

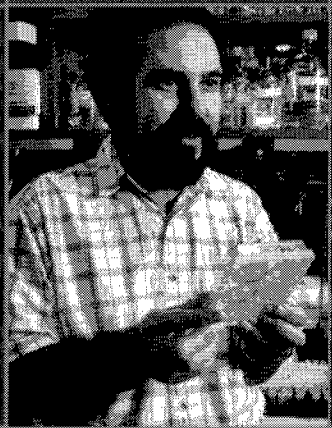
The University of North Carolina at Chapel Hill

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, 1996

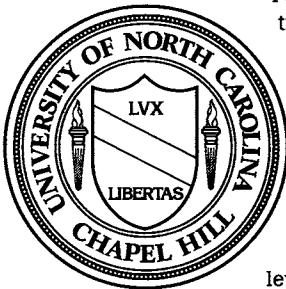
Comprehensive Annual Financial Report 1996



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.

*Building on a **Mission***

Comprehensive Annual Financial Report

The University
of North Carolina
at Chapel Hill
1996

*Office of Business and Finance
Fiscal Year Ended June 30, 1996*

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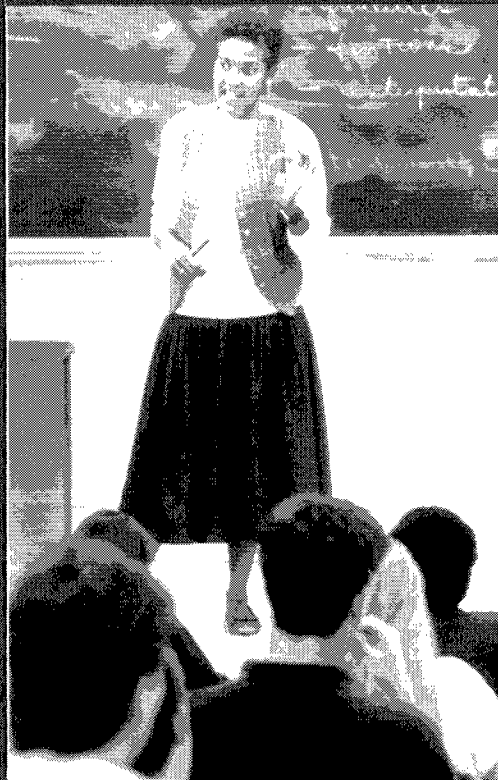
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introductory section

"I believe there is no work more important to a society than the work of its teachers. That we can influence, in the most significant way, citizenship and the potential for change in the body politic is a most humbling and remarkable enterprise."

—D. Soyini Madison
Associate Professor of
Communication Studies

Madison is also the associate director of the Institute for African American Research, and is interested primarily in performance ethnography with an emphasis on the literature and culture of women of color.



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Message from the Chancellor



"Sound strategic investment and planning will expand the University's reach across the State in the years to come and magnify the impact of our teaching, service and research. . . . The 1996 Financial Report is our good faith effort to show that we take our social contract with the people of North Carolina to be an abiding civic responsibility."

Michael Hooker, Chancellor

The University of North Carolina at Chapel Hill

I am delighted to introduce The University of North Carolina at Chapel Hill's 1996 Comprehensive Annual Financial Report and to have this opportunity to thank members of the General Assembly, the Board of Governors, the University's General Administration, Board of Trustees and others for their sustained support. The 1996 Financial Report is the product of principled, results-oriented fiscal management. I am particularly proud of the vigorous leadership Carolina's financial managers have taken in demonstrating our accountability to the citizens whose tax dollars support us.

By increasing our accountability to the State, we have clarified and strengthened many internal management processes. Structural innovations have positioned us well to take advantage of emerging opportunities and thus to fulfill our founding mission even more successfully. A newly-streamlined administration, for example, has allowed us to direct new and recurring funds more efficiently to targeted priorities. As a result, students, faculty, and facilities are benefiting more rapidly and more intensely from State support.

We have been good stewards of the State's resources, and I am convinced that ongoing quality improvement efforts will speed our progress in adapting management processes to new realities. Consequently, the resources entrusted to us by the State and others will be transformed into added educational and service value more quickly and at less expense than ever before.

Sound strategic investment and planning will expand the University's reach across the State in the years to come and magnify the impact of our teaching, service and research. As we accelerate our efforts to ensure that the State can compete successfully in the expanding, information-fueled global economy, we pledge to keep the public trust foremost in our sights. The 1996 Financial Report is our good faith effort to show that we take our social contract with the people of North Carolina to be an abiding civic responsibility - one that frames and motivates the work of every faculty member, employee, and student.

Our partnership with the State has never been stronger, and I am confident that prudent resource management will help the University propel North Carolina toward a more prosperous and productive future.

Letter of Transmittal



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

November 8, 1996

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, 1996, 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, 1996. 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, a listing of executive and academic officers, 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 for public colleges and universities, as defined by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

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 various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. The Foundation's financial statements have been blended with those of the University. Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements. The University of North Carolina at Chapel Hill is a constituent institution of the 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

The North Carolina economy continued to outperform the U. S. economy in 1996, as it has in most years since 1929. Total population reached a record 7,195,000 people in 1995, an increase of 1.8 percent from 1994 and exactly double the national average increase of 0.9 percent. This was an increase of 538,000 people or 8.1 percent since 1990, well above the 5.4 percent national average rate of growth.

Total personal income in North Carolina was \$151.8 billion in 1995, an increase of 7.7 percent over 1994. Only six states had higher growth during 1995. North Carolina's income represented 2.5 percent of the U. S. in 1995, a little more than double its 1.22 percent share in 1929.

From 1969-1995, total personal income in North Carolina has grown at an annual rate of 9.3 percent, a full percentage point above the national average of 8.3 percent. Personal income per capita in North Carolina was \$21,103 in 1995. This was 91 percent of the national average of \$23,208 and ranked 31st among all fifty states.

The Raleigh-Durham-Chapel Hill Metropolitan Statistical Area (MSA) has per capita personal income that is well above the national average. Nearly all national forecasts of economic growth among metropolitan areas have the Raleigh-Durham-Chapel Hill MSA ranked as one of the top ten in both population growth and economic growth. The factors driving this growth are the outstanding educational institutions in the area, of which the University of North Carolina at Chapel Hill is the flagship among state universities, the strong base in such leading edge industries as chemicals, computers, pharmaceuticals, and telecommunications, and very strong demand for North Carolina products from people in other countries.

During 1996, the national unemployment rate has averaged 5.2 percent. The unemployment rate in North Carolina has been only 4.2 percent, the best performance among the eleven leading industrial states.

March, 1997, will mark the 72nd month of the current economic expansion. By November, it will tie the World War II expansion from June, 1938, to February, 1945, for the fourth longest one ever. It will have to go to November, 1998, to tie for second place with the November, 1982, to July, 1990, expansion. Most forecasters expect this will happen.

The harbinger of the next recession will be when inflation signs are strong enough that the Federal Open Market Committee (FOMC), the policy-making arm of the Federal Reserve System, will have to slow down the rate of growth of the money supply. This should lead to rising interest rates and an eventual recession. This event still lies beyond the foreseeable horizon.

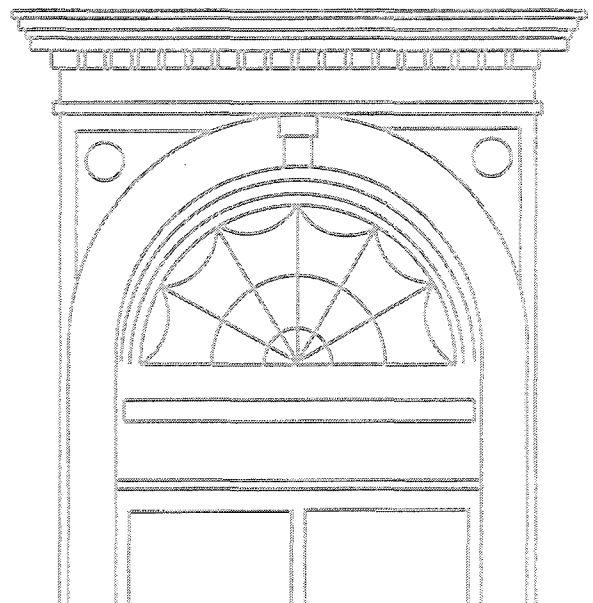
North Carolina should continue to experience economic growth that is well above the national average for the next several years. Companies continue to expand in the state and it remains the most manufacturing-intensive state in the United States.

The best forecast is for North Carolina to continue to experience increases in employment, income, and population that are above the national average for many years to come. The Raleigh-Durham-Chapel Hill MSA should continue to be the leading area in the state for these trends.

Major Initiatives

College of Arts and Sciences

The College of Arts and Sciences (College) made notable achievements in its pursuit of excellence in teaching, research, and public service. A matching grant of \$600,000 from the Kresge Foundation was an important step in the development of the Center for Undergraduate Excellence. The National Research Council Report ranked Sociology 6th, Classics 11th, and Statistics 11th in the nation for advanced education. Twelve



College faculty members served or were elected to presidencies of regional, national, and international professional associations and 85 faculty members received special recognition for teaching and research. Honors included election to the American Academy of Arts and Sciences; awards from Guggenheim, German Marshall, Alexander von Humboldt, National Science, and other foundations; honorary doctorates; and awards from national and international competitions. Professor Frederick P.

The National Research Council Report ranked Sociology 6th, Classics 11th, and Statistics 11th in the nation for advanced education.

Brooks, Jr. received the Bower Award and Prize for Science. Faculty have served as advisory to local, state, and federal government; worked closely with businesses on new commercial products; lectured to more than 500 public audiences; and performed or exhibited faculty works to more than 800 public audiences.

School of Education

The recruitment of Dr. Samuel Odum as the first William C. Friday Professor successfully concluded a \$1.5 million campaign to establish the William C. Friday Chair and initiate the new undergraduate program in Child Development and Family Studies in the School of Education (School). The first cohort of 14 Principals Fellows have completed their first year of study in the School's new Master of School Administration (MSA) program. A new and all-time high in the quantity and range of services provided by the University to the public schools of North Carolina was achieved. U. S. News and World Report ranked the School 22nd among public universities and 28th overall among 191 Schools of Education in the nation. The School was ranked 3rd among all public institutions and 6th among all public and private institutions in a national survey of 1,000 public school superintendents. The first group of Professional Development School sites was identified in the partnership formed between the University and the four neighboring school systems. The sites will be the primary locations for teacher preparation and school-based research.

Institute of Government

The Institute of Government (Institute) provides a unique service to people across the State and throughout the world. The Institute's NCINFO provided free, 24-hour access to data ranging from legislative updates to background on proposed rules affecting local government. Collaborative work continued to be an emphasis within the Institute, as the North Carolina League of Municipalities, the North Carolina Association of County Commissioners, and other units sought consultation and advice from faculty within the Institute.

School of Social Work

The School of Social Work (School) moved into the new \$10.1 million Tate-Turner-Kuralt building during the year and received reaffirmation of accreditation by the Council on Social Work Education for the full eight year period. U. S. News and World Report ranked the school's MSW program 12th in the nation among more than 120 schools of social work. Continuing collaborative arrangements included the MSW/MPH dual degree program with the Department of Maternal and Child Health in the School of Public Health, and the offering of interdisciplinary courses in collaboration with the Schools of Medicine, Dentistry, Nursing, Pharmacy, and Public Health, as well as with the African American Studies and Women's Studies Programs. The School enhanced efforts toward national and international collaboration which included hosting a two-part video conference on Violence and International Development, hosted by Charles Kuralt, and hosting an International Conference on Women, Community and Sustainable Development.

Kenan-Flagler Business School

The Kenan-Flagler Business School (School) built a strong foundation for its future as it prepared to move next year to the new \$32.2 million McColl Building. Design of the new \$15 million executive education center, the Paul J. Rizzo Center at Meadowmont, was nearly completed. The MBA Program's Integrative Management Course, taught by faculty from several functions, was very successful. The Undergraduate Program was ranked 3rd in the country by U. S. News & World Report, testimony to the program's central role to the University's mission as a public institution. The Master of Accounting Program continued to attract outstanding students with its redesigned 12-month curriculum. The School developed more programs on

international business issues, further enhancing its reputation throughout the world as well as throughout the State and region.

School of Journalism and Mass Communication

In U. S. News and World Report's first national rankings of master's programs in journalism-mass communication, the School of Journalism and Mass Communication's (School) news-editorial sequence was ranked 4th, the public relations sequence 5th, and the advertising sequence 7th. The second class of Freedom Forum Ph.D. Fellows was selected, and the three students started classes in summer 1996. The program, funded annually by the Freedom Forum in Arlington, Virginia, sends professional journalists back to school to earn their Ph.D. It is the most prestigious Ph.D. program in mass communication in the country. The School placed 5th overall in the Hearst Contest national writing championship, which is often called the Pulitzer Prizes of college journalism. The School also finished fifth in photojournalism. Dr. Margaret Blanchard, William Rand Kenan, Jr. Professor, won the N. C. Press Association's William C. Lassiter First Amendment Award, which honors an individual who has devoted time and effort in defense of freedom of the press, the promotion of open government, and the public's right to know. Past winners have included Congressional Representative Cass Ballenger, N. C. Representative George Miller and N. C. Senator Marc Basnight. With a grant from the International Media Fund, the School is working with the Department of Journalism at Ural State University to help modernize that department. Professors from the School have visited Yekaterinburg, Russia, to talk with professors, administrators and students, conduct classroom lectures, and advise the department on journalism-mass communication education. Ural State University professors have visited Chapel Hill to observe professors and visit medial outlets. Dean Richard Cole landed funding from the John D. and Catherine T. MacArthur Foundation to bring several Cuban journalists to the United States to teach them about the First Amendment and journalism-mass communication in the United States.

School of Information and Library Science

In U. S. News & World Report's first ranking of schools of information and library science, the School of Information and Library Science (SILS) was tied for 2nd in the nation. The National Library of Medicine (NLM) awarded a \$65,600 grant to SILS to develop new approaches for preparing health sciences librarians and information professionals to meet the challenges of information management in the future. After receiving a

grant from the U. S. Department of Education to provide librarians with training in using the data services of the North Carolina Information Highway (NCIH), SILS developed the 1995 Internet Training Initiative, a nine-day hands-on program to train North Carolina librarians on maximizing use of the Internet in their libraries. SILS is co-sponsoring Simple Start, a pilot program designed to help faculty members introduce Internet technologies into their teaching. A SILS master's student helped to develop the program's fundamentals, and SILS master's student "consultants" provide one-on-one technical assistance to each faculty member involved in the program.

School of Law

The School of Law broke ground for a \$10 million addition and renovation that will provide more effective classroom space, improved facilities for clinical programs, new areas for student study and co-curricular activities, improvements to the library, and faculty offices. It also pursued a number of technology-related initiatives, including use of its first "smart classroom" to teach such courses as intellectual property and advanced

The School of Information and Library Science developed the 1995 Internet Training Initiative, a nine-day hands-on program to train North Carolina librarians on maximizing use of the Internet in their libraries.

research, development of a home page for the school and law library; and participation in West Educational Network's pilot project using new software tools to support learning beyond the classroom. Working with the Institute of Government, the school benefited from two major grants that allowed it to begin development of new strategies for integrating training in alternative dispute resolution through the curriculum (thanks to the Spencer Love Foundation) and for presenting a judicial sentencing seminar which involved both judges and students in discussing actual North Carolina case dispositions (thanks to the Edna McConnell Clark Foundation). The school completed reorganization of its career development and placement office, placing 98% of enrolled students in volunteer or paid summer jobs, and more than 90% of its 1996 graduating class in permanent jobs within six months of graduation. The school's videotape *Loyalty on Trial* received the American Bar Association's "Silver Gavel Award" (the ABA's "Oscar") for contributions to public education.

School of Dentistry

The School of Dentistry (School) continued to increase its efforts to attract the very best students from diverse backgrounds throughout North Carolina by holding a workshop on "advising students for Dental School" for prehealth advisors from colleges in the State and by conducting more recruitment programs and visits to minority institutions than ever before. The results were 922 total applications (11% increase), the highest number in the history of the School; 342 applications from women (12% increase); and 42 applications from African Americans (42% increase).

Area Health Education Centers

With expansion funding from the North Carolina General Assembly, the Area Health Education Centers (AHEC) Program established Offices of Regional Primary Care Education in all nine AHECs to promote high quality, community-based education of nurse practitioner, nurse midwifery, physician assistant, and primary care medical students in 93 counties of the State.

School of Medicine

In one of the School of Medicine's many efforts to improve health care services in rural communities, faculty members from Family Medicine, Radiology, and Emergency Medicine staffed a newly installed, state-of-the-art telemedicine line between the emergency rooms at UNC Hospitals and the Chatham Hospital in Siler City. The system was demonstrated to over 400 state, national, and international visitors. In addition, Family Medicine expanded its primary care services in Siler City to include sports medicine, services to 60 nursing home patients, prenatal care, and preventive medicine. The Department is averaging 45 patients a day and logged over 12,200 visits during the past year.

In addition to the emergency room linkage with Siler City, the School of Medicine is developing other electronic linkages with communities throughout North Carolina. Examples include the Program on Aging's two-way video connection with elderly patients and their physicians in Northampton County and the Division of Pediatric Cardiology's telecardiology links with health care providers in Cumberland, Moore, and New Hanover counties. The latter technology enables expert interpretation of echocardiograms and the prompt diagnosis of newborn heart disease. It also enables the conduct of interactive teleconferences for patient management.

School of Nursing

The School of Nursing continued its focus on public service with 18 on-going service projects. Among the activities were two programs to prepare Family Nurse Practitioners for rural, underserved areas in western North Carolina; organization of a multidisciplinary effort to educate the public and health care professionals in cancer pain management; two programs at the North Carolina Correctional Institute for Women, one for women with eating disorders and one to promote good parenting for mothers who give birth to infants in prison; training of counselors who staff a suicide prevention telephone hotline; and organization of an interdisciplinary group that provides primary care to low income, urban persons.

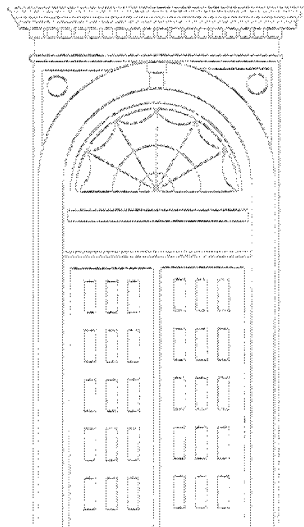
School of Pharmacy

The School of Pharmacy's Natural Products Laboratory continued at the leading edge of drug discovery research. Two new patents were secured on compounds discovered in the past year and four other compounds are in Phase II clinical trials for liver cancer and non-small cell cancer. The Laboratory also received a renewal award of \$1.3 million from the National Institutes of Health for research into plant anti-HIV compounds.

School of Public Health

The School of Public Health (School) launched its Interdisciplinary Curriculum in Practice and Leadership (ICP&L) to focus more cross-School effort on public health practice. ICP&L houses Public Health Nursing, the Doctoral Leadership Program, and the Center for Public Health Practice, and is being expanded to include the Interdisciplinary Master's in Public Health, Core Public Health Competencies, and Health Care and Prevention Program to be conducted jointly with the School of Medicine.

The Carolina Breast Cancer Study funded by the National Institute of Health recruited 750 women with breast cancer and

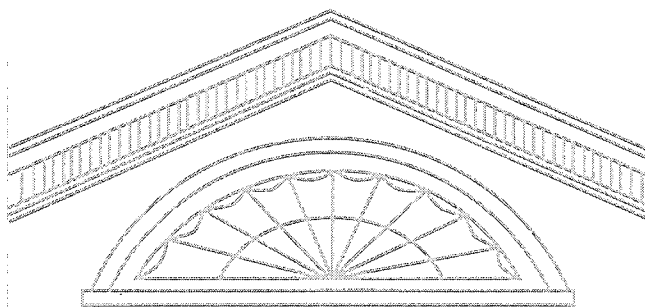


over 700 control women. Approximately half the women are African-American, making it one of the largest ever studies of breast cancer in black women. The study is a collaborative effort of faculty in the schools of Medicine and Public Health.

The School won the National Association of Government Communicators 1st place award for its four part, satellite video-conference, "Epidemiology and Prevention of Vaccine Preventable Disease." Collaborators in producing the videoconference included the Centers for Disease Control; the National Immunization Program and Public Health Training Network; the North Carolina Department of Environment, Health and Natural Resources; and the Association of Schools of Public Health.

Highway Safety Research Center

The Highway Safety Research Center (Center) continued its work with the Governor's Highway Safety Program (GHSP) to sponsor student-led high school programs aimed at promoting seat belt use and curbing underage alcohol use. The Center and the GHSP also provide \$500 grants to help selected high schools conduct four to six week programs to increase seat belt use and promote alcohol awareness. Between 1993 and now, approximately 200,000 students in 76 counties in North Carolina have participated in the program. Seat belt use has increased 17 percent in participating high schools.



Other Health Affairs Initiatives

Efforts to promote diversity were reinforced and expanded. The Medical Education Development Program received renewal funding enabling it to continue to help prepare minority and disadvantaged college students for successful pursuit of dental and medical education. The North Carolina Health Careers Access Program conducted its most successful ever Summer Enrichment Program providing minority students with basic sci-

ence training to help prepare them for further studies in the health professions. The School of Pharmacy and Glaxo Wellcome Inc. hosted a three day conference that introduced minority students from throughout the South to new career opportunities. The School of Nursing appointed its first director of the new Center for Multiculturalism in Nursing. This collaborative effort with North Carolina Central University works to increase representation of minority groups in nursing and to develop greater appreciation of diversity in nursing education and health care settings. The Center for Health Promotion and Disease Prevention, the School of Public Health, and several

The Highway Safety Research Center continued its work with the Governor's Highway Safety Program to sponsor student-led high school programs aimed at promoting seat belt use and curbing underage alcohol use. Since 1993, seat belt use has increased 17 percent in participating schools.

local agencies have formed a partnership to help reduce violence, early sexual activity, and drug abuse in teenagers through Project RAPP: Reaching Adolescents, Parents, and Peers. The Project targets 1,550 students in the Durham middle schools. The Frank Porter Graham Child Development Center has received a \$14 million grant from the U. S. Department of Education to create the National Center for Early Development and Learning. The Center will be the only university-based facility in the United States aimed at boosting children's intellectual and social development.

The Injury Prevention Research Center and the Frank Porter Graham Child Development Center have collaborated with the Department of Environment, Health and Natural Resources to reformulate the State's Disability Prevention Program. As part of this effort, University personnel have trained over 100 maternal outreach workers throughout North Carolina on principles of home visiting, child development, and injury prevention.

Graduate Studies and Research

The Graduate School's success in recruiting minority students (456 African-American and American-Indian graduate students enrolled in 1995-1996) helped the University achieve membership in the Graduate Education for Minorities (GEM) Consortium, qualifying students for GEM fellowships.

The Industry Group was initiated to serve as an entry point for corporations seeking innovative partnerships with the

University. Also, the Washington Group and the Washington Project were launched to track congressional activity and its impact on university research and graduate education, and to increase opportunities for the University at the federal level.

The new Office of Technology Development (OTD) increased the number of executed license/option agreements by 52%, and the amount of royalty received increased by 30% over the previous year. OTD also helped identify inventions and investors for eight potential start-up companies.

Other initiatives included the Proposal Development Initiative (PDI), which helped faculty members request over \$100 million in funding. Also, the Carolina Society of Fellows was created to foster excellence in the graduate program, supporting dissertation-level doctoral candidates, each from a different discipline. The society's endowment received \$1 million in gifts. The Carolina Minority Postdoctoral Scholar Program selected five scholars from over 100 applicants.

Thirty years after the establishment of the Louis Harris Data Center, the Institute for Research in Social Science (IRSS) has archived 1,171 Harris Polls for use by faculty and students; 72,564 questions and responses are now available through a computerized information system easily accessed via the Internet.

Additionally, over 8,000 inquiries were made to computerized public-opinion data archives maintained by IRSS.

University Library

The Library celebrated its 200th anniversary as the oldest public university library in the nation on May 8, 1996 with a symposium keyed by Scott Bennett, Yale University Librarian. The Library ranked 1st in the southeast and 19th among research libraries in the United States and Canada. The Library began 24-hour access to the Undergraduate Library. The building program for the reconceptualization and renovation of the Undergraduate Library was completed and planning began for renovation of the building. The Library implemented a telephone renewal system for library materials. Expanded access to electronic databases, both bibliographic and full-text, within the Library improved access to local collections and to collections held in other libraries.

Information Technology Services

Information technology helped the University serve the state in more productive ways than ever before. Linked to the Internet, the University's technology infrastructure of readily accessible communication, computation, and information resources provides: (1) a globally-connected communications environment to enhance the reach, timeliness, and effectiveness of human

communication in every aspect of instruction, research, public service, and institutional management; (2) a learning infrastructure to increase the quality of student and faculty academic work and to increase access to academic resources and credit-bearing instruction beyond the boundaries of the traditional classroom, lab, and library; and (3) an information infrastructure and related services to streamline management functions by re-designing their underlying processes.

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Information Technology Services, the University's recently consolidated information technology management organization, and its departmental counterparts are developing key physical, resource, and service components of this up-to-date information technology environment in spite of serious financial limitations. A fiber-optic network is being installed between campus buildings to improve the capacity, speed, and reliability of access to on- and off-campus electronic information and computational resources. Engineering work to upgrade or complete communications wiring inside campus buildings and residence halls is underway, and construction will begin as soon as funding can be located. The University continued to be a national leader in providing anytime, anyplace access to a diverse array of information technology resources and services for the University community and the public. The University maintains more state-of-the-art computer labs for students than most of its peer institutions, and use of these fee-supported labs is at an all time high for access to campus and Internet resources. The University also leads its peers with a heavily used comprehensive technology skills training program for the entire University community. Students, faculty, and staff can publish their own information and, along with the public, can interact with growing collections of academic, administrative, and service information on the University's World-Wide-Web pages. Additional easy-to-use personal computer software tools are streamlining and improving the quality of administrative services and a major new human resources system has been selected to provide a framework for re-engineering virtually all human resource processes. Behind the scenes, a complex, state-of-the-art 911 system was installed to identify and con-

nect university telephones to campus police headquarters. This is the first such implementation in the country using a centrex telephone system.

Development Activities

In fiscal 1996, the University's challenge was to keep the fund-raising momentum from the record-setting six-year Bicentennial Campaign, which ended June 30, 1995. With the help of generous friends and donors, the University has done that. Among the year's highlights:

The University received \$92 million in gifts and private grants for academics and athletics — the highest total ever. This is an increase of 5.5 percent.

The total number of donors to the University was 56,462 — an increase of 7 percent from the preceding year, spread across almost all categories, including alumni, nonalumni, parents, faculty, students, corporations, trusts and other organizations.

The year's major gifts, grants and pledges included \$2.4 million to the School of Medicine for research from the Howard Hughes Medical Institute; \$2 million from the William R. Kenan Charitable Trust for the Kenan-Flagler Business School's future executive education conference center; \$1 million for the Sonja Haynes Stone Black Cultural Center building from an anonymous donor; \$1 million from the Glaxo Wellcome Foundation for the School of Pharmacy; \$500,000 from Dr. and Mrs. Thomas S. Royster Jr. for the Carolina Society of Fellows, the new flagship program of financial support for graduate students; \$500,000

Student callers at the Carolina Phonathon, part of the Carolina Annual Fund, exceeded the \$2 million mark for the first time. The students brought in \$2.1 million in gifts and spoke directly with 85,000 on behalf of the University.

for the future Center for Dramatic Art, in honor of Elizabeth Price Kenan, from the William R. Kenan Charitable Trust; and \$333,000 from Sunstar Inc., a Japanese manufacturer of oral care products, to be matched with \$167,000 in state funds to create a \$500,000 distinguished professorship in the School of Dentistry.

The student callers at the Carolina Phonathon, part of the Carolina Annual Fund, exceeded the \$2 million mark for the first time. The students brought in \$2.1 million in gifts and spoke directly with 85,000 alumni on behalf of the University.

For the third straight year, the University of North Carolina at

Chapel Hill received the Circle of Excellence in Educational Fund Raising Award from the Council for Advancement and Support of Education (CASE). The award is based on growth in gift totals, growth in number of donors, and total support in relation to the alumni base.

Capital Construction

During the past year, seventeen capital improvement projects have been completed including the \$10.1 million Tate-Turner-Kuralt Building for the School of Social Work, and the \$14 million renovations and improvements to the Carolina Inn. Construction is underway on fifteen other projects, including the \$11 million addition to the School of Law, the \$32.2 million building for the Kenan-Flagler School of Business, the \$18.8 million addition to the Lineberger Comprehensive Cancer Center, and the \$17.3 million addition to the School of Dentistry. Funding for these latter three projects was provided by a combination of private gifts and State of North Carolina bond issues.

The University's Food Service Task Force, with students comprising a majority of the membership, completed a comprehensive plan for the revitalization of the University's food services. The Task Force's recommendations were accepted by the Board of Trustees and implementation has begun, including selection of an architect for a \$13 million renovation of three major facilities.

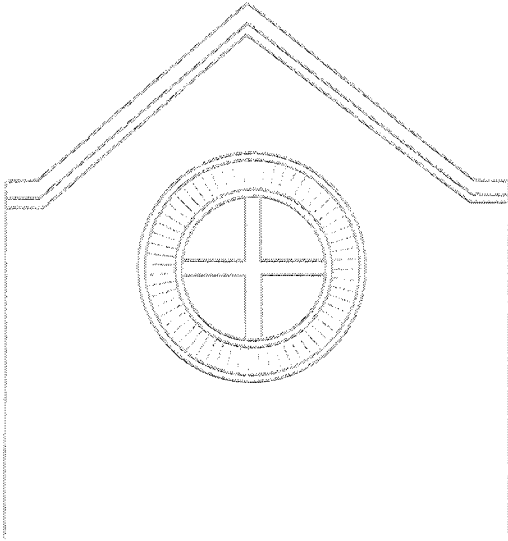
Capital improvements projects with a total value of over \$250 million are in various phases of planning.

Carolina Living and Learning

This past fall, the General College and the Department of University Housing embarked upon a new collaborative effort by providing students another occasion to learn where they live. Students in a designated residence hall were offered the opportunity to enroll in two classes taught in their residence hall. The instructors (one of whom lived in the residence hall) and the students commented that combining the intellectual and social aspects of their lives created a more comfortable learning environment.

Student Health Service

The Governor's Academy for Prevention Professionals (GAPP), funded jointly by the Student Health Service and the state departments of public instruction and human resources, is the nation's first school devoted solely to teaching prevention specialists. The specialists work in their communities to prevent drug, alcohol, and tobacco abuse and to promote general well-



ness. In order to prepare for certification as prevention specialists, participants go through a combination of rigorous academic instruction, group process, professional development, coaching, and mentoring. GAPP's basic program covers a range of topics from program design and evaluation to holistic health and public speaking. The advanced academy focuses on leadership development, working with groups, violence, community development, and school-aged youth. This successful program produced 54 graduates in 1996 and 300 over the past 5 years. The graduates have used their new abilities to obtain over \$1 million in federal, state, and private grants for projects in their communities.

Campus Safety

Two major safety improvement efforts were completed. The Department of Public Safety's Communications Center became an E-911 Center, and the ability to dial 911 for emergencies was made available to campus telephone users for the first time. Following a three-year self-study effort which included substantial policy and procedure revisions, staff training initiatives, and equipment purchases, the Department of Public Safety received national accreditation from the Commission on Accreditation of Law Enforcement Agencies, becoming the 13th college or university in the nation to earn that distinction.

Continuous Quality Improvement

Several units within the University began using the management strategy commonly known as continuous quality improvement to enhance University services. Units actively using the strategy are Business and Finance, Student Affairs, Undergraduate Admissions, 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. Four teams have presented recommendations to campus administrators, and from those teams the following implementation is in progress:

- Piloting the use of a departmental purchase card that allows departments to purchase directly from vendors those items costing less than \$750. When fully implemented, the purchase card will reduce both the administrative time and cost of small purchases.
- Speeding business transactions by eliminating the use of five forms and reducing the number of signatures required on other forms by eighteen. Business and Finance continues to work on the expansion of the use of electronic forms, as well.
- Installing a Human Resources Information System that will streamline and automate Human Resources transactions, and increase the amount of information readily available for campus personnel decisions.
- Facilitating campus financial transactions by expanding acceptance sites for the University OneCard, and standardizing campus card access systems.

Two other cross functional teams are currently working to reduce the time and cost of building renovations, and to design a unified solution for departmental accounting needs. In addition to saving time and money and enhancing customer satisfaction, the teams are also 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, pro-

mote 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, provides 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 Chancellor 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 1996, the University expended \$975.6 million fulfilling its mission of instruction, research, and public service. The \$975.6 million consists of \$965.5 million in expenditures and mandatory transfers and \$10.1 million in other transfers and refunds to grantors. Approximately 55.5% of the total

Current Funds for the year ended June 30, 1996 (in thousands)

<table border="0"> <tr> <td style="width: 15%;">\$308,245</td> <td style="width: 10%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 45%;"></td> </tr> <tr> <td></td> <td>\$88,478</td> <td></td> <td></td> <td></td> </tr> <tr> <td>\$244,485</td> <td></td> <td>\$74,174</td> <td></td> <td></td> </tr> <tr> <td>\$241,690</td> <td></td> <td>\$27,597</td> <td></td> <td></td> </tr> <tr> <td colspan="5"> </td> </tr> <tr> <td>Instruction, Academic Support, and Student Services (39.5%)</td> <td></td> <td></td> <td></td> <td style="text-align: right;">\$385,303</td> </tr> <tr> <td>Organized Research (16.0%)</td> <td></td> <td></td> <td></td> <td style="text-align: right;">\$156,034</td> </tr> <tr> <td>Public Service (6.7%)</td> <td></td> <td></td> <td style="text-align: right;">\$65,502</td> <td></td> </tr> <tr> <td>Institutional Support (4.3%)</td> <td></td> <td></td> <td style="text-align: right;">\$41,500</td> <td></td> </tr> <tr> <td>Physical Plant Operations (6.4%)</td> <td></td> <td></td> <td style="text-align: right;">\$62,402</td> <td></td> </tr> <tr> <td>Student Financial Aid (3.2%)</td> <td></td> <td></td> <td style="text-align: right;">\$31,479</td> <td></td> </tr> <tr> <td>Auxiliary Enterprises and Internal Service (9.2%)</td> <td></td> <td></td> <td style="text-align: right;">\$89,946</td> <td></td> </tr> <tr> <td>Professional Clinical Services (11.1%)</td> <td></td> <td></td> <td style="text-align: right;">\$108,282</td> <td></td> </tr> <tr> <td>Transfers and Other Deductions (3.6%)</td> <td></td> <td></td> <td style="text-align: right;">\$35,174</td> <td></td> </tr> <tr> <td>Uses...\$975,622</td> <td></td> <td></td> <td></td> <td></td> </tr> </table>	\$308,245						\$88,478				\$244,485		\$74,174			\$241,690		\$27,597								Instruction, Academic Support, and Student Services (39.5%)				\$385,303	Organized Research (16.0%)				\$156,034	Public Service (6.7%)			\$65,502		Institutional Support (4.3%)			\$41,500		Physical Plant Operations (6.4%)			\$62,402		Student Financial Aid (3.2%)			\$31,479		Auxiliary Enterprises and Internal Service (9.2%)			\$89,946		Professional Clinical Services (11.1%)			\$108,282		Transfers and Other Deductions (3.6%)			\$35,174		Uses...\$975,622					<table border="0"> <tr> <td style="width: 45%;">State Appropriations (31.3%)</td> <td style="width: 10%;"></td> <td style="width: 45%; text-align: right;">Sources...\$984,669</td> </tr> <tr> <td>Tuition and Fees (9.0%)</td> <td></td> <td></td> </tr> <tr> <td>Governmental Contracts and Grants (24.8%)</td> <td></td> <td></td> </tr> <tr> <td>Private Gifts, Contracts and Grants (7.5%)</td> <td></td> <td></td> </tr> <tr> <td>Sales and Services & Other Sources (24.6%)</td> <td></td> <td></td> </tr> <tr> <td>Investment and Endowment Income (2.8%)</td> <td></td> <td></td> </tr> </table>	State Appropriations (31.3%)		Sources...\$984,669	Tuition and Fees (9.0%)			Governmental Contracts and Grants (24.8%)			Private Gifts, Contracts and Grants (7.5%)			Sales and Services & Other Sources (24.6%)			Investment and Endowment Income (2.8%)		
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expenditures supported the instruction and research missions of the University including the academic and student support functions. Expenditures for the professional clinical services which are self-supporting operations providing medical, dental, and other health care were 11.1% of the total.

Other uses of operating resources were for public service (6.7%); institutional support (4.3%); physical plant operations (6.4%); student financial aid (3.2%); and self-supporting auxiliary and related operations (9.2%). Mandatory and other transfers, refunds to grantors, and investment losses accounted for the remainder (3.6%).

Total expenditures and transfers of \$975.6 million represent an increase of 6.1% over the prior year. Instruction, academic support, and student services increased 8.6% over the prior year while professional clinical services increased 9.2%. Other increases included student financial aid (6.4% increase over prior year), institutional support (10.1% increase over prior year), and physical plant operations (4.6% increase over prior year), organized research (.8% increase over prior year), and auxiliary enterprises and internal service (.5%).

Resources of \$984.7 million supporting these expenditures and transfers increased 4.4% over the prior year which, when combined with restricted receipts of \$4.8 million not transferred to revenues, resulted in a \$13.8 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 1996 (31.3% of total, 2.0% increase over prior year). Remaining revenue sources were tuition and fees (9.0% of total, 8.6% increase), governmental contracts and grants (24.8% of total, 3.9% increase), sales and services and other sources (24.6% of total, 4.9% increase), private gifts, grants, and contracts (7.5% of total, 9.6% increase), and investment and endowment earnings (2.8% of total, 4.9% increase).

Resources of proprietary funds, which include auxiliary enterprise, internal service, and professional clinical service activities, totaled \$242.6 million. The remaining current funds resources of \$742.1 million support the educational and general activities of the University and are summarized as follows (in thousands):

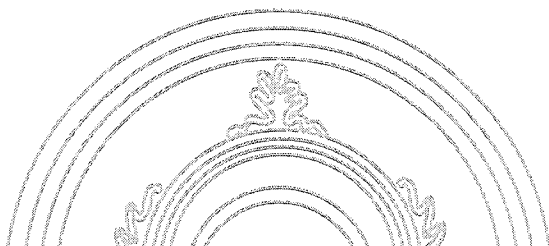
Educational and General	Amount	% of Total
State Appropriations	\$308,245	41.5%
Tuition and Fees	88,478	11.9%
Governmental Contracts and Grants	244,485	33.0%
Private Gifts, Contracts and Grants	73,342	9.9%
Sales and Services and Other Sources	7,969	1.1%
Investment and Endowment Income	19,578	2.6%
Total	\$742,097	100.0%

The student headcount of the University was 24,439 for the Fall semester of fiscal year 1996. Student enrollment has remained stable over the last five years, increasing 2.7%. Student enrollment for fiscal year 1996 was composed of the following categories:

Women	57.7%
Men	42.3%
White	81.1%
African American	9.2%
Other	9.7%
Undergraduate	64.3%
Graduate	28.8%
Professional	6.9%
Resident	76.0%
Nonresident	24.0%

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

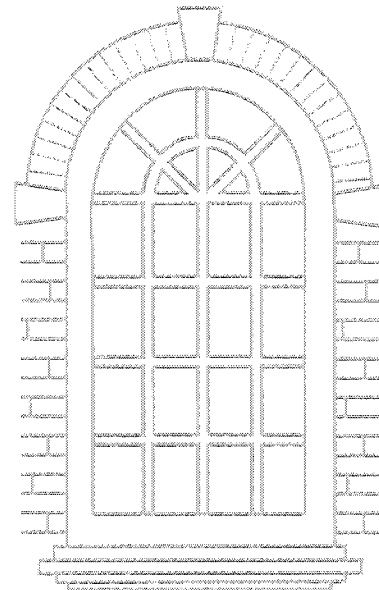


reported by fund group. The University's self-balancing fund groups are as follows:

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, 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. Quasi-endowment Funds have been established by the governing board for the same purposes as Endowment Funds, and any portions of Quasi-endowment 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 \$230 million of revenue bonds outstanding and \$1 million of notes outstanding at June 30, 1996. 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 category by Standard and Poor's Corporation. The bonds issued to finance the facility leased to the U.S. Environmental Protection Agency are rated AAA by Standard and Poor's. 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

An increased focus on the University's cash management function occurred as a result of the Finance Division's restructure, which centralized and expanded cash management duties. 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 11 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 University of North Carolina at Chapel Hill Foundation, Inc. and of the Athletic Department are each 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) awarded a Certificate of Achievement for Excellence in Financial Reporting to The

"The 1996 Financial Report is the product of principled, results-oriented fiscal management." —Chancellor Michael Hooker

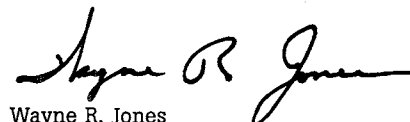
University of North Carolina at Chapel Hill for its comprehensive annual financial report for the fiscal year ended June 30, 1995. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement a government unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

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, Graduate Studies and Research, Director of Quality Improvement, Student Affairs, Information Technology Services, Institutional Advancement, University Registrar, University Design Services, University Controller's Office, 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
University Treasurer

Board of Trustees

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Chair, Greensboro, N.C.

William R. Jordan

Vice Chair, Fayetteville, N.C.

Anne W. Cates

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Aaron M. Nelson

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Chancellor

Robert J. Cannon

Equal Employment Officer

Douglas S. Dibbert

President, General Alumni Association

Susan H. Ehringhaus

Assistant to the Chancellor and Senior University Counsel

Elson S. Floyd

Executive Vice Chancellor

William H. Graves

Interim Chief Information Officer

H. Garland Hershey, Jr.

Vice Provost Health Affairs

Wayne R. Jones

University Treasurer

Matthew G. Kupec

Vice Chancellor for University Advancement

Thomas J. Meyer

Vice Provost Graduate Studies and Research

Richard J. Richardson

Provost

John D. Swofford

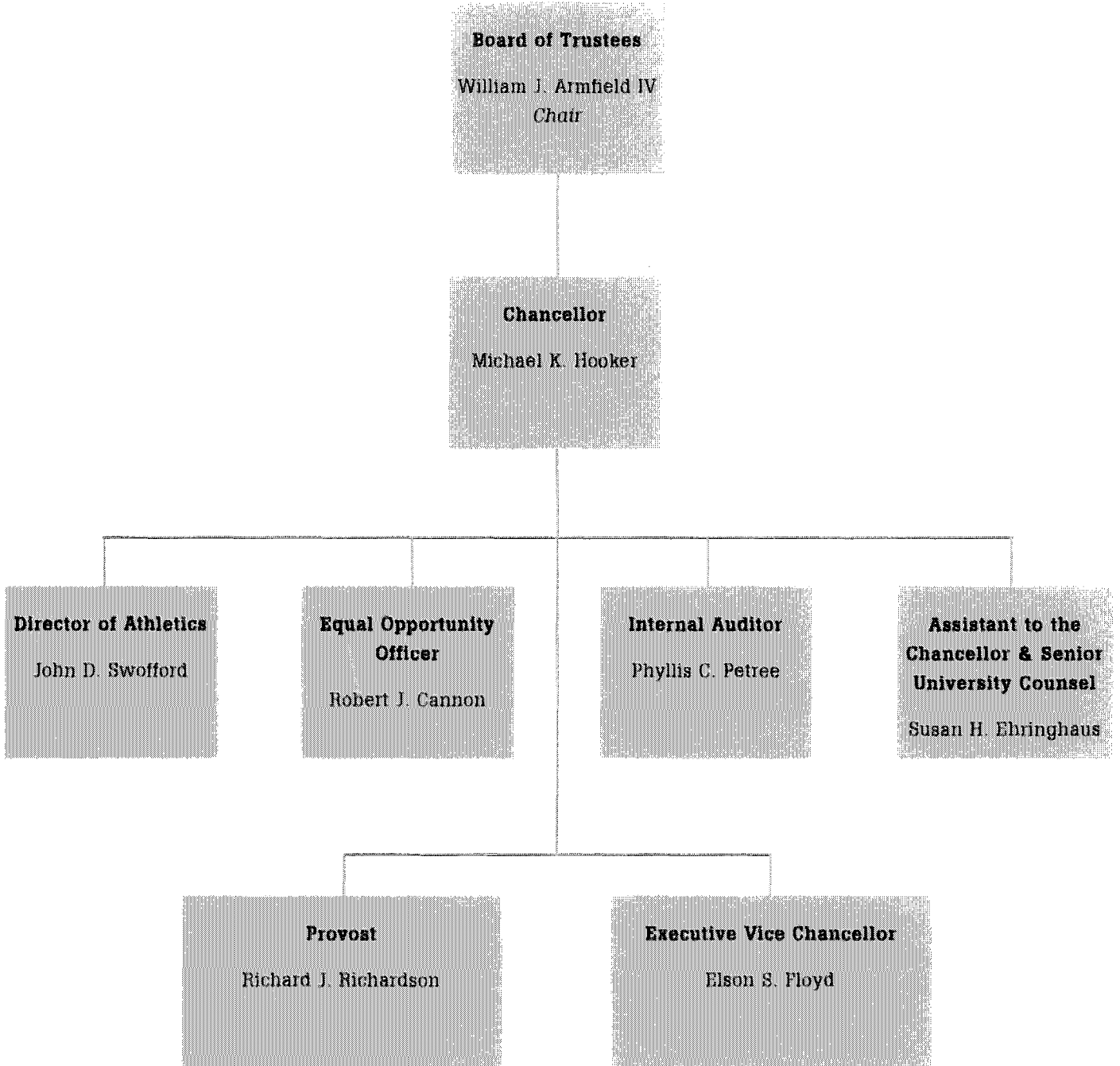
Director of Athletics

Edith M. Wiggins

Interim Vice Chancellor and Dean Student Affairs

Organization Chart

The University of North Carolina at Chapel Hill



Certificate of Achievement for Excellence in Financial Reporting

Presented to

The University of North
Carolina at Chapel Hill

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1995

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Arthur R. Lynch
President

Jeffrey L. Essler
Executive Director

financial section

"UNC is a leader in developing animal models of genetically based diseases, is internationally renowned for clinical expertise in these diseases and has a strong program in basic science, so we have all the necessary elements to be at the forefront of gene therapy."

—R. Jude Samulski, Ph.D.

Director of the Gene Therapy Center

Associate Professor of Pharmacology, and

member of the program in biology and

biotechnology.

Source: Medical Alumni Bulletin

Photo by Paul Dwyer

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.



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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

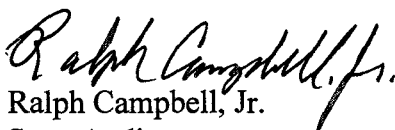
Board of Trustees
The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

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, 1996 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, 1996, 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

November 4, 1996



Balance Sheet June 30, 1996

	CURRENT FUNDS		
	Unrestricted		Restricted
	General	Proprietary	
Assets			
Cash and Cash Equivalents (Note 1E and 2)	\$47,656	\$97,428	\$85,413
Investments (Note 1F and 2)	23,481	87,201	13,157
Accounts Receivable-Students	887	487	
Accounts Receivable-Patients (Net)(Note 1G)		34,056	
Due from Federal Government			20,317
Accrued Investment Earnings	2,327	706	863
Other Receivables	2,750	2,674	8,165
Due from Other Funds	15,848		
Due from State Agencies	1,684	1,197	3,728
Student Loans Receivable (Net) (Note 1G)			
Inventories (Note 1H)	228	12,668	7
Prepaid Expenses	111	93	
Land and Improvements			
Furniture and Equipment			
Buildings and Fixed Equipment			
Other Structures and Improvements			
Artworks and Literature			
Construction-In-Progress			
Total Assets	\$94,972	\$236,510	\$131,650
Liabilities and Fund Equity			
Liabilities			
Accounts Payable	\$3,200	\$4,031	\$6,282
Accrued Payroll	11,286	4,749	4,772
Claims Payable		14,611	
Other Payables	46		
Contracts Payable-Retainage			
Due to State Agencies	9	502	584
Due to Other Funds		13,619	13,795
Deposits Payable	7,869	513	
Interest Payable			
Accrued Vacation Leave	17,438	8,065	7,707
Deferred Revenue	800	3,286	
Notes Payable (Note 8)			
Bonds Payable (Note 8)			
Obligations Under Reverse Repurchase Agreements	422	38,000	6,000
Arbitrage Liability			
Unamortized Bond Discount			
Advance Refunding Escrow			
Obligations Under Capital Leases (Note 9)			
Funds Held for Others			
Total Liabilities	41,070	87,376	39,140
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			
Restricted			92,510
Unrestricted	53,902	149,134	
Total Fund Equity	53,902	149,134	92,510
TOTAL LIABILITIES & FUND EQUITY	\$94,972	\$236,510	\$131,650

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

The University of North Carolina at Chapel Hill
June 30, 1996 (in thousands)

FIDUCIARY FUNDS			PLANT FUNDS		
Loan	Endowment & Similar Funds	Agency	Unexpended	Debt Service	Investment in Plant
\$6,312	\$25,390	\$80,507	\$61,069	\$996	
1,121	308,295	205,136	6,344	19,170	
26	297		86	1,285	
				11,566	
30,565				303	\$6,439
					149,645
					638,745
					40,161
					193,023
					75,495
\$38,024	\$333,982	\$285,643	\$67,499	\$33,320	\$1,103,508
	\$3,220		\$6,764		
		8,372			
	1,754		2,400		
				3,395	
					\$1,067
			450	30,991	199,520
	25,334	57,550	2,000		
			122		
				(2,958)	
				(8,941)	
					65
		219,721			
0	30,308	285,643	11,736	22,487	200,652
					902,856
28,130	223,167				
	35,640				
	35,383				
	9,484				
				2,619	
				13,450	
9,507			\$2,118	1,002	
387			3,645	(6,238)	
38,024	303,674	0	55,763	10,833	902,856
\$38,024	\$333,982	\$285,643	\$67,499	\$33,320	\$1,103,508

Statement of Changes in Fund Equity

	CURRENT FUNDS		
	<i>Unrestricted</i>		Restricted
	General	Proprietary	
Revenues and Other Additions			
State Appropriations	\$308,245		
Tuition and Fees	88,478		
Federal Contracts and Grants	46,541		\$219,088
State Contracts and Grants	1,147		26,175
Private Gifts, Contracts and Grants	5,029	1832	62,957
Sales and Services	4,437	229,451	
Endowment Income	3,487		12,348
Investment Earnings	5,979	8,019	4,904
Realized Gain on Sale of Investments	1,276		
Expended for Plant Facilities			
Retirement of Indebtedness			
Other Revenues and Additions	2,256	4,270	4,629
Total Revenues and Other Additions	466,875	242,572	330,101
Expenditures and Other Deductions			
Educational and General	466,998		275,222
Auxiliary Enterprises		88,032	
Internal Service		1,914	
Professional Clinical Services		108,282	
Indirect Costs Recovered			50,121
Refunded to Grantors			636
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	1,027		
Other Expenditures and Deductions			
Total Expenditures and Other Deductions	468,025	198,228	325,979
Excess of Revenues Over (Under) Expenditures	(1,150)	44,344	4,122
Transfers - Additions (Deductions)			
Mandatory Transfers	(52)	(24,027)	(5)
Non-Mandatory Transfers	7,831	(11,582)	(3,060)
Interinstitutional Transfers	(2,453)	(30)	(133)
Net Transfers	5,326	(35,639)	(3,198)
Net Increase in Fund Equity	4,176	8,705	924
Fund Equity July 1, 1995 (Note 12)	49,726	140,429	91,586
Fund Equity June 30, 1996	\$53,902	\$149,134	\$92,510

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

The University of North Carolina at Chapel Hill
 Year Ended June 30, 1996 (in thousands)

FIDUCIARY FUNDS		PLANT FUNDS		
Loan	Endowment & Similar Funds	Unexpended	Debt Service	Investment in Plant
		\$37,819		
\$5	\$12,502	4,787		\$2,133
101	711			
1,092		1,795	\$1,710	
89	19,556		300	76,756
				9,127
78	2,213	50		
1,365	34,982	44,451	2,010	88,016
607		52,630		
			9,127	
			15,185	109,840
	1,450			
	2,516			9,383
607	3,966	52,630	24,312	119,223
758	31,016	(8,179)	(22,302)	(31,207)
47		(642)	24,679	
292	(790)	7,309		
339	(790)	6,667	24,679	0
1,097	30,226	(1,512)	2,377	(31,207)
36,927	273,448	57,275	8,456	934,063
\$38,024	\$303,674	\$55,763	\$10,833	\$902,856

Statement of Current Funds Revenues, Expenditures and Other Changes

The University of North Carolina at Chapel Hill
Year Ended June 30, 1996 (in thousands)

	Unrestricted			Restricted	Total Current Funds
	General	Proprietary	Total		
Revenues					
State Appropriations	\$308,245		\$308,245		\$308,245
Tuition and Fees	88,478		88,478		88,478
Federal Contracts and Grants	46,541		46,541	\$173,337	219,878
State Contracts and Grants	1,147		1,147	23,460	24,607
Private Gifts, Contracts and Grants	5,029	\$832	5,861	68,313	74,174
Sales and Services	4,437	229,451	233,888		233,888
Endowment Income	3,487		3,487	10,112	13,599
Investment Earnings	5,979	8,019	13,998		13,998
Realized Gain on Sale of Investments	1,276		1,276		1,276
Other Revenues	2,256	4,270	6,526		6,526
Total Current Revenues	466,875	242,572	709,447	275,222	984,669
Expenditures					
Educational and General					
Instruction	233,919		233,919	92,627	326,546
Organized Research	23,449		23,449	132,585	156,034
Public Service	41,744		41,744	23,758	65,502
Academic Support	44,184		44,184	3,587	47,771
Student Services	10,627		10,627	359	10,986
Institutional Support	39,074		39,074	2,426	41,500
Physical Plant Operations	61,543		61,543	859	62,402
Student Financial Aid	12,458		12,458	19,021	31,479
Total Educational and General	466,998	0	466,998	275,222	742,220
Auxiliary Enterprises		88,032	88,032		88,032
Internal Service		1,914	1,914		1,914
Professional Clinical Services		108,282	108,282		108,282
Realized Loss on Sale of Investments	1,027		1,027		1,027
Total Expenditures	468,025	198,228	666,253	275,222	941,475
Transfers and Additions/(Deductions)					
Excess of Restricted Receipts over					
Transfers to Revenues				4,758	4,758
Refunded to Grantors				(636)	(636)
Mandatory Transfers	(52)	(24,027)	(24,079)	(5)	(24,084)
Non-Mandatory Transfers	7,831	(11,582)	(3,751)	(3,060)	(6,811)
Interinstitutional Transfers	(2,453)	(30)	(2,483)	(133)	(2,616)
Net Increase in Fund Equity	\$4,176	\$8,705	\$12,881	\$924	\$13,805

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

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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. 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 Treasurer, and the Vice Chancellor for University Advancement (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 (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) Audits of Colleges and Universities *Industry Audit Guide* recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard-setting body for GAAP for all State governmental entities including colleges and universities.

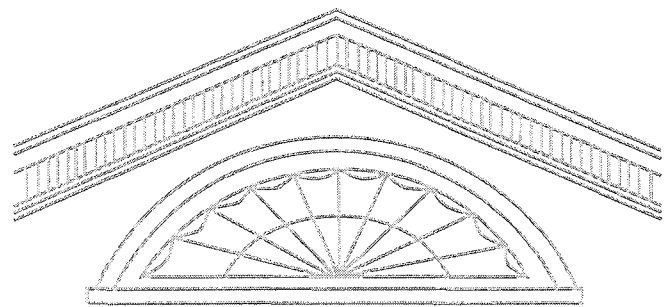
C. Fund Structure

The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

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, reflecting 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 of students and organizations held by the University as custodian. The transactions of the Agency Funds do not result in any revenue or expenditures for the University; therefore, these funds are not shown in the statement of changes in fund equity.

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



D. Basis of Accounting

The accompanying financial statements are prepared in accordance with generally accepted accounting principles for governmental colleges and universities. The generally accepted basis of accounting for governmental colleges and universities is the accrual basis, except that no depreciation expense is reflected.

E. Cash and Cash Equivalents

In addition to cash on deposit with the State Treasurer, bank accounts, petty cash, and undeposited receipts, this classification includes short-term investments, such as savings accounts.

F. Investments

This classification includes long-term fixed income investments and equity investments held by the University. This classification also includes certificates of deposit. Purchased securities are stated at cost. Investments acquired by gift or bequest are stated at market or appraised value at date of gift. Investments of the University's endowment funds are pooled, unless required to be separately invested, on a market value basis with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the month within which the transaction takes place. Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual pay-outs from the University's pooled endowment funds, which can vary between 4% and 7% of market value, are determined by increasing the prior year pay-out per share by the inflation rate. To the extent that the total return for the current year exceeds the pay-out, the excess is added to principal. If current year earnings do not meet the pay-out requirements, the University uses accumulated income and appreciation to make up the difference.

G. 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 \$22,435,000, \$164,000, and \$996,000 respectively. The accounts and notes receivable for other funds are shown at book value with no provision for doubtful accounts considered necessary.

H. Inventories

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

I. 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 \$5,000 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.

J. Compensated Absences

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

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

K. 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.

L. Interfund Borrowing

All temporary interfund borrowings have been made from current unrestricted general funds. The amounts due are payable currently.

Note 2: Deposits and Investments

A. Deposits

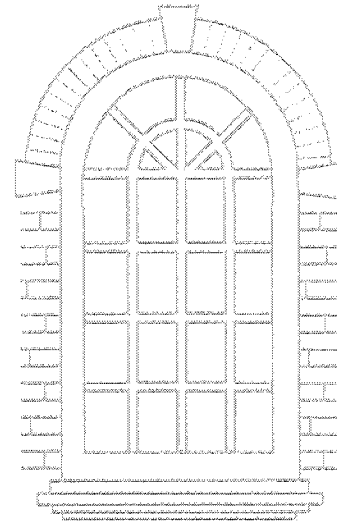
General Statutes of North Carolina require that all cash be deposited with the State Treasurer, except endowment funds, special funds, funds received for services rendered by health care professionals, and revenue bond funds. Special funds consist of moneys for intercollegiate athletics and agency funds.

Cash and cash equivalents include cash on hand, cash on deposit with the State Treasurer, commercial bank accounts, and certificates of deposit totaling \$407,989,000. At year-end, cash on hand was \$47,000. The carrying amount of the University's deposits with the State Treasurer was \$397,622,000, and the bank balance was \$411,090,000. 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 \$10,320,000 and the bank balance was \$11,541,000. Of the bank balance, \$879,000 was covered by federal depository insurance or by collateral held by the University's agent in the University's name, and \$10,662,000 was uninsured and uncollateralized.

B. 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 rat-



ings; 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.

North Carolina General Statutes place no specific investment restrictions on the University of North Carolina System. In the absence of specific legislation, the form of governance over these investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. Under this authority, 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 \$5,276,000.

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, 1996 were:

	Market Value	(in thousands) Book Value
Investments by Fund Type:		
Endowment	\$273,014	\$213,960
Quasi Endowment Unrestricted	49,370	40,065
Quasi Endowment Restricted	51,087	39,930
Annuity and Life Income Funds	16,675	14,340
Total	\$390,146	\$308,295

Pooled and Non-pooled:

Money Market	\$7,854	\$7,854
Equities	222,966	165,728
Fixed Income	94,265	86,723
Other	65,061	47,990
Total	\$390,146	\$308,295

University investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. 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 counterparty'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 counterparty, or by its trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 1996 is presented below.

	Category			Carrying Amount	Market Value
	1	2	3		
Categorized Investments:					
U. S. Government Securities	\$54,930	\$1,160		\$56,090	\$57,653
Collateralized Mortgage Obligations	58,688			58,688	58,866
State and Municipal Securities	10,835	50		10,885	10,594
Corporate Bonds	31,179			31,179	32,802
Corporate Stock	161,044	487	\$355	161,886	197,434
International Bonds-Corporate	14,781			14,781	20,113
International Stocks	65,136			65,136	104,198
Total Categorized Investments	\$396,593	\$1,697	\$355	\$398,645	\$481,660
Investments Not Categorized:					
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements - U.S. Government Securities				85,343	84,303
Money Market Funds				49,240	49,240
Mutual Funds				65,057	69,230
Real Estate				10,207	10,207
Certificates of Deposit				3,217	3,217
Limited Partnerships				50,013	72,552
Real Estate Investment Trusts				560	599
Other Investments				1,623	1,703
Total Investments Not Categorized				\$265,260	\$291,051
Total Investments				\$663,905	\$772,711

The above Certificates of Deposit are a component of the deposit totals reported in the deposits section of this note.

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.

C. 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, 1996, include mortgage pass-through securities and collateralized mortgage obligations (CMOs). The book value of these securities reflects their 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 pass-through 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. With the exception of synthetic-coupon pass-through securities (FNMA "alphabet" strips), which the University classifies as CMOs, 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 collateralized 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 mortgage loans issued by GNMA, FNMA, FHLMC, and the Mississippi Home Corporation.

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, 1996, all pass-through securities and CMOs held by the University had AAA ratings by Standard & Poor's and Moody's Investors Service.

D. Other Asset Backed Securities

The University invests in various asset backed securities. As of June 30, 1996, 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 other asset backed 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.

E. 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 \$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, 1996, the futures held by the University had an unrealized gain of \$172,023.

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, 1996, the futures contracts held by the University had expiration dates not exceeding September 1996.

F. Options

The University purchases and sells options on futures of U.S. and foreign securities. 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.

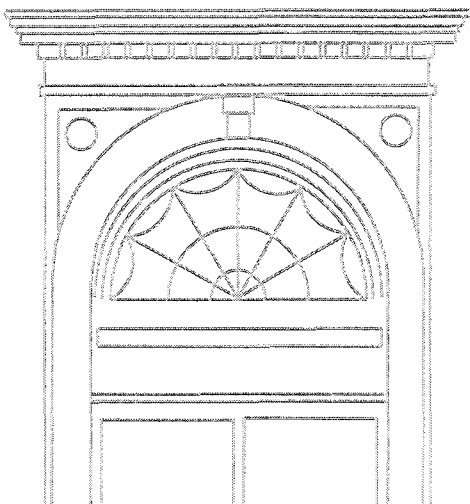
The University records the book values of long and short call and put option contracts at the option premium paid (if the option is purchased) or collected (if the option is written.) The University records the book value of the options in an investment account at an amount equal to the quantity of contracts purchased (sold) at the respective option premium price paid (collected.) When the option contract expires, or is repurchased or is exercised, the University records any resulting gain or loss in related income accounts. Unlike purchased options and most securities investments, losses on written options can exceed their cost. As of June 30, 1996, the University had written and outstanding option transactions with an original net premium of (\$36,641), a market value of (\$46,819) and an unrealized loss of (\$10,178.)

During the year ending June 30, 1996, 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, 1996, the option contracts held by the University have expiration dates not exceeding July 1996.

G. 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 avail-



able 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 fund investments which utilize derivative securities for the fiscal year ending June 30, 1996, are described below. The amounts shown below represent the book value of the University's investment in a fund, group of funds or limited partnership, and are not the book values of the derivatives each fund or partnership is holding.

1. The GMO Trust: The GMO trust is an open-end management investment company that offers approximately 20 diversified and non-diversified portfolios that each have unique investment objectives and strategies. The University participates in nine 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 are as follows.

Total funds invested in GMO Trust portfolios	\$63,945,648
Less: Amounts due to private foundations	<u>(19,719,937)</u>
Net University & Foundation funds invested	<u>\$44,225,711</u>

The University's net holdings in the GMO Trust represent approximately 9.64% of its total investments.

2. Jaguar Fund N.V. (the "Jaguar Fund"): The primary investment objective of the Jaguar Fund 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 con-

tracts. The University's net book value in the Jaguar Fund as of June 30, 1996, is as follows.

Total funds invested in the Jaguar fund	\$31,616,373
Less: Amounts due to private foundations	<u>(9,269,841)</u>
Net University and Foundation funds invested	<u>\$22,346,532</u>

The University's net holdings in the Jaguar Fund represent approximately 4.87% of its total investments.

3. 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, 1996, is as follows.

Total funds invested in Oppenheimer fund	\$22,300,000
Less: Amounts due to private foundations	<u>(5,786,760)</u>
Net University and Foundation funds invested	<u>\$16,513,240</u>

The University's net holdings in Oppenheimer fund represent approximately 3.60% of its total investments.

4. 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, 1996, is as follows.

Total funds invested in Pequot L.P.	\$11,000,000
Less: Amounts due to private foundations	<u>(3,346,560)</u>
Net University and Foundation funds invested	<u>\$ 7,653,440</u>

The University's net holdings in the Pequot L.P. represent approximately 1.67% of its total investments.

5. 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, 1996, is as follows.

Total funds invested in the Raptor Fund	\$10,500,000
Less: Amounts due to private foundations	<u>(2,997,960)</u>
Net University and Foundation funds invested	<u>\$ 7,502,040</u>

The University's net holdings in the Raptor Fund represent approximately 1.64% of its total investments.

6. No Margin Fund Limited Partnership ("No Margin L.P."): No Margin L.P. employs a global investment strategy which utilizes both foreign and domestic markets in an attempt to exploit market trends, limit losses, or lock-in particular spreads. No Margin L.P. trades in a portfolio of options, futures, forward contracts, swaps transactions, warrants, equity and debt securities, fixed income securities, and other financial instruments. The University's net book value in the No Margin L.P. as of June 30, 1996, is as follows:

Total funds invested in the No Margin L.P.	\$3,000,000
Less: Amounts due to private foundations	<u>(2,091,600)</u>
Net University and Foundation funds invested	<u>\$ 908,400</u>

The University's net holdings in the No Margin L.P. represent approximately 0.20% of its total investments.

7. BlackRock Financial Management, Inc. ("BlackRock"): Blackrock currently manages 21 closed-end funds (which trade on the New York Stock Exchange and American Stock Exchange), several open-end mutual funds, and more than 170 separate institutional portfolios. The University participates in three of the closed-end funds which invest in a variety of U.S. government and agency securities, zero coupon securities, mortgage-backed securities, other asset-backed securities, corporate debt securities, foreign debt securities and municipal securities. The University's net book value in the BlackRock as of June 30, 1996, is as follows:

Total funds invested in BlackRock	\$26,967,784
Less: Amounts due to private foundations	<u>(6,923,804)</u>
Net University and Foundation funds invested	<u>\$20,043,980</u>

The University's net holdings in BlackRock represent approximately 4.37% of its total investments.

8. 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 through out 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. During the year ending June 30, 1996, the University liquidated its investment in the Teton L.P. which had a net book value of \$14,400,800 as of June 30, 1995.

Note 3: Interfund Receivables and Payables

Due from/to Other Funds as of June 30, 1996 are summarized below (in thousands):

	Due From	Due To	
		Unrestricted General	Debt Service Funds
Proprietary Funds	\$13,619	\$2,053	11,566
Restricted Funds	13,795	13,795	
Total	\$27,414	\$15,848	\$11,566

Note 4 - Pension Plans:

A. Retirement Plans

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

The Teachers' and State Employees' Retirement System (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 8.15% of covered payroll for the period July 1, 1995 through June 30, 1996, 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, 1996, the University had a total payroll of \$493,885,000 of which \$245,523,000 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$14,731,000 and \$20,010,000 respectively. The University's 1996 contributions to the System represented 3.6% of total contributions required of all participating entities. 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, 1995, for the System as a whole, as determined through an independent actuarial valuation performed as of the same date, was approximately \$21,640,885,000. System net assets available for benefits on December 31, 1995 (valued at cost) were approximately \$22,178,592,000. The market value of System net assets available for benefits at December 31, 1995 was approximately \$27,936,093,000.

Additional detailed information, including the significant actuarial assumptions for the plan, and ten-year historical trend data for the System can be located in the State of North Carolina's 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 6.66% 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, 1996, the University had a total payroll of \$493,885,000 of which \$154,045,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$9,243,000 and \$10,259,000 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 \$371,000 for the year ended June 30, 1996.

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, 1996 were \$51,000. The voluntary contributions by employees amounted to \$874,000 for the year ended June 30, 1996.

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 \$13,051,000 for the year ended June 30, 1996.

Note 5: Other Postemployment Benefits

A. Health Care

The University participates in State administered programs which provide health care benefits to permanent employees working at least three-fourths time, long-term disability beneficiaries, and retirees. 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-as-you-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, 1996, the University's total contribution for postemployment health care benefits was \$7,991,000. 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 .52% 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, 1996, the University's total contribution to the Plan was \$2,078,000. 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, 1996, the University's total contribution to the Trust Fund was \$392,000. 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 6: Changes in Fixed Assets

A summary of changes in the fixed assets is presented as follows:

	<i>(in thousands)</i>			
	Balance 07/01/95	Additions	Deletions	Balance 06/30/96
Land and Improvements	\$6,439			\$6,439
Furniture and Equipment	245,922	\$21,766	\$118,043	149,645
Buildings and Fixed Equipment	625,260	13,485		638,745
Other Structures and Improvements	39,830	331		40,161
Artworks and Literature	184,168	10,035	1,180	193,023
Construction In Progress	30,417	45,078		75,495
Total Fixed Assets	\$1,132,036	\$90,695	\$119,223	\$1,103,508

During the year ended June 30, 1996, the University changed its capitalization policy to conform with a new statewide policy. The University previously capitalized equipment which had a value or cost in excess of \$500 at the date of acquisition and an expected useful life of one or more years. That amount was increased to \$5,000 and resulted in the write-off of \$105,135,000 during the year ended June 30, 1996.

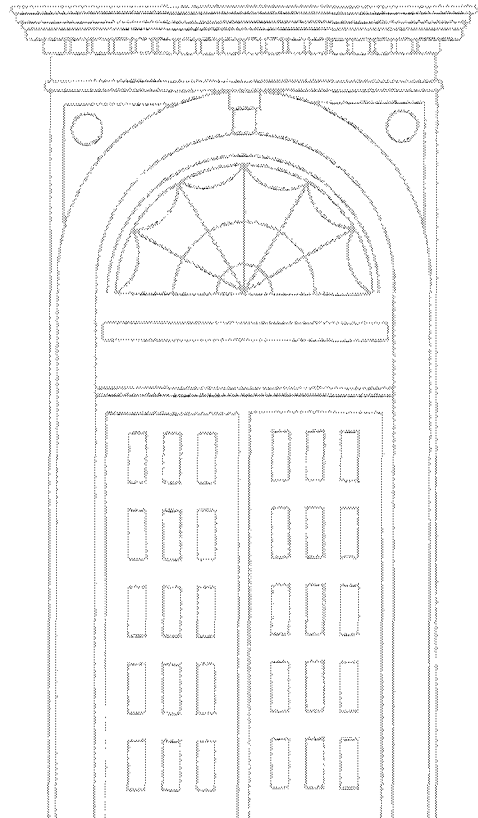
Note 7: Commitments and Contingencies:

A. Construction Commitments:

The University had commitments of \$36,462,000 for various construction projects that include completion of new buildings and renovation of existing buildings. These commitments are funded by bond proceeds of \$4,793,000, State appropriations of \$12,027,000, University funds of \$18,944,000 and other outside sources in the amount of \$698,000.

B. Contingencies:

The University is a party to various litigation and other claims in the ordinary course of its operations. A construction related claim of \$2,000,000 has been asserted against the University. An additional claim related to an expansion project is expected to be submitted in an estimated amount of \$4,000,000. 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 \$1,067,000 at June 30, 1996 for the purposes shown in the following table.

(in thousands)					
Purpose	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 06/30/96	Principal Outstanding 06/30/96
Food Service	62% of prime	Aug. 22, 1997	\$4,500	\$4,031	\$469
Office of Information Technology	6.70%	July 20, 1996	1,587	989	598
Total Notes Payable			\$6,087	\$5,020	\$1,067

The University was indebted for bonds payable in the amount of \$230,961,000 at June 30, 1996 for the purposes shown in the following table.

(in thousands)							
Purpose	Series	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 06/30/96	Accretion on Capital Appreciation Bonds	Principal Outstanding 06/30/96
Student Family Housing	"A"	3.500%	Sept. 1, 2002	\$995			
	"B"	3.000%	Sept. 1, 1998	1,942			
Total Student Family Housing				2,937	\$2,395		\$542
Dormitory System	"E"	2.875%	Nov. 1, 2000	985			
	"F"	3.000%-					
		3.750%	Nov. 1, 2003	2,544			
	"G" 1991	3.000% 5.400%-	Nov. 1, 2005	3,000			
Total Dormitory System		6.400%	Nov. 1, 2011	9,830	4,922		11,437
Utility System	1993	4.000%-					
		6.000%	Aug. 1, 2011	108,455			
	1992	3.000%-					
Total Utility System		6.800%	Aug. 1, 2021	22,827	11,621	\$6,048	125,709
Parking System	"B"	6.740%	June 1, 2009	11,800	2,230		9,570
Student Union	1967	3.000%	Nov. 1, 2007	2,000	1,115		885
Kenan Stadium	1988	Variable	Nov. 1, 2007	5,000	1,150		3,850
Ambulatory Care Facility	1990	Variable	July 1, 2012	20,000	1,700		18,300
Amb. Care Fac. Equipment	1992	Variable	Oct. 1, 2002	3,000	1,400		1,600
Student Recreation Center	1991	5.300%-					
		7.000%	June 1, 2011	4,665	580		4,085
U.S. Environmental Protection Agency Project	1991	8.250%-					
		9.250%	Feb. 15, 2015	36,679	1,295	2,124	37,508
Carolina Inn	1994	Variable	Nov. 15, 2019	13,475			13,475
School of Dentistry	1995	Variable	Sept. 1, 2010	4,000			4,000
Total Bonds Payable				\$251,197	\$28,408	\$8,172	\$230,961

The schedule below shows the annual requirements to pay principal and interest on the long-term obligations at June 30, 1996.

Fiscal Year	(in thousands) Annual Requirements (Principal and Interest)	
	Revenue Bonds	Notes
1997	\$19,173	\$1,031
1998	19,283	95
1999	19,588	0
2000	19,951	0
2001	20,120	0
2002-2006	99,221	0
2007-2011	93,512	0
2012-2016	74,655	0
2017-2021	52,909	0
2022-2026	9,750	0
Total Requirements	\$428,162	\$1,126

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.

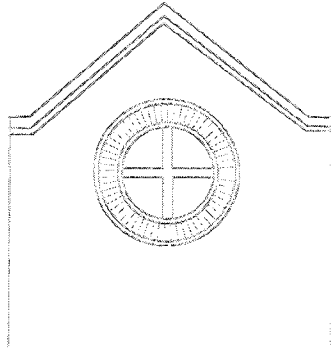
Ambulatory Care Clinic, Series 1990:

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. Lehman Brothers, Inc. is the remarketing agent.

The University has arranged a standby bond purchase agreement with NationsBank of North Carolina, N.A., 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 principal of or interest on the bonds.

The University is required to pay an annual commitment fee for the liquidity facility of .10% of the stated amount of the line of credit then in effect. The liquidity facility terminates on March 27, 2007.

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 than 180 days following delivery of a termination notice by Wachovia. As of June 30, 1996, the earliest such termination date is December 27, 1996. 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 tax-exempt 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, 1996, the letter of credit terminates on August 5, 1997. 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 \$25,384,000 and \$5,953,000 respectively, which is the accreted value at the year ended June 30, 1996. 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, 1996 the outstanding balance of the defeased Carolina Inn bonds was \$195,000.

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, 1996 the outstanding balance of the defeased Utility System bonds was \$89,055,000.

Note 9: Leases

A. 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, 1996:

Fiscal Year	Operating Leases	<i>(in thousands)</i>	
		Capital Leases	
1997	\$3,508	\$52	
1998	2,876	10	
1999	2,303	3	
2000	1,745		
2001	1,483		
Thereafter	1,124		
Minimum Lease Payments	\$13,039	65	
Present Value of Future Lease Payments		\$65	
Total rental expense for operating leases for the year ended June 30, 1996	\$6,049		

B. Other Lease Agreements:

The University of North Carolina at Chapel Hill Foundation, Inc. (Foundation) issued certificates of participation to provide for construction of Alumni Facilities. The University constructed the facilities as an agent for the Foundation. In October, 1989, the University entered into a 20 year lease agreement with the

Foundation and simultaneously entered into a sublease agreement with the General Alumni Association, an affiliated organization, for the same time period for the use of the Alumni facilities.

Payments under the terms of the lease are a limited obligation of the University, payable solely from and secured by the annual rental income derived from the sublease of the Alumni facilities. The University has no other obligations for repayment of the certificates of participation; therefore, the certificates are not reported as a liability in the accompanying financial statements. As of June 30, 1996, the aggregate principal amount of the certificates is \$9,950,000.

If the University complies with all of the terms of the lease agreement, title to the Alumni facilities will be conveyed to the University.

Note 10: Budgeting and Budgetary Control

The State of North Carolina operates on a biennial budget cycle with separate annual departmental and institutional certified budgets adopted by the General Assembly.

Chapter 116, Article 1, Part 2A of the North Carolina General Statutes authorizes the universities within the sixteen campus University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget Codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management. Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. The University of North Carolina at Chapel Hill has applied for and received special responsibility status.

After the budget is approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. Periodic interim budget statements to department heads guide them in managing budget allocations. Monthly financial reports, which include budget and actual data, are provided for each fund to individ-

ual managers responsible for the fund. When actual conditions require changes to the budget, revisions are prepared and communicated to those affected. Changes to the budget are reviewed and approved at the University or State level as required. The University maintains an encumbrance accounting system as another method to ensure that imposed expenditure constraints are observed.

Note 11: 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 cover-

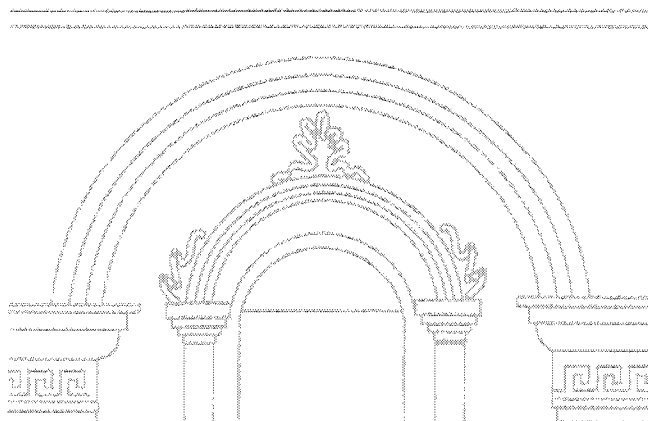
age such as sprinkler leakage, business interruption, vandalism, theft and "all risks" for buildings and contents. The Fund charges premiums for this coverage discounted from industry manual rates. The Fund generally insures fire losses up to \$1.1 million and extended coverage losses up to \$100,000 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 against 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 5c.

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.

Note 12: Prior Period Adjustment

In fiscal 1992, the first year of the U.S. Environmental Protection Agency Project bond service, bond proceeds were transferred to the Debt Service Funds to provide for debt service during construction of the project. The related bonds payable were not transferred from the Unexpended Plant Funds to the Debt Service Funds. Mandatory Transfers and related Due To Debt Service amounts were recorded in the Unexpended Plant Funds for interest payable and the yearly capital accretions on the capital appreciation bonds. Offsetting transfers and Due From Unexpended Plant transactions were recorded in the Debt Service Funds. At June 30, 1996, a prior period adjustment was recorded to move the bonds payable remaining in the Unexpended Plant Funds to the Debt Service Funds for this project. The correction also adjusted for the transfers and relat-

ed Due To/Due From balances. The prior period adjustment increased fund balance in Unexpended Plant by \$8,617,000 and decreased the fund balance in Debt Service by the same amount.

	Unexpended Plant	Debt Service
Fund Balance June 30, 1995		
as Previously Reported	\$48,658	\$17,073
Restatement	8,617	(8,617)
Fund Balance July 1, 1995		
as Restated	\$57,275	\$8,456

The deficit unrestricted fund balance in the Debt Service Funds is attributable to revenue bond transactions. For the U.S. Environmental Protection Agency Project, interest for the period of construction was paid from bond proceeds. Bonds payable were moved to Debt Service for the proceeds so used. However, there was no project revenue in the first years of the bond to provide an offsetting asset. Another factor in causing the deficit is the payment of the bond liabilities in the Investment in Plant Fund prior to their payment in the Debt Service Funds.

Note 13: Subsequent Events

On November 1, 1996, the Board of Governors of the University of North Carolina issued University of North Carolina at Chapel Hill Taxable Lease Revenue Bonds, United States Environmental Protection Agency Project, Series 1996, in the amount of \$2,400,000. The bonds are limited obligations of the University payable solely from revenues provided in the indenture, which consist of payments of base rent and other amounts under an amended lease with the United States government. The bonds mature in varying amounts beginning in 1998 and ending in 2006. Proceeds from the bonds will be used to complete the project.

On November 7, 1996, the Board of Governors of the University of North Carolina issued University of North Carolina at Chapel Hill Kenan Memorial Stadium Variable Rate Demand Revenue Bonds, Series 1996, in the amount of \$13,800,000. The bonds are limited obligations of the University payable solely from revenues of the football program pledged under the indenture after the payment of current expenses. The bonds mature in varying amounts beginning in 1998 and ending in 2016. The interest rate on the bonds varies weekly, as determined by the remarketing agent, NationsBank. The bonds are secured by a letter of credit from Wachovia Bank. Proceeds will be used to refund the Series 1988 bonds on February 1, 1997, and to expand Kenan Memorial Stadium.

statistical section



"Not only do we help provide the academic roots, we provide safe, nurturing, and exciting environments in which children can develop into self-confident and happy people."

—Lisa Waller
Teacher at the Frank Porter
Graham Child Development
Center

The Frank Porter Graham Child Development Center, entering its 30th year, focuses on a single mission: to improve the lives of young children and their families through research, teaching, and service.

Source: 1996 FPG Annual Report

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.

Current Funds Revenues by Source

(in thousands)

	For the Year Ended June 30				
	1996	1995	1994	1993	1992
Current Funds Revenues					
State Appropriations	\$308,245	\$302,337	\$283,826	\$270,700	\$255,003
Tuition and Fees	88,478	81,465	75,531	66,718	60,247
Federal Contracts and Grants	219,878	208,802	190,534	172,288	147,556
State Contracts and Grants	24,607	26,394	22,696	17,948	15,498
Private Gifts, Contracts and Grants	74,174	67,668	64,146	60,820	58,892
Sales and Services	233,888	224,600	210,767	187,390	176,297
Endowment Income	13,599	13,798	11,895	9,212	8,040
Investment Earnings	13,998	12,504	13,047	12,887	13,508
Realized Gain on Sale of Investments	1,276	222	701	1,647	2,320
Other Revenues	6,526	5,679	4,246	4,632	3,847
Total Current Funds Revenues	\$984,669	\$943,469	\$877,389	\$804,242	\$741,208

	For the Year Ended June 30,				
	1996	1995	1994	1993	1992
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	31.3	32.0	32.3	33.7	34.4
Tuition and Fees	9.0	8.6	8.6	8.3	8.1
Federal Contracts and Grants	22.3	22.1	21.7	21.4	19.9
State Contracts and Grants	2.5	2.8	2.6	2.2	2.1
Private Gifts, Contracts and Grants	7.5	7.2	7.3	7.6	8.0
Sales and Services	23.8	23.8	24.0	23.3	23.8
Endowment Income	1.4	1.5	1.4	1.1	1.1
Investment Earnings	1.4	1.3	1.5	1.6	1.8
Realized Gain on Sale of Investments	0.1	0.1	0.1	0.2	0.3
Other Revenues	0.7	0.6	0.5	0.6	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,				
	1991	1990	1989	1988	1987
Current Funds Revenues					
State Appropriations	\$257,219	\$252,585	\$239,732	\$230,780	\$214,774
Tuition and Fees	50,221	46,719	40,237	37,258	34,399
Federal Contracts and Grants	136,059	123,352	117,896	105,266	93,850
State Contracts and Grants	13,518	9,614	7,807	6,191	5,658
Private Gifts, Contracts and Grants	53,685	49,754	43,227	38,433	33,491
Sales and Services	166,182	152,114	142,211	140,301	123,822
Endowment Income	6,851	7,307	5,177	4,683	4,390
Investment Earnings	11,750	11,647	9,138	8,576	7,003
Realized Gain on Sale of Investments	611	53	0	0	0
Other Revenues	3,312	2,539	1,029	1,304	575
Total Current Funds Revenues	\$699,408	\$655,684	\$606,454	\$572,792	\$517,962

	For the Year Ended June 30,				
	1991	1990	1989	1988	1987
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	36.8	38.5	39.5	40.3	41.5
Tuition and Fees	7.2	7.1	6.6	6.5	6.6
Federal Contracts and Grants	19.5	18.8	19.4	18.4	18.1
State Contracts and Grants	1.9	1.5	1.3	1.1	1.1
Private Gifts, Contracts and Grants	7.7	7.6	7.1	6.7	6.5
Sales and Services	23.8	23.2	23.5	24.5	23.9
Endowment Income	0.9	1.1	0.9	0.8	0.8
Investment Earnings	1.7	1.8	1.5	1.5	1.4
Realized Gain on Sale of Investments	0.0	0.0	0.0	0.0	0.0
Other Revenues	0.5	0.4	0.2	0.2	0.1
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

Current Funds Revenues by Source Adjusted for Inflation (1987=100)

(in thousands)

	For the Year Ended June 30,				
	1996	1995	1994	1993	1992
Current Funds Revenues					
State Appropriations	\$206,925	\$211,273	\$206,966	\$204,135	\$199,948
Tuition and Fees	59,395	56,928	55,077	50,312	47,240
Federal Contracts and Grants	147,604	145,911	138,937	129,922	115,699
State Contracts and Grants	16,519	18,444	16,550	13,535	12,152
Private Gifts, Contracts and Grants	49,793	47,286	46,775	45,864	46,177
Sales and Services	157,009	156,950	153,691	141,311	138,234
Endowment Income	9,129	9,642	8,674	6,947	6,304
Investment Earnings	9,397	8,738	9,514	9,718	10,592
Realized Gain on Sale of Investments	857	155	511	1,242	1,819
Other Revenues	4,381	3,968	3,096	3,493	3,016
Total Current Funds Revenues	\$661,009	\$659,295	\$639,791	\$606,479	\$581,181

	For the Year Ended June 30,				
	1996	1995	1994	1993	1992
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	31.3	32.1	32.3	33.7	34.5
Tuition and Fees	9.0	8.6	8.6	8.3	8.1
Federal Contracts and Grants	22.3	22.1	21.7	21.4	19.9
State Contracts and Grants	2.5	2.8	2.6	2.2	2.1
Private Gifts, Contracts and Grants	7.5	7.2	7.3	7.6	7.9
Sales and Services	23.8	23.8	24.0	23.3	23.8
Endowment Income	1.4	1.5	1.4	1.1	1.1
Investment Earnings	1.4	1.3	1.5	1.6	1.8
Realized Gain on Sale of Investments	0.1	0.0	0.1	0.2	0.3
Other Revenues	0.7	0.6	0.5	0.6	0.5
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

Consumer Price Index	2.75	3.04	2.49	3.00	3.09
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The University of North Carolina at Chapel Hill
Last Ten Fiscal Years

(in thousands)

	For the Year Ended June 30,				
	1991	1990	1989	1988	1987
Current Funds Revenues					
State Appropriations	\$209,633	\$217,728	\$217,844	\$221,641	\$214,774
Tuition and Fees	40,930	40,272	36,563	35,783	34,399
Federal Contracts and Grants	110,888	106,329	107,132	101,097	93,850
State Contracts and Grants	11,017	8,287	7,094	5,946	5,658
Private Gifts, Contracts and Grants	43,753	42,888	39,280	36,911	33,491
Sales and Services	135,438	131,122	129,227	134,745	123,822
Endowment Income	5,584	6,299	4,704	4,498	4,390
Investment Earnings	9,576	10,040	8,304	8,236	7,003
Realized Gain on Sale of Investments	498	46	0	0	0
Other Revenues	2,699	2,189	935	1,252	575
Total Current Funds Revenues	\$570,016	\$565,200	\$551,083	\$550,109	\$517,962

	For the Year Ended June 30,				
	1991	1990	1989	1988	1987
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	36.7	38.5	39.6	40.3	41.5
Tuition and Fees	7.2	7.1	6.6	6.5	6.6
Federal Contracts and Grants	19.5	18.8	19.4	18.4	18.1
State Contracts and Grants	1.9	1.5	1.3	1.1	1.1
Private Gifts, Contracts and Grants	7.7	7.6	7.1	6.7	6.5
Sales and Services	23.7	23.2	23.4	24.5	23.9
Endowment Income	1.0	1.1	0.9	0.8	0.8
Investment Earnings	1.7	1.8	1.5	1.5	1.4
Realized Gain on Sale of Investments	0.1	0.0	0.0	0.0	0.0
Other Revenues	0.5	0.4	0.2	0.2	0.1
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

Consumer Price Index	4.70	4.67	5.17	3.96
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Current Funds Expenditures and Mandatory Transfers by Function

(in thousands)

	For the Year Ended June 30,				
	1996	1995	1994	1993	1992
Current Funds Expenditures					
Instruction	\$326,546	\$301,323	\$278,587	\$253,662	\$241,956
Organized Research	156,034	154,817	140,586	130,570	115,014
Public Service	65,502	68,317	62,834	56,111	52,952
Academic Support	47,771	43,423	40,507	35,845	32,740
Student Services	10,986	9,998	9,191	8,585	7,624
Institutional Support	41,500	37,698	36,800	32,118	30,097
Physical Plant Operations	62,402	59,662	58,447	49,606	48,552
Student Financial Aid	31,479	29,595	28,030	26,997	23,715
Auxiliary Enterprises and Internal Services	89,946	89,532	80,587	85,774	73,199
Professional and Clinical Services	108,282	99,140	97,265	85,187	74,769
Other Expenditures and Deductions	1,027	1,391	4,125	1,197	345
Total Current Funds Expenditures	941,475	894,896	836,959	765,652	700,963
Current Funds Mandatory Transfers	24,084	20,758	21,158	18,140	9,066
Total Current Funds Expenditures and Mandatory Transfers	\$965,559	\$915,654	\$858,117	\$783,792	\$710,029

	For the Year Ended June 30,				
	1996	1995	1994	1993	1992
	%	%	%	%	%
Current Funds Expenditures					
Instruction	33.8	32.9	32.5	32.4	34.1
Organized Research	16.2	16.9	16.4	16.7	16.2
Public Service	6.8	7.5	7.3	7.2	7.5
Academic Support	4.9	4.7	4.7	4.6	4.6
Student Services	1.1	1.1	1.1	1.1	1.1
Institutional Support	4.3	4.1	4.3	4.1	4.2
Physical Plant Operations	6.5	6.5	6.8	6.3	6.8
Student Financial Aid	3.3	3.2	3.3	3.4	3.3
Auxiliary Enterprises and Internal Services	9.3	9.8	9.4	10.9	10.3
Professional and Clinical Services	11.2	10.8	11.3	10.9	10.5
Other Expenditures and Deductions	0.1	0.2	0.4	0.1	0.1
Total Current Funds Expenditures	97.5	97.7	97.5	97.7	98.7
Current Funds Mandatory Transfers	2.5	2.3	2.5	2.3	1.3
Total Current Funds Expenditures and Mandatory Transfers	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,				
	1991	1990	1989	1988	1987
Current Funds Expenditures					
Instruction	\$241,058	\$233,975	\$213,214	\$198,813	\$181,959
Organized Research	103,139	94,499	88,618	79,474	69,857
Public Service	47,723	41,589	43,522	42,021	38,365
Academic Support	33,348	30,431	30,789	28,573	25,306
Student Services	7,345	7,288	6,643	6,075	5,642
Institutional Support	27,124	27,799	25,152	22,381	20,552
Physical Plant Operations	42,947	41,062	36,852	34,474	31,729
Student Financial Aid	20,123	19,390	18,192	16,411	15,844
Auxiliary Enterprises and Internal Services	75,882	72,033	69,200	70,259	59,239
Professional and Clinical Services	71,229	62,840	56,103	52,282	47,830
Other Expenditures and Deductions	401	143	0	0	0
Total Current Funds Expenditures	670,319	631,049	588,285	550,763	496,323
Current Funds Mandatory Transfers	16,046	15,251	5,110	4,058	4,163
Total Current Funds Expenditures and Mandatory Transfers	\$686,365	\$646,300	\$593,395	\$554,821	\$500,486

	For the Year Ended June 30,				
	1991	1990	1989	1988	1987
	%	%	%	%	%
Current Funds Expenditures					
Instruction	35.1	36.2	35.9	35.8	36.3
Organized Research	15.0	14.6	14.9	14.3	14.0
Public Service	7.0	6.4	7.3	7.6	7.7
Academic Support	4.8	4.7	5.2	5.2	5.1
Student Services	1.1	1.1	1.1	1.1	1.1
Institutional Support	3.9	4.3	4.2	4.0	4.1
Physical Plant Operations	6.3	6.4	6.2	6.2	6.3
Student Financial Aid	2.9	3.0	3.1	3.0	3.2
Auxiliary Enterprises and Internal Services	11.1	11.1	11.7	12.7	11.8
Professional and Clinical Services	10.4	9.7	9.5	9.4	9.6
Other Expenditures and Deductions	0.1	0.1	0.0	0.0	0.0
Total Current Funds Expenditures	97.7	97.6	99.1	99.3	99.2
Current Funds Mandatory Transfers	2.3	2.4	0.9	0.7	0.8
Total Current Funds Expenditures and Mandatory Transfers	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

Ten Year Summary of Ratios

Ratio of Total Current Revenues to Total Current Expenditures

	<i>(in thousands)</i>				
	1996	1995	1994	1993	1992
Total Current Revenues	\$984,669	\$943,469	\$877,389	\$804,242	\$741,208
Total Current Expenditures and Mandatory Transfers	965,517	915,654	858,117	783,792	710,029
Ratio	101.98%	103.04%	102.25%	102.61%	104.39%

This ratio indicates the percentage of current funds revenues that remain after all current funds expenditures and mandatory transfers are applied. A percentage greater than 100% indicates a surplus for the year. The larger the surplus, the stronger the institution's financial position as a result of the year's operations. Large deficits are usually a bad sign, particularly if they occur in successive years. A pattern of large deficits can reduce an institution's financial strength. Such a pattern is a warning signal that corrective action should be taken.

Ratio of Available Funds to Educational and General Expenditures and Mandatory Transfers

	1996	1995	1994	1993	1992
Current Fund Balance - Educational and General	\$53,902	\$49,726	\$44,104	\$37,536	\$29,681
Current Fund Balance - Proprietary	149,134	140,429	127,098	116,643	111,371
Quasi Endowment Fund Balance - Unrestricted	35,640	34,988	36,656	36,066	33,761
Total Availability	238,676	225,143	207,858	190,245	174,813
Total Availability	238,676	225,143	207,858	190,245	174,813
E&G Expenditures and Mandatory Transfers	766,304	725,591	676,140	611,634	561,716
Ratio	31.15%	31.03%	30.74%	31.10%	31.12%

This ratio measures the size of the institution's financial reserves. Increasing ratios indicate better preparation for financial disruptions. The University receives its state appropriations on a quarterly allotment basis and state appropriations are not accrued at year end to finance accrued expenses.

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

(in thousands)

	1991	1990	1989	1988	1987
Total Current Revenues	\$699,408	\$655,684	\$606,454	\$572,792	\$517,963
Total Current Expenditures and Mandatory Transfers	686,365	646,300	593,395	556,083	501,6
Ratio	101.90%	101.45%	102.20%	103.00%	103.26%

	1991	1990	1989	1988	1987
Current Fund Balance - Educational and General	\$25,784	\$18,906	\$19,298	\$24,185	\$31,029
Current Fund Balance - Proprietary	93,950	89,168	86,410	80,124	70,293
Quasi Endowment Fund Balance - Unrestricted	31,931	33,482	31,512	27,978	26,254
Total Availability	151,665	141,556	137,220	132,287	127,576
Total Availability	151,665	141,556	137,220	132,287	127,576
E&G Expenditures and Mandatory Transfers	538,853	511,284	468,092	433,542	394,556
Ratio	28.15%	27.69%	29.31%	30.51%	32.33%

Ten Year Summary of Ratios (cont'd)

Ratio of Expendable Fund Balance to Total Expenditures and Mandatory Transfers

	(in thousands)				
	1996	1995	1994	1993	1992
Current Fund Balance - Educational and General	\$53,902	\$49,726	\$44,104	\$37,536	\$29,681
Current Fund Balance - Proprietary	149,134	140,429	127,098	116,643	111,371
Current Fund Balance - Restricted	92,510	91,586	77,839	66,205	53,318
Quasi Endowment Fund Balance	71,023	64,935	66,525	63,364	56,024
Unexpended Plant Fund Balance	55,763	48,658	34,830	20,573	9,657
Debt Service Fund Balance	10,833	17,073	16,421	16,244	18,300
Total Expendable Fund Balance	433,165	412,407	366,817	320,565	278,351
Total Expendable Fund Balance	433,165	412,407	366,817	320,565	278,351
Total Current Expenditures and Mandatory Transfers	965,559	915,654	858,117	783,792	710,029
Ratio	44.86%	45.04%	42.75%	40.90%	39.20%

This ratio is an important measure of financial strength relative to institutional operating size. Expendable fund balances which are displayed above should increase at least proportionally as the rate of growth of operating size. If this is not the case, the same dollar amount of expendable fund balances will provide less margin of protection against adversity as the institution grows in dollar level of expenditure.

Ratio of Instruction and Academic Support to Total Educational and General Expenditures Less Restricted Scholarships

	1996	1995	1994	1993	1992
Instruction	\$326,546	\$301,323	\$278,587	\$253,662	\$241,956
Other Academic Support	47,771	43,423	40,507	35,845	32,740
Total Instruction and Academic Support	374,317	344,746	319,094	289,507	274,696
Educational and General Expenditures and					
Mandatory Transfers	766,304	725,591	676,140	611,634	561,716
Less: Restricted Scholarships	19,021	17,713	17,439	17,116	14,940
Total Educational and General Expenditures Less Restricted Scholarships	747,283	707,878	658,701	594,518	546,776
Total Instruction and Academic Support	374,317	344,746	319,094	289,507	274,696
Total E&G Expenditures Less Restricted Scholarships	747,283	707,878	658,701	594,518	546,776
Ratio	50.09%	48.70%	48.44%	48.70%	50.24%

This ratio indicates whether the institution has been maintaining the allocation of resources to the academic program. If financial resources are decreasing, the instruction and academic support proportion may also decrease due to greater demands for administrative expenditures, such as admissions or fund raising.

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

(in thousands)

	1991	1990	1989	1988	1987
Current Fund Balance - Educational and General	\$25,784	\$18,906	\$19,298	\$24,185	\$31,029
Current Fund Balance - Proprietary	93,950	89,168	86,410	80,124	70,293
Current Fund Balance - Restricted	51,863	51,085	43,120	36,732	33,574
Quasi Endowment Fund Balance	50,917	50,246	44,145	38,923	37,954
Unexpended Plant Fund Balance	25,909	20,354	29,074	20,227	22,207
Debt Service Fund Balance	9,297	9,802	10,414	11,675	3,906
Total Expendable Fund Balance	257,720	239,561	232,461	211,866	198,963
Total Expendable Fund Balance	257,720	239,561	232,461	211,866	198,963
Total Current Expenditures and Mandatory Transfers	686,365	646,300	593,395	556,083	501,625
Ratio	37.55	37.07	39.17	38.10	39.66

	1991	1990	1989	1988	1987
Instruction	\$241,058	\$233,975	\$192,725	\$179,641	\$164,596
Other Academic Support	33,348	30,431	30,789	28,573	25,306
Total Instruction and Academic Support	274,406	264,406	223,514	208,214	189,902
Educational and General Expenditures and Mandatory Transfers	538,853	511,284	468,092	433,542	394,556
Less: Restricted Scholarships	13,126	12,156	11,947	10,744	10,971
Total Educational and General Expenditures Less Restricted Scholarships	525,727	499,128	456,145	422,798	383,585
Total Instruction and Academic Support	274,406	264,406	223,514	208,214	189,902
Total E&G Expenditures Less Restricted Scholarships	525,727	499,128	456,145	422,798	383,585
Ratio	52.20%	52.97%	49.00%	49.25%	49.51%

Ten Year Summary of Ratios (cont'd)

Ratio of Net Gain in Endowment Assets

	<i>(in thousands)</i>				
	1996	1995	1994	1993	1992
Year - End Endowment Assets (Market Value)	\$390,248	\$335,076	\$293,214	\$223,948	\$209,547
Year - Begin Endowment Assets (Market Value)	335,076	293,214	223,948	209,547	181,413
Yearly Change	55,172	41,862	69,266	14,401	28,134
Yearly Change	55,172	41,862	69,266	14,401	28,134
Year - Begin Endowment Assets (Market Value)	335,076	293,214	223,948	209,547	181,413
Ratio	16.47%	14.28%	30.93%	6.87%	15.51%

This ratio measures the growth of endowment assets resulting directly from investment policies and/or gifts. If the ratios are increasing, the endowment assets are growing through efficient investment of the endowment funds and/or additional gifts and transfers to the endowment funds.

Revenue Bond Coverage

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

<i>(in thousands)</i>							
Fiscal Year Ended June 30,	Gross Operating Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
1996	205,387	158,584	46,803	7,743	11,610	19,353	2.42
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)

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

(in thousands)

	1991	1990	1989	1988	1987
Year - End Endowment Assets (Market Value)	\$181,413	\$171,139	\$152,334	\$132,154	\$128,935
Year - Begin Endowment Assets (Market Value)	171,139	152,334	132,154	128,935	104,949
Yearly Change	10,274	18,805	20,180	3,219	23,986
Yearly Change	10,274	18,805	20,180	3,219	23,986
Year - Begin Endowment Assets (Market Value)	171,139	152,334	132,154	128,935	104,949
Ratio	6.00%	12.34%	15.27%	2.50%	22.86%

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 June 30,	Debt Service Requirements	Current Funds Expenditures	Ratio %
1996	16,728	941,475	1.78
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

Admissions, Enrollment and Degree Statistics

	Fall Enrollment of Fiscal Year				
	1995-96	1994-95	1993-94	1992-93	1991-92
Admissions - Freshmen					
Applications	15,159	15,125	14,596	16,136	14,860
Accepted	5,571	6,145	5,985	5,735	5,460
Enrolled	3,239	3,498	3,331	3,211	3,142
Accepted as a Percentage of Applications	36.8%	40.6%	41.0%	35.5%	36.7%
Enrolled as a Percentage of Accepted	58.1%	56.9%	55.7%	56.0%	57.5%
Average SAT Scores - Total	1,142	1,128	1,126	1,122	1,120
Verbal	539	529	529	530	530
Math	603	599	597	592	590
Enrollment					
Undergraduate, Graduate and Professional FTE	21,961	21,918	21,758	21,398	21,391
Undergraduate, Graduate and Professional Headcount	24,439	24,463	24,299	23,944	23,794
Men (Headcount)	10,330	10,377	10,298	10,211	10,161
Percentage of Total	42.3%	42.4%	42.4%	42.6%	42.7%
Women (Headcount)	14,109	14,086	14,001	13,733	13,633
Percentage of Total	57.7%	57.6%	57.6%	57.4%	57.3%
African American (Headcount)	2,254	2,161	2,082	2,078	2,023
Percentage of Total	9.2%	8.8%	8.6%	8.7%	8.5%
White (Headcount)	19,808	20,042	20,007	19,812	19,906
Percentage of Total	81.1%	82.0%	82.3%	82.7%	83.7%
Other (Headcount)	2,377	2,260	2,210	2,054	1,855
Percentage of Total	9.7%	9.2%	9.1%	8.6%	7.8%
Degrees Granted					
Bachelor's	3,542	3,623	3,497	3,655	3,538
Master's	1,465	1,511	1,451	1,478	1,375
Doctoral	369	373	388	388	336
Professional	480	464	443	443	456

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

	Fall Enrollment of Fiscal Year				
	1990-91	1989-90	1988-89	1987-88	1986-87
Admissions - Freshmen					
Applications	14,737	16,441	17,569	15,290	13,652
Accepted	5,630	5,436	5,517	5,189	5,267
Enrolled	3,252	3,191	3,293	3,151	3,304
Accepted as a Percentage of Applications	38.2%	33.1%	31.4%	33.9%	38.6%
Enrolled as a Percentage of Accepted	57.8%	58.7%	59.7%	60.7%	62.7%
Average SAT Scores - Total	1,112	1,110	1,102	1,099	1,087
Verbal	527	527	522	523	518
Math	585	583	580	576	569
Enrollment					
Undergraduate, Graduate and Professional FTE	21,486	21,326	21,390	20,786	20,767
Undergraduate, Graduate and Professional Headcount	23,852	23,592	23,579	22,921	22,781
Men (Headcount)	10,340	10,282	10,202	9,943	9,904
Percentage of Total	43.4%	43.6%	43.3%	43.4%	43.5%
Women (Headcount)	13,512	13,310	13,377	12,978	12,877
Percentage of Total	56.6%	56.4%	56.7%	56.6%	56.5%
African American (Headcount)	2,060	1,921	1,840	1,726	1,773
Percentage of Total	8.6%	8.1%	7.8%	7.5%	7.8%
White (Headcount)	20,091	20,151	20,357	19,956	19,837
Percentage of Total	84.2%	85.4%	86.3%	87.1%	87.1%
Other (Headcount)	1,701	1,520	1,382	1,239	1,171
Percentage of Total	7.1%	6.4%	5.9%	5.4%	5.1%
Degrees Granted					
Bachelor's	3591	3529	3195	3272	3152
Master's	1391	1269	1157	1197	1130
Doctoral	337	299	301	311	283
Professional	463	457	447	449	436

Faculty and Staff Statistics

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

	Fall Employment of Fiscal Year				
	1995-96	1994-95	1993-94	1992-93	1991-92
Faculty					
Full-time	2,369	2,328	2,297	2,249	2,245
Part-time	216	210	204	186	185
Total Faculty	2,585	2,538	2,501	2,435	2,430
Percentage Tenured	58.3%	59.2%	59.6%	60.7%	61.1%
Staff and EPA Non-Faculty					
Full-time	648	627	596	570	572
Part-time	57	51	55	52	48
EPA Non-Faculty	705	678	651	622	620
Full-time	5,519	5,468	5,405	5,115	4,891
Part-time	322	328	360	334	314
SPA	5,841	5,796	5,765	5,449	5,205
Total Full-time	6,167	6,095	6,001	5,685	5,463
Total Part-time	379	379	415	386	362
Total Staff and EPA Non-Faculty	6,546	6,474	6,416	6,071	5,825

	Fall Employment of Fiscal Year				
	1990-91	1989-90	1988-89	1987-88	1986-87
Faculty					
Full-time	2,134	2,131	2,002	1,990	1,965
Part-time	161	165	221	229	224
Total Faculty	2,295	2,296	2,223	2,219	2,189
Percentage Tenured	63.2%	60.1%	65.0%	64.2%	63.2%
Staff and EPA Non-Faculty					
Full-time	646	640	648	645	653
Part-time	39	49	82	80	104
EPA Non-Faculty	685	689	730	725	757
Full-time	4,971	5,023	4,893	4,745	4,555
Part-time	298	285	278	258	259
SPA	5,269	5,308	5,171	5,003	4,814
Total Full-time	5,617	5,663	5,541	5,390	5,208
Total Part-time	337	334	360	338	363
Total Staff and EPA Non-Faculty	5,954	5,997	5,901	5,728	5,571

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

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