Gain on Sale of Investments	53	0	0	0	0
Other Revenues	2,539	1,029	1,304	575	551
Total Current Funds Revenues	\$655,684	\$606,454	\$572,792	\$517,962	\$470,380

#### For the Year Ended June 30,

	1990	1989	1988	1987	1986
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	38.5	39.5	40.3	41.5	42.5
Tuition and Fees	7.1	6.6	6.5	6.6	7.7
Federal Contracts and Grants	18.8	19.4	18.4	18.1	18.3
State Contracts and Grants	1.5	1.3	1.1	1.1	1.2
Private Gifts, Contracts and Grants	7.6	7.1	6.7	6.5	6.1
Sales and Services	23.2	23.5	24.5	23.9	21.7
Endowment Income	1.1	0.9	0.8	0.8	0.9
Investment Earnings	1.8	1.5	1.5	1.4	1.5
Realized Gain on Sale of Investments	0.0	0.0	0.0	0.0	0.0
Other Revenues	0.4	0.2	0.2	0.1	0.1
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

# Current Funds expenditures and MANDATORY TRANSFERS BY FUNCTION

(in thousands)

For the Year Ended Jun	e 30,
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	1995	1994	1993	1992	1991
Current Funds Expenditures		377 - 188-15 - 370			
Instruction	\$301,323	\$278,587	\$253,662	\$241,956	\$241,058
Organized Research	154,817	140,586	130,570	115,014	103,139
Public Service	68,317	62,834	56,111	52,952	47,723
Academic Support	43,423	40,507	35,845	32,740	33,348
Student Services	9,998	9,191	8,585	7,624	7,345
Institutional Support	37,698	36,800	32,118	30,097	27,124
Physical Plant Operations	59,662	58,447	49,606	48,552	42,947
Student Financial Aid	29,595	28,030	26,997	23,715	20,123
Auxiliary Enterprises and Internal Services	89,532	80,587	85,774	73,199	75,882
Professional and Clinical Services	99,140	97,265	85,187	74,769	71,229
Other Expenditures and Deductions	1,391	4,125	1,197	345	401
Total Current Funds Expenditures	894,896	836,959	765,652	700,963	670,319
Current Funds Mandatory Transfers	20,758	21,158	18,140	9,066	16,046
Total Current Funds Expenditures and Mandatory Transfers	\$915,654	\$858,117	\$783,792	\$710,029	\$686,365

For the Year Ended June 30,

	1995	1994	1993	1992	1991
_	%	%	%	%	%
Current Funds Expenditures					
Instruction	32.9	32.5	32.4	34.1	35.1
Organized Research	16.9	16.4	16.7	16.2	15.0
Public Service	7.5	7.3	7.2	7.5	7.0
Academic Support	4.7	4.7	4.6	4.6	4.8
Student Services	1.1	1.1	1.1	1.1	1.1
Institutional Support	4.1	4.3	4.1	4.2	3.9
Physical Plant Operations	6.5	6.8	6.3	6.8	6.3
Student Financial Aid	3.2	3.3	3.4	3.3	2.9
Auxiliary Enterprises and Internal Services	9.8	9.4	10.9	10.3	11.1
Professional and Clinical Services	10.8	11.3	10.9	10.5	10.4
Other Expenditures and Deductions	0.2	0.4	0.1	0.1	0.1
Total Current Funds Expenditures	97.7	97.5	97.7	98.7	97.7
Current Funds Mandatory Transfers	2.3	2.5	2.3	1.3	2.3
Total Current Funds Expenditures and Mandatory Transfers	100.0	100.0	100.0	100.0	100.0

(percent of total current funds expenditures and mandatory transfers)

#### The University of North Carolina at Chapel Hill Last Ten Fiscal Years

(in thousands)

#### For the Year Ended June 30,

	1990	1989	1988	1987	1986
Current Funds Expenditures					
Instruction	\$233,975	\$213,214	\$198,813	\$181,959	\$172,356
Organized Research	94,499	88,618	79,474	69,857	64,287
Public Service	41,589	43,522	42,021	38,365	34,299
Academic Support	30,431	30,789	28,573	25,306	24,264
Student Services	7,288	6,643	6,075	5,642	5,365
Institutional Support	27,799	25,152	22,381	20,552	20,228
Physical Plant Operations	41,062	36,852	34,474	31,729	32,666
Student Financial Aid	19,390	18,192	16,411	15,844	15,057
Auxiliary Enterprises and Internal Services	72,033	69,200	70,259	59,239	45,279
Professional and Clinical Services	62,840	56,103	52,282	47,830	42,414
Other Expenditures and Deductions	143	0	0	0	0
Total Current Funds Expenditures	631,049	588,285	550,763	496,323	456,215
Current Funds Mandatory Transfers	15,251	5,110	4,058	4,163	3,180
Total Current Funds Expenditures and Mandatory Transfers	\$646,300	\$593,395	\$554, 821	\$500,486	\$459,395

#### For the Year Ended June 30,

	1990	1989	1988	1987	1986
-	%	%	%	%	%
Current Funds Expenditures					
Instruction	36.2	35.9	35.8	36.3	37.5
Organized Research	14.6	14.9	14.3	14.0	14.0
Public Service	6.4	7.3	7.6	7.7	7.4
Academic Support	4.7	5.2	5.2	5.1	5.3
Student Services	1.1	1.1	1.1	1.1	1.2
Institutional Support	4.3	4.2	4.0	4.1	4.4
Physical Plant Operations	6.4	6.2	6.2	6.3	7.1
Student Financial Aid	3.0	3.1	3.0	3.2	3.3
Auxiliary Enterprises and Internal Services	11.1	11.7	12.7	11.8	9.9
Professional and Clinical Services	9.7	9.5	9.4	9.6	9.2
Other Expenditures and Deductions	0.1	0.0	0.0	0.0	0.0
Total Current Funds Expenditures	97.6	99.1	99.3	99.2	99.3
Current Funds Mandatory Transfers	2.4	0.9	0.7	0.8	0.7
Total Current Funds Expenditures and Mandatory Transfers	100.0	100.0	100.0	100.0	100.0

(percent of total current funds expenditures and mandatory transfers)

(in thousands)

Fiscal Year Ended June 30,	Gross Operating Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
1995	\$189,346	\$147,847	\$41,499	\$6,217	\$13,937	\$20,154	2.06
1994	175,567	140,552	35,015	5,794	13,264	19,058	1.84
1993	147,086	125,555	21,531	3,450	12,192	15,642	1.38
1992	143,277	108,122	35,155	1,067	13,652	14,719	2.39
1991	130,230	105,308	24,922	1,250	9,979	11,229	2.22
1990	121,959	100,507	21,452	778	9,103	9,881	2.17
1989	53,306	45,269	8,037	625	8,251	8,876	(0.91)
1988	43,343	39,492	3,851	596	8,074	8,670	(0.44)
1987	40,911	34,753	6,158	606	6,978	7,584	(0.81)
1986	17,765	13,824	3,941	550	698	1,248	3.16

## Ratio of DEBT SERVICE TO CURRENT FUNDS EXPENDITURES

The University of North Carolina at Chapel Hill Last Ten Fiscal Years

(in thousands)

Fiscal Year			
Ended	Debt Service	Current Funds	
June 30,	Requirements	Expenditures	Ratio
1995	\$20,154	\$894,896	2.25
1994	19,058	836,959	2.28
1993	15,642	765,652	2.04
1992	14,719	700,963	2.10
1991	11,229	670,319	1.68
1990	9,881	631,049	1.57
1989	8,876	588,285	1.51
1988	8,670	550,763	1.57
1987	7,584	496,323	1.53
1986	1,248	456,215	0.27

### Faculty and staff statistics

The University of North Carolina at Chapel Hill Last Ten Fiscal Years

#### Fall Employment of Fiscal Year

	1994-95	1993-94	1992-93	1991-92	1990-91
Faculty					
Full-Time	2,328	2,297	2,249	2,245	2,134
Part-Time	210	204	186	185	161
Total Faculty	2,538	2,501	2,435	2,430	2,295
Percentage Tenured	59.2%	59.6%	60.7%	61.1%	63.2%
Staff and EPA Non-Faculty					
Full-Time	627	596	570	572	646
Part-Time	51	55	52	48	39
EPA Non-Faculty	678	651	622	620	685
Full-Time	5,468	5,405	5,115	4,891	4,971
Part-Time	328	360	334	314	298
SPA	5,796	5,765	5,449	5,205	5,269
Total Full-Time	6,095	6,001	5,685	5,463	5,617
Total Part-Time	379	415	386	362	337
Total Staff and EPA Non-Faculty	6,474	6,416	6,071	5,825	5,954

#### Fall Employment of Fiscal Year

	1989-90	1988-89	1987-88	1986-87	1985-86
Faculty					
Full-Time	2,131	2,002	1,990	1,965	1,911
Part-Time	165	221	229	224	225
Total Faculty	2,296	2,223	2,219	2,189	2,136
Percentage Tenured	60.1%	65.0%	64.2%	63.2%	64.1%
Staff and EPA Non-Faculty					
Full-Time	640	648	645	653	627
Part-Time	49	82	80	104	112
EPA Non-Faculty	689	730	725	757	739
Full-Time	5,023	4,893	4,745	4,555	4,417
Part-Time	285	278	258	259	251
SPA	5,308	5,171	5,003	4,814	4,668
Total Full-Time	5,663	5,541	5,390	5,208	5,044
Total Part-Time	334	360	338	363	363
Total Staff and EPA Non-Faculty	5,997	5,901	5,728	5,571	5,407

Note: EPA denotes employees exempt from the State Personnel Act SPA denotes employees subject to the State Personnel Act

### Admissions, ENROLLMENT AND DEGREE STATISTICS

		Fall Enro	llment of Fiscal	Year	
	1994-95	1993-94	1992-93	1991-92	1990-91
Admissions-Freshmen					
Applications	15,125	14,596	16,136	14,860	14,737
Accepted	6,145	5,985	5,735	5,460	5,630
Enrolled	3,498	3,331	3,211	3,142	3,252
Accepted as a Percentage of Applications	40.6%	41.0%	35.5%	36.7%	38.2%
Enrolled as a Percentage of Accepted	56.9%	55.7%	56.0%	57.5%	57.8%
Average SAT Scores - Total	1,128	1,126	1,122	1,120	1,112
Verbal	529	529	530	530	527
Math	599	597	592	590	585
Enrollment			*		
Undergraduate, Graduate and Professional FTE	21,918	21,758	21,398	21,391	21,486
Undergraduate, Graduate and Professional Headcount	24,463	24,299	23,944	23,794	23,852
Men (Headcount)	10,377	10,298	10,211	10,161	10,340
Percentage of Total	42.4%	42.4%	42.6%	42.7%	43.4%
Women (Headcount)	14,086	14,001	13,733	13,633	13,512
Percentage of Total	57.6%	57.6%	57.4%	57.3%	56.6%
African American (Headcount)	2,161	2,082	2,078	2,023	2,060
Percentage of Total	8.8%	8.6%	8.7%	8.5%	8.6%
White (Headcount)	20,042	20,007	19,812	19,906	20,091
Percentage of Total	82.0%	82.3%	82.7%	83.7%	84.2%
Other (Headcount)	2,260	2,210	2,054	1,855	1,701
Percentage of Total	9.2%	9.1%	8.6%	7.8%	7.1%
Degrees Granted					
Bachelor's	3,623	3,497	3,655	3,538	3,591
Master's	1,511	1,451	1,478	1,375	1,391
Doctoral	373	388	388	336	337
Professional	464	443	443	456	463

Fall Enrollment of Fiscal Year

		3			
5-87 1985-86	1986-87	1987-88	1988-89	1989-90	
					Admissions-Freshmen
652 11,274	13,652	15,290	17,569	16,441	Applications
267 5,360	5,267	5,189	5,517	5,436	Accepted
3,329	3,304	3,151	3,293	3,191	Enrolled
.6% 47.5%	38.6%	33.9%	31.4%	33.1%	Accepted as a Percentage of Applications
.7% 62.1%	62.7%	60.7%	59.7%	58.7%	Enrolled as a Percentage of Accepted
,087 1,071	1,087	1,099	1,102	1.110	Average SAT Scores - Total
518 512	518	523	522	527	Verbal
569 558	569	576	580	583	Math
					Enrollment
767 20,185	20,767	20,786	21,390	21,326	Undergraduate, Graduate and Professional FTE
781 22,021	22,781	22,921	23,579	23,592	Undergraduate, Graduate and Professional Headcount
9,556	9,904	9,943	10,202	10,282	Men (Headcount)
.5% 43.4%	43.5%	43.4%	43.3%	43.6%	Percentage of Total
,877 12,465	12,877	12,978	13,377	13,310	Women (Headcount)
.5% 56.6%	56.5%	56.6%	56.7%	56.4%	Percentage of Total
,773 1,742	1,773	1,726	1,840	1,921	African American (Headcount)
7.9%	7.8%	7.5%	7.8%	8.1%	Percentage of Total
,837 19,245	19,837	19,956	20,357	20,151	White (Headcount)
7.1% 87.4%	87.1%	87.1%	86.3%	85.4%	Percentage of Total
,171 1,034	1,171	1,239	1,382	1,520	Other (Headcount)
.1% 4.7%	5.1%	5.4%	5.9%	6.4%	Percentage of Total
					Degrees Granted
,152 3,189	3,152	3,272	3,195	3,529	Bachelor's
,130 1,160	1,130	1,197	1,157	1,269	Master's
283 260	283	311	301	299	Doctoral
436 505	436	449	447	457	Professional
	12, 56. 1, 7. 19, 87. 1, 5	12,978 56.6%  1,726 7.5%  19,956 87.1%  1,239 5.4%  3,272 1,197 311	13,377 56.7% 1,840 7.8% 20,357 86.3% 1,382 5.9%	13,310 56.4% 1,921 8.1% 20,151 85.4% 1,520 6.4%	Women (Headcount) Percentage of Total  African American (Headcount) Percentage of Total  White (Headcount) Percentage of Total  Other (Headcount) Percentage of Total  Degrees Granted  Bachelor's  Master's Doctoral

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