

The University of North Carolina at Chapel Hill



Comprehensive Annual Financial Report

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A Constituent Institution of The University
of North Carolina System and a component
unit of the State of North Carolina

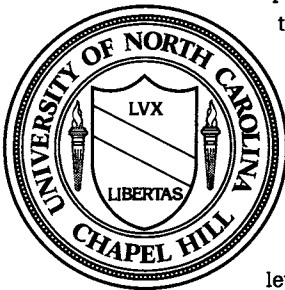
Chapel Hill, North Carolina

Fiscal Year Ended June 30, 1997

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.

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

Comprehensive Annual Financial Report

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Office of Business and Finance
Fiscal Year Ended June 30, 1997

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introductory section



"Our relocation to McColl, with an initial investment of more than \$6 million in the latest computing and audiovisual technology, presents endless opportunities for Kenan-Flagler to remain on the forefront."

—PAUL FULTON, DEAN OF THE KENAN-FLAGLER SCHOOL OF BUSINESS

Message from the Chancellor

The conclusion of the annual fiscal cycle presents the University with an excellent opportunity for close scrutiny of our operations and rigorous self-assessment. It has been my aim to make the University more accountable to the people of North Carolina. As this Comprehensive Annual Financial Report indicates, we have made great strides in that direction. Operationally, we are more efficient than ever before. Fiscally, we are more responsible. Through re-engineering administrative functions, we have produced annual savings of more than \$5 million.

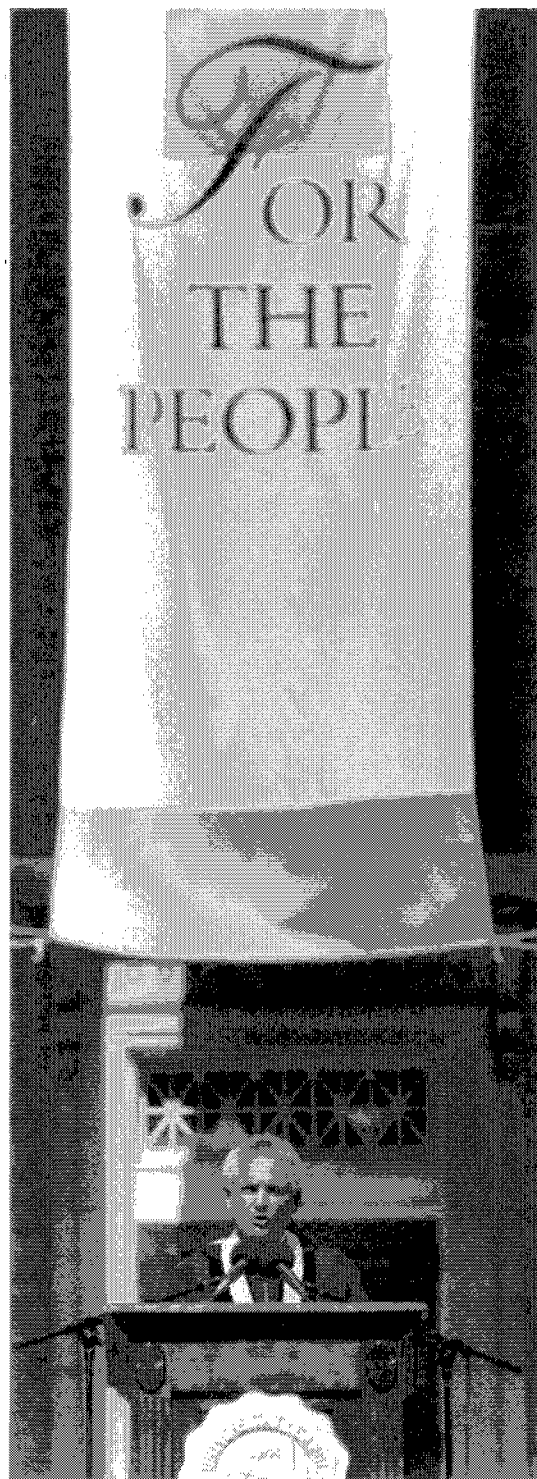
The 1997 Financial Report clearly shows that UNC-Chapel Hill is a model steward of the resources it receives from state, federal, and private sources. In our quest to fulfill our mandate, we have focused on priority-driven resource reallocation and planning. As a result, Carolina has emerged as an institution keenly focused on learning, expanded service to North Carolina, and better preparation of graduates for productive lives in a global, knowledge-based economy.

We have taken action on many fronts to increase the University's accountability. From reorganizing administrative units to computerizing standard personnel forms to appointing a new Chief Information Officer, we have successfully addressed a number of operational issues. As public servants, however, we take special pride in the steps we have taken to revitalize the learning environment for students and faculty. To that end, we have targeted classroom renovations for significant portions of our capital expenditures. Repairs and renovations to classrooms will ensure that both students and their professors have the resources they need to succeed in the twenty-first century.

As we update facilities, we are paying special attention to the increasing importance of technology to the education of students who will live and work in an information age. Recent equipment and technology updates in the School of Journalism and Mass Communication, for instance, directly reflect the advances in equipment used by print and broadcast media professionals.

Infrastructure enhancements are essential to the development of innovative academic initiatives, especially interdisciplinary programs that enable us to leverage public resources and our greatest teaching and research talent to create world-class knowledge bases. The Carolina Environmental Program, for example, establishes important structural connections between faculty from disciplines including Public Health, Marine Sciences, Social Medicine, and Biology, who will put their research expertise and teaching skills to work in collaborative ways on behalf of North Carolina.

Equipment, facilities and other infrastructure enhancements are making Carolina an even better University. Further streamlining of our administrative functions has given additional momentum to our efficiency efforts. Thanks to the support of the General Assembly and the citizens of North Carolina, I can say with confidence that the University is working more effectively to fulfill its mission than ever before. Thanks to the quality of our faculty, students, and staff, I am convinced that we can do even better — and will.



MICHAEL K. HOOKER, CHANCELLOR



THE UNIVERSITY OF NORTH CAROLINA
AT
CHAPEL HILL

Office of Business and Finance

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

Letter of Transmittal

November 17, 1997

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, 1997, 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, 1997. 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 a report from the Office of the State Auditor and the basic financial statements. 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 pre-

sent 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. (Foundation) and The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund) are reported as if they are part of the University based on Governmental Accounting Standards Board Statement 14. The Foundation's 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 while the Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support 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

During fiscal 1997, the North Carolina economy continued to both outperform the overall U.S. economy and to shatter many previous records of its own performance as well. The total population of the State hit a record 7.3 million people on July 1, 1996, an increase of 1.7 percent from 1995. This was nearly double the U.S. increase of 0.9 percent.

Total personal income was \$162.6 billion in 1996, up 6.6 percent from 1995. By the second calendar quarter of 1997, total personal income was running at a seasonally adjusted annual rate of \$172.9 billion, up \$11.0 billion or 6.8 percent from the same quarter in 1996.

Given these huge gains in income, it should come as no surprise that the State ran a healthy budget surplus during the year. Continued strong economic gains should continue to provide the legislature with a steady flow of increasing funds for the next several years.

Personal income per capita was \$24,446 for the entire United States in 1996. For North Carolina, the comparable figure was \$22,205. This was up 4.8 percent from 1995, a little above the national average increase of 4.6 percent. This level of income was enough to put North Carolina in 32nd place, just behind Texas (\$22,282) and just ahead of Tennessee (\$21,949). These numbers can only be expected to improve in the next year or two. In September 1997, when the national unemployment rate was 4.9 percent, the unemployment rate in North Carolina was only 3.7 percent. There were only 128,400 people in the entire State in September who were unemployed and looking for work. By contrast, there were 3,812,400 people who were employed in North Carolina in September.

The unemployment rates in the State's three largest metropolitan statistical areas (MSA) were even lower than the State average in September. The Charlotte-Gastonia-Rock Hill MSA had 3.0 percent unemployment, while the Greensboro-Winston-Salem-High Point MSA had 2.8 percent and the Raleigh-Durham-Chapel Hill MSA had one of the lowest unemployment rates of any MSA in the country at 1.9 percent.

The current economic expansion in the United States will enter its 81st month in December. This will move it past the World War II expansion of 80 months from June 1938, to February 1945, into third place on the all time list. In December 1998, it will move past the 1982-1990 expansion into second place.

On September 12, 1997, Federal Reserve Board Chairman Alan Greenspan spoke at the dedication of the new McColl Building, home of the Kenan-Flagler Business School. The theme of his presentation concentrated on the transitions in the U.S. economy from old industries and old ways of doing business to new ones and the important role of education in this process.

The University of North Carolina at Chapel Hill is in the forefront of this process. The contributions of this University to the economic health and the growth of North Carolina are legion and have expanded considerably in the last few years.

Major Initiatives

College of Arts and Sciences

The College of Arts and Sciences (College) experienced its best year ever in fiscal 1997. Arts and Sciences faculty and graduate students received numerous teaching awards, including a clean-sweep of the Tanner Awards for Excellence in Undergraduate Teaching. College faculty continued to lead the expansion of knowledge in their disciplines. Their contributions ranged from Henry Fuchs' computer-based imaging innovations that will revolutionize medical diagnosis and treatment, to the discovery by Biology professor Patricia Gensel and her husband of the oldest evidence of large land-dwelling animals in North America, to Kenan Professor of History Richard Talbert's production of the first major classical atlas since 1874, to English professor Joe Viscomi's groundbreaking efforts to make the illustrations of William Blake available world-wide on the internet.

The College's students outperformed their peers at the most select private institutions to win highly competitive fellowships, including the prestigious Truman, Marshall and Luce scholarships. Students, faculty and staff contributed countless hours of public service to the people of North Carolina. One result of the College's dedication to service has been a significant increase in private support. Gifts to the Arts and Sciences Foundation reached all-time high levels and included a \$1 million commitment from the J.R. Hyde Family Foundation for the construction of a new building for the Institute for the Arts and

Humanities. Additionally, donors to the College completed funding for the new James M. Johnston Center for Undergraduate Excellence.

The most significant event in the life of the College last year was the search for a successor to Dean Stephen Birdsall. A thorough national search concluded with the enthusiastic appointment by Chancellor Hooker of Risa Palm. Dean Palm, formerly Dean of the College of Arts and Sciences at the University of Oregon, will preside over the College's 650 faculty, 15,000 students, and more than 60 departments, programs, and curricula.

STUDENTS IN THE COLLEGE OF ARTS

AND SCIENCES OUTPERFORMED THEIR

PEERS AT THE MOST SELECT PRIVATE

INSTITUTIONS TO WIN HIGHLY

COMPETITIVE FELLOWSHIPS, INCLUDING

THE PRESTIGIOUS TRUMAN, MARSHALL

AND LUCE SCHOLARSHIPS.

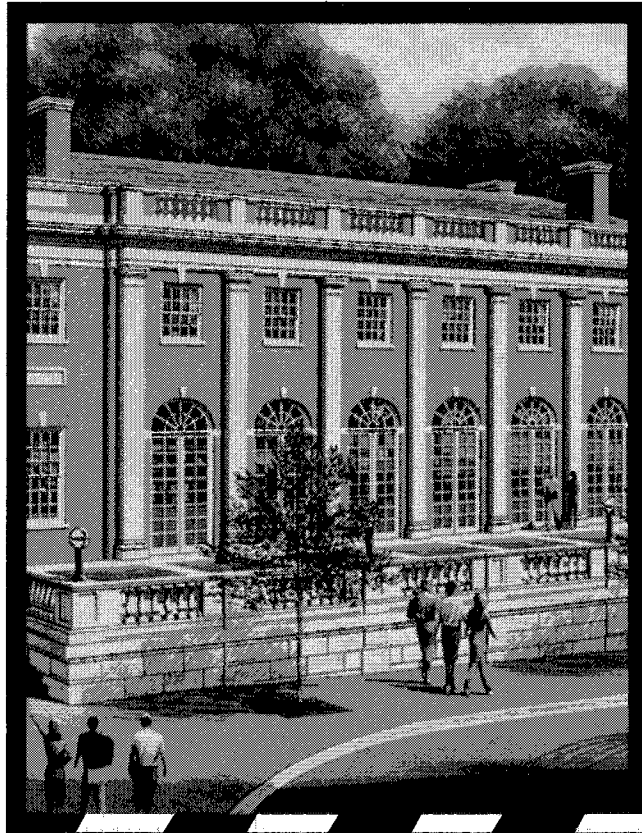
School of Education

The Research Triangle Professional Development Schools Partnership participated in a major statewide effort to create university-public school partnerships across the state of North Carolina. After three years of planning, the School of Education, the University, and the Partnership's school districts established five professional development schools. Funding from the University, Glaxo, and the local school districts provided the initial funds for schools whose main purpose is to enhance student learning through professional development of teachers, administrators, school psychologists, counselors, and other educational personnel. The five sites serve as primary locations for personnel training and for research on the challenges and issues confronted by public schools and communities. In fiscal 1997 the School of Education also played a major role in the development of LEARN NC which will serve as the electronic network for the public schools of North Carolina; initiated an electronics support system for beginning teachers called the Lighthouse Project; and created another pilot project for beginning teachers from the partnership districts involved in the Research Triangle Professional Development Schools Program. The pilot efforts will be expanded during the next fiscal year with support being sought from private foundations. The National Paideia Center received \$1 million from the Joseph M. Bryan Foundation of Greater Greensboro for a four-year training program for teachers and administrators in Guilford County, North Carolina. The Math-Science Education Center received over \$750,000 to improve science and mathematics education in the public schools.

Institute of Government

The Institute of Government assumed administration of the University's Master of Public Administration program. This offering for graduate students who are future federal, state, and local government officials dovetails neatly with the Institute's traditional mission of providing publications, consulting services, and continuing education for state and local government officials throughout North Carolina. Professor Jack Vogt and Research Associate Paula Few continue to carry out an extensive perfor-

mance measurement and benchmarking program that will help local governments gauge their effectiveness in delivering services such as jails and solid waste disposal. This project may well prove to be a beacon for local governments around the country in evaluating their effectiveness. The Institute conducted a statewide study of technology needs among local governments; now, a committee of IOG faculty and staff, and local government officials are working on strategies for how the Institute can help meet those needs. The Institute is expanding its role in civic education. Associate Professor Tom Thornburg and the Institute's publications division is partnering with a private computer software creator on a project to provide a popular Institute reference book on North Carolina criminal law in a software format. This project will help criminal justice officials throughout the state have quicker computer access to material formerly available only in book form. Institute faculty received awards for their teaching and other contributions. Professor Gordon Whitaker, who specializes in public administration, received the International City/County Management Association's Award for Local Government Education for his efforts in promoting public understanding of local government. Professor Fleming Bell, a lawyer who specializes in local government law and ethics, received the Institute's Director's Award of Excellence from the International Institute of Municipal Clerks. Professor Bill Campbell, a lawyer who specializes in local government taxation issues, was honored with the creation of an award in his name. The award will be given periodically by the N.C. Tax Collector's Association to a deserving individual who, like Campbell, has "advanced the science and the art of the property tax collection in North Carolina."



AN ARTIST'S RENDERING OF GRAHAM MEMORIAL AFTER RENOVATIONS ARE COMPLETE SHOWS THE BUILDING'S NEW LOOK AS HOME TO THE NEW JAMES M. JOHNSTON CENTER FOR UNDERGRADUATE EXCELLENCE AND THE HONORS PROGRAM.

School of Social Work

The recent academic year was a great one for the School of Social Work. Early in the year, the School celebrated the creation of the Jordan Institute for Families and, as the year ended, was deeply involved in plans to celebrate with a black-tie and an international conference on "Violence and Trauma in Childhood: A Rich and Resilience Perspective." The School of Social Work's faculty continues to be extremely productive in terms of publications, grant and contract development, and community service.

Again this year the School's training and technical assistance activities touched individuals from every one of North Carolina's 100 counties. The School continues to have strong, productive partnerships with a range of state agencies. Of particular note are the research, training and technical assistance collaborations involving the School of Social Work and various public agencies, including the North Carolina Divisions of Social Services and Aging; and Mental Health, Developmental Disabilities and Substance Abuse Services. The strength of the School of Social Work's students, and the efforts of its faculty and staff have definitely paid off in terms of the School's national ranking. U.S. News and World Report, in its March 1997 publication, moved the School from twelfth to ninth overall among the approximately 120 schools nationally that offer the M.S.W. Of particular note is the fact that the School was ranked fourth in the nation among schools of social work at public universities.

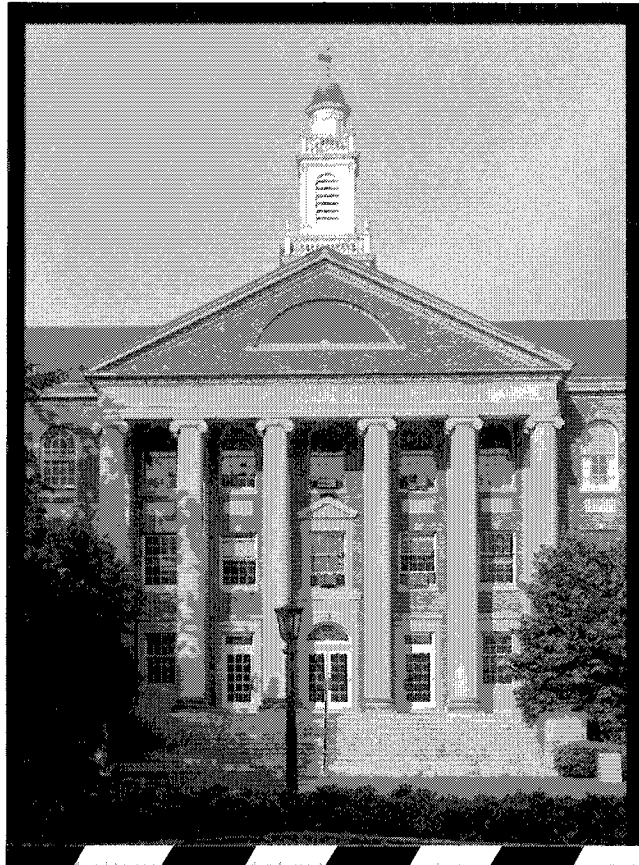
Kenan-Flagler Business School

The Kenan-Flagler Business School built a strong foundation for its future as it prepared to move next year to the new \$44 million McColl Building. Design of the new \$20 million executive education center, the Paul J. Rizzo Center at Meadowmont, has been completed with the groundbreaking ceremony held October 8, 1997. The MBA Program's Integrative Management Course, taught by faculty from several disciplines, was very successful. The School established second year career tracks designed to help students prepare for careers in consulting, investment banking, entrepreneurship and many other areas. The Undergraduate Program was ranked fifth in the country by *U.S. News and 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. An entrepreneurship center was established to support research and teaching on new venture management.

School of Journalism and Mass Communication

The School of Journalism and Mass Communication is "arguably the best all-around program in the country," according to the Accrediting Council on Education in Journalism and Mass Communication (ACEJMC). The national accreditation team gave the School's undergraduate and professional master's programs a rave review in February and accredited the School for the next six years. The report lists 13 specific strengths. Among them: "Strong, enthusiastic, consistently forward-looking leadership. A driven, nonarrogant desire, whose tone is set and fueled by the

dean, not to rest on its laurels (which are considerable) and to push aggressively forward, day-by-day, year-by-year, to become even stronger." The School's graduate program was reviewed twice this year and was labeled a "first-rate" program and "clearly one of the best in the country" by ACEJMC and by an external review through the University's Graduate School. The School ranked eighth in undergraduate advertising programs nationwide in a study done at the University of Texas at Austin. A profile of Carolina in the "Good Schools at Bargain Rates" section of *Newsweek* listed journalism-mass communication as one of the top academic programs. The third class of three Freedom Forum Ph.D. Fellows was selected, and began classes in summer 1997. The program, funded annually by the Freedom Forum in Arlington, Virginia, sends professional journalists back to school to earn the Ph.D. It is the most prestigious doctoral program in mass communication in the country. Almost \$3 million in private funds has been raised to name rooms in Carroll Hall, the School's new home in late 1998 or early 1999. The Park



CARROLL HALL IS UNDERGOING EXTENSIVE INTERIOR RENOVATIONS FOR THE SCHOOL OF JOURNALISM AND MASS COMMUNICATION, WHICH WILL MOVE INTO CARROLL IN LATE 1998 OR EARLY 1999. ALMOST \$3 MILLION IN PRIVATE FUNDS HAS BEEN RAISED TO NAME ROOMS IN THE SCHOOL'S NEW HOME.

Foundation of Ithaca, NY, is giving more than \$5.6 million for Park Fellowships for graduate students in the School over five years. The Knight Foundation continued funding the National Fellowships in Copy Editing. The School placed sixth overall in the William Randolph Hearst Foundation's prestigious national writing competition, eighth in broadcast news and sixteenth in photojournalism. The School has embarked on an important and prestigious program in medical journalism with the appointment of Dr. Tom Linden as the Glaxo Wellcome Distinguished Professor

of Medical Journalism. The School aims at being a national center of education in this field. Assistant Professor Deb Aikat, the School's media futurist, was selected from among 70 nominees for the Stephen H. Coltrin Communications Professor of the Year by the International Radio and Television Society Foundation, Inc. Professor Tom Bowers, associate dean and James L. Knight Professor, won the John Sanders Award for Distinguished Undergraduate Teaching and Service from the University. Five faculty members won Favorite Faculty Awards from the Senior Class of 1997. Dr. Kay Phillips, director of the N.C. Scholastic Media Association, headquartered in the School, worked with 1,052 advisers and 400 schools across the state this year. This is the only statewide organization serving high school teachers and students in journalism and mass communication. The summer institute held at the School drew more than 400 students and advisers. The School continued its cooperative program with Ural State University in Yekaterinburg, Russia, to help the Journalism department there teach fact-based journalism. A second international program has begun through the University's Center for International Studies with the University of Asmara in Eritrea, Africa. Dean Richard Cole received a third grant from the John D. and Catherine T. MacArthur Foundation to bring 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

During fiscal 1997, the School of Information and Library Science (SILS) observed the sixty-fifth anniversary of its founding. To commemorate this event, the School and the Alumni Association sponsored a celebration on Alumni Day in April that brought together a large number of students, faculty, former faculty, graduates, and friends. One of the most exciting changes in the past year, was the institution of the undergraduate minor in Information Systems. This 15-hour minor was designed to be a complement to any undergraduate major and allows undergraduates to develop an understanding of computing, networking, multimedia, electronic information resources and the Internet. Two new faculty members, Dr. Gregory Newby and Dr. Charles Viles were recruited to play a major role in the minor which will provide an opportunity for Chapel Hill under-

graduates to gain exposure to the burgeoning world of information systems. SILS has expanded its continuing education series, "INFO TO GO" to meet the increasing continuing education needs of practitioners. The School's international connections continue to expand with new links being established to Charles University in Prague and Sheffield University in the United Kingdom. SILS faculty members continue to excel in teaching, research and service. Stephanie Haas was awarded the American Society of Information Science's 1996 Outstanding Information Science Teaching Award. As information technology becomes more important in all of our classes, we must meet the challenge to keep up

the school's computing infrastructure. In the past few years, the University has been fortunate in being able to acquire the hardware and software necessary to keep the School's computer lab up to date. This year we ensured that the hardware and software investments would be optimally used when we added a new director of information technology. The School's growing reputation has resulted in an increasing number of applications to all its programs; last year, the School had the largest number of master's applications ever. The School's graduate enrollment has increased 30% since 1990. The quality of the students admitted is very strong. Last year's entering students had an average GRE of 1230 and an average undergraduate GPA of 3.45.

School of Law

During fiscal 1997, the School of Law engaged in a number of important institutional initiatives. Several faculty members enhanced their use of advanced information technology for purposes of instruction. Perhaps the most notable of these efforts was

the new "cyberspace law" course developed by Professor Lolly Gasaway, which required students to address cutting-edge questions such as the application of criminal laws to on-line activities and to develop (and publish on-line) Internet policies for corporations, schools, and other entities. The School instituted a new "Banking Institute" which brought together bankers and lawyers to discuss key issues facing the nation's (and North Carolina's) burgeoning banking industry. Proceedings of the Institute were published and distributed to bankers, lawyers, and libraries around the country. The School recruited four new members of the faculty with eminent credentials, building new expertise in

**THE ACCREDITING COUNCIL ON
EDUCATION IN JOURNALISM AND MASS
COMMUNICATION REPORTED THAT THE
SCHOOL IS "ARGUABLY THE BEST ALL-
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AND THAT THE GRADUATE PROGRAM IS
A "FIRST-RATE" PROGRAM.**

the areas of health law, employment discrimination, lawyering skills, and critical race theory. The Law School became home for the distinguished scholarly journal *Law and Philosophy*, and worked with the University's Department of Philosophy and the National Humanities Center to plan the first of a yearly series of scholarly workshops on the subject. The School substantially upgraded its placement program, adding an associate director with expertise in public sector and public interest law, placing 97% of its graduates within 6 months of graduation, and assisting 99% of the current students to find paid or volunteer legal employment during the summer. The School was the recipient of the Samuel Ashe Distinguished Professorship in Constitutional Law, several major scholarship funds, a fund to support summer public interest internships, and its first major gift in its campaign to raise supplemental funds in connection with its ongoing construction of a major building addition and renovations.

School of Dentistry

Information technology was a primary initiative this past year in the School of Dentistry. Specifically, efforts centered on enhancement of the hardware infrastructure, educational applications of new technologies, and planning and programming for the initiation of an electronic patient record system. Continuing in an established tradition, the school experienced its most successful year ever in terms of continuing education offerings to the dental professionals of the state, nation and world. The school presented 43 continuing education courses for 4,166 participants from 21 countries.

Area Health Education Centers

The North Carolina AHEC Program continues to serve as the primary vehicle for the expansion of ambulatory, community-based experiences for medical and other health science students. During the past year over 2,400 student months of medical, nurse practitioner, and physician assistant training occurred in physician practices throughout the state. These experiences occur in nearly all 100 counties and are a core part of the rural primary care initiative to give students a stronger orientation to community-based practice and encourage them to enter careers in primary care. Additionally, a Statewide Technology Task Force was created, to develop a blueprint for future information services network plans for the AHEC system. Subcommittees in the area of student programs, continuing education, information services, and admin-

istration have prepared reports on the most effective use of technology and future program development.

School of Medicine

The Division of Pediatric Cardiology in the School of Medicine has expanded its Neonatal TeleHeart Network to include intensive care nurseries in Wilmington, Greensboro, and Fayetteville. With the use of a desktop teleconferencing system, approximately 100 transmissions per month of cross-sectional/color flow Doppler echocardiograms from critically ill newborn infants now occur in addition to a wide range of physician-to-physician consultations.

Division TEACCH (Treatment and Education of Autistic and Related Communication Handicapped Children) provided interdisciplinary training in autism for professionals from more than 30 states and 15 foreign countries during the past year. Division TEACCH's collaborative efforts with the North Carolina Division of Vocational Rehabilitation Services has resulted in the largest and most successful supported employment program for people with autism in the country. Over 150 people with autism are now involved in productive employment. The Carolina Living and Learning Center, TEACCH's innovative residential program for adults with autism, will accept additional clients to the program in the next few months. The University's Lineberger Comprehensive Cancer Center Patient/Family Resource Center has added new support programs. New offerings include a group for spouses and partners of cancer patients, one for cancer survivors,

and one for patients and family members living in the Fearington community. Another group for gynecologic cancer patients is co-sponsored with Duke Comprehensive Cancer Center and Rex Cancer Center. The Center continues to co-sponsor the annual "Body and Soul" symposium for breast cancer patients with Duke Comprehensive Cancer Center and the Comprehensive Cancer Center of Wake Forest University.

School of Nursing

The School of Nursing focused on the development of distance learning programs. Several courses in the nursing master's programs were redesigned for on-line presentation through the World Wide Web. The School also formed a partnership with the Montgomery County Community College and the Public Health Teaching Information Network (PHTIN) to begin offering its RN to

**CONTINUING IN AN ESTABLISHED
TRADITION, THE DENTAL SCHOOL EXPERI-
ENCED ITS MOST SUCCESSFUL YEAR EVER IN
TERMS OF CONTINUING EDUCATION
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OF THE STATE, NATION AND WORLD.**

BSN program through distance learning technologies. Other off campus activities included the Family Nurse Practitioner program in Asheville and the RN to BSN program in Smithfield.

School of Pharmacy

After 99 years of offering the bachelor of science in pharmacy (B.S. PHARM) degree, the University's School of Pharmacy joined a national movement to offer the Doctor of Pharmacy (Pharm.D.) degree as the entry level degree in pharmacy. The entering class of 1996 will graduate in 2000 as the first class to receive, exclusively, the Pharm.D. degree. The additional year of education will provide increased clinical education opportunities and expanded coursework in modern drug therapy, producing a graduate with unique and valuable skills for the health care team of the 21st century. As part of this conversion, an External Pharm.D. Program was also developed that offers the Pharm.D. curriculum to practicing pharmacists through distance learning, Area Health Education Center(AHEC) resources, and other methods (such as the Internet).

School of Public Health

The School of Public Health continued to expand its curriculum by offering new core courses in Environmental Health and Health Behavior/ Health Education as well as new courses in Epidemiology and Nutrition. The Interdisciplinary Curriculum in Practice and Leadership in conjunction with the Center for Distance Learning and Health Communications began offering a new distance-learning-based interdisciplinary Master of Public Health degree. Offered in small groups and taught at different locations across North Carolina, this new program is presented in a format that helps limit students' time away from work and family by permitting them to study near their homes and work. The program takes a comprehensive approach designed to prepare working professionals for leadership roles in ever-changing health care systems. This year, faculty and staff provided more than 13,000 hours of service to international, national, state, local and professional organizations through more than 500 different projects. More than 200 of those projects were with agencies and organizations in North Carolina. The services provided share new research and practice applications, as well as support the people who most need assistance in the field.

Highway Safety Research Center

The Highway Safety Research Center (HSRC) has continued its work with the model statewide program, "Click It or Ticket," which combines education, media attention and enforcement to raise seat belt and child restraint usage. This program has been a five-year cooperative effort with the Governor's Highway Safety Program, the National Highway Traffic Safety Administration, the NC Department of Insurance and the Insurance Institute for Highway Safety and has led to statewide seat belt use of 83% and healthcare cost savings of over \$100 million. The Center played a key role in getting a Graduated Driver Licensing Law passed in North Carolina which will introduce beginning drivers more gradually to operating a motor vehicle on our highways. It is anticipated that this program will reduce teenage crashes by 8 to 15% annually. Major studies have also been carried out for the Federal Highway Administration by HSRC in the areas of bicycle and pedestrian safety.

Other Health Affairs Initiatives

The Frank Porter Graham Child Development Center (Center) was designated by the Governor to evaluate the effectiveness of the North Carolina Smart Start program. The Center also contracted with the federal government to evaluate the North Carolina Head Start Learning Center. The Center examines how well the training process is carried out and the effectiveness of training on changing the behavior of participants.

The Medical Education

Development Program (MED), initiated in 1974, continued to assist underrepresented and disadvantaged students prepare for entry to medical school. The program is sponsored by the Schools of Medicine and Dentistry, administered by the Office of Educational Development and funded partially by the US Public Health Service's Health Careers Opportunities Program.

The North Carolina Health Careers Access Program was able to expand its Clinical Work-Study Summer Health Program from 8 to 10 weeks, raise student pay above minimum wage, and open additional positions allowing an increased number of students to participate.



THE ADDITION TO THE LAW SCHOOL, NOW UNDER CONSTRUCTION, WILL ADD 58,000 MUCH-NEEDED SQUARE FEET TO THE BUILDING, GIVING THE SCHOOL NEARLY 160,000 SQUARE FEET OF SPACE.

Graduate Studies and Research

The University attracted more than \$290 million in grants and contracts in fiscal 1997. The University ranked twelfth in the nation among universities receiving funding from the National Institutes of Health (NIH). Only four state-supported universities received more NIH funding. Also, the Proposal Development Initiative (PDI) helped facilitate or develop more than 30 proposals seeking more than \$20 million.

The Office of Technology Development (OTD) increased the number of University inventions licensed by 150%. The amount of royalty received increased by 42% from the previous year. OTD also assisted inventors in putting together two new start-up companies this year.

To compete with magazines at peer universities, the Office of Information and Communications (OIC) introduced improved graphics and color printing on the inside pages of *Endeavors*, a magazine of research and creativity at the University. Because color adds information as well as visual appeal, the change enables the University to better illustrate research activities.

The GrantSourcer Service, jointly funded by OIC, UNC General Administration, and several universities in the UNC System, enables faculty, students, and staff to search databases of information about funding opportunities from their own computers. Logins on the GrantSourcer Service have doubled compared to last fiscal year. This increase indicates an ever-growing interest in competing for outside research funding.

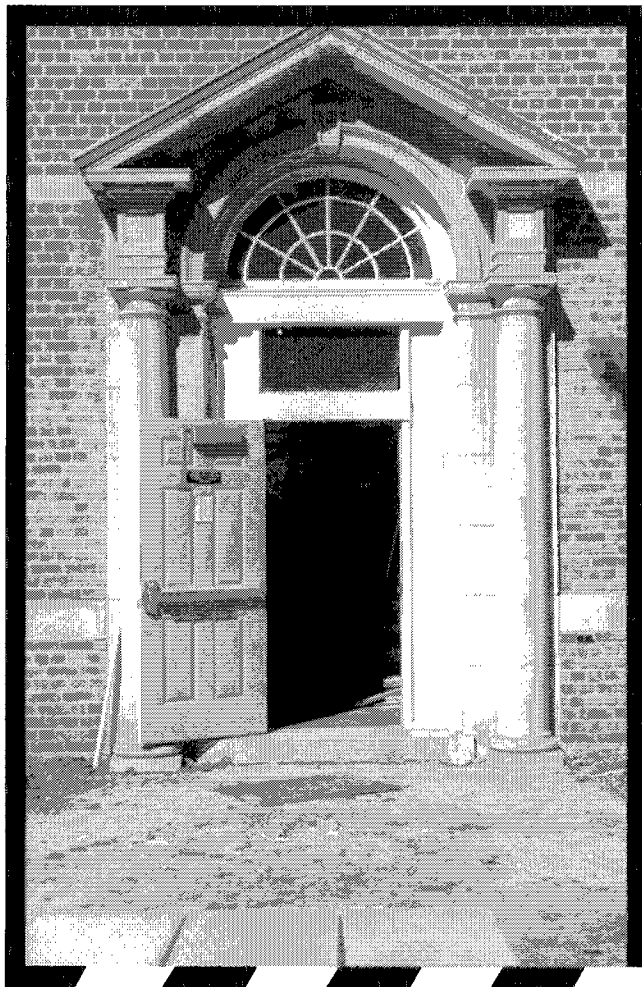
The social science data archive of the Institute for Research in Social Science (IRSS) is the third largest in the country. This year, the IRSS developed and implemented a web-based catalog and question retrieval system to allow wider and easier access to information about its data holdings. The IRSS archive includes some 4,000 studies and major governmental databases. In addition, over 220,000 survey questions and responses (accessed over 27,000 times between October 1996 and September 1997) are accessible through the IRSS public opinion question database.

University Library

The Libraries rank first in the southeast and seventeenth among research libraries in the United States and Canada. The Libraries continue to add powerful new electronic resources to the extensive print collections. The addition of electronic information resources and the technology to provide easy access for students and faculty to those resources continues to be a major new service for the University Libraries.

Construction began on an addition to the Law School that will significantly improve public service space in the Law Library. An extraordinarily popular Information Commons was installed in the Davis Library. The Information Commons, made possible with funding from the Academic Enhancement Fund, includes 52 graphical workstations for searching the Library Online Catalog, library databases, and browsing the Web as well as 20 other stations to provide access to the Online Catalog and electronic mail. Academic Enhancement funds also allowed the libraries to replace almost all the public video terminals with state-of-the-art microcomputer workstations. This significantly enhances the ability of students and faculty using the libraries to obtain access to electronic information resources.

As a part of the continuing effort to integrate electronic information with the vast print-based resources available in the University Libraries, the Libraries redesigned their Web site for improved access. A Web version of the online catalogs was installed. UNCLE, the health related digital library with more than 1,000 databases and full-text resources, became available through the Web



THE INSIDE OF STACY RESIDENCE HALL IS UNDERGOING MAJOR CHANGES AS PART OF A PLAN TO UPGRADE ALL OF THE UNIVERSITY'S RESIDENCE HALLS.

as well. The Health Sciences Library also created six distance learning modules available on the Web for information literacy training.

The Libraries continue to contribute content to the Internet and the World Wide Web through a variety of projects. One of those projects, Documenting the American South, is digitizing many important texts documenting the American South using the text and coding initiative Standard Generalized Markup Language (SGML)-based guidelines. That project was the winner of one of

the Library of Congress/Ameritech National digital Library Competition Awards last Spring bringing national recognition to this important project.

Information Technology Services

Information Technology continued to increase in importance to every facet of University operations. The year was noteworthy for the completion of the University's fiber-optic backbone network. Work continued on the wiring of individual campus buildings, with a special emphasis on residence halls. The University was an early participant in the national Internet2 initiative and was instrumental in establishing the first GigaPoP (extremely high-speed network node) in the nation.

A national search was successfully concluded with the hiring of Marian G. Moore as the University's first Chief Information Officer (CIO). As CIO, she will be responsible for coordinating the University's extremely complex information technology environment and ensuring the most effective deployment and management of related resources. She brings a wealth of talent and experience in both private industry and education to this new and important position.

Exploitation of the World Wide Web continued to grow as a medium for both internal and external sharing of information. The Web is being used as a primary delivery vehicle for all manner of information about the University and databases maintained there, for streamlining of administrative processes, for the delivery of course content, and for outreach to the public.

The role of information technology in enhancing teaching and learning expanded throughout the year. The highly successful Simple Start Program has now trained over 500 University faculty members in the use of computer technology in the classroom. The University is establishing itself as a national leader in this area. Over 200 other Universities around the world, as part of the Share Carolina program, have licensed the first generation tools developed by this program. In addition, the first four 100% internet-based classes were developed and conducted, and development of still more such courses continues.

The richness of the University's electronic communication environment, consisting of over 1,500 e-mail lists, approximately 120,000 e-mail messages a day, well over 125 class home pages on the World Wide Web, and 500 electronic discussion forums, has made a significant contribution to the University's intellectual climate. This array of services is experiencing tremendous growth in usage and supports both the traditional classroom experience as well as emerging distance education opportunities.

A comprehensive set of Web-based student services was provided to improve many aspects of the students' experience at Carolina. Services ranging from applying for admission, to checking for open class sections, to reviewing charges, to checking grades are readily available from any Web browser on campus. The improvement in service and efficiency can hardly be overstated, and processes that once could be tedious can now even be fun.

As the effectiveness of information technology continues to improve for teaching, learning, and administrative applications, the need for pervasive access to the campus information infrastructure also grows. In response to this need, Information Technology Services is currently evaluating options for supporting a campus-wide environment where all faculty, staff, and students would have an appropriate computer and network connection.

Tar Heel Bus Tour

Twenty-six new Carolina professors went back to school — by bus — for a weeklong crash course on the Tar Heel state. The places and people they saw during the first Tar Heel Bus Tour put a human face on North Carolina's top industries and institutions. Professors talked with

farmers, teachers, doctors, craftsmen and others. They ate barbecue (eastern and western style), Brunswick stew, steamed clams and mountain trout. In between stops came a jumbo helping of talk and thought. All of that, these faculty say, will help them do a better job for North Carolina in classrooms and research labs back in Chapel Hill.

The privately funded bus tour aimed to show new professors the "real" North Carolina, which produces 82 percent of the University's 15,000-plus undergraduates. The trek began May 12 when the bus left Chapel Hill for the drive through 42 counties, 1,200 miles of highway and nearly 20 stops. Passengers hailed

IN 1997, CAROLINA HAD ITS BEST YEAR

EVER IN TERMS OF PRIVATE FUNDRAISING.

INDIVIDUALS, FOUNDATIONS AND

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THE UNIVERSITY TO USE THEIR GIFTS AND

GRANTS PRODUCTIVELY TO BENEFIT

FACULTY, STAFF, STUDENTS AND CITIZENS

OF NORTH CAROLINA.

from Brazil, Canada, India, Japan, Pakistan and a smattering of states.

"We are a public university," Chancellor Michael Hooker told faculty and Franklin County officials at a Louisburg tobacco warehouse. "We exist for one purpose and one purpose only, and that is to serve the citizens of North Carolina. ... Many (faculty members) had never been to North Carolina before they were hired. This is an effort to acquaint them with the state, to let them see where their students come from."

University Advancement

In fiscal 1997, Carolina had its best year ever in terms of private fund raising, thanks to the generosity of Tar Heel alumni and friends. Individuals, foundations and corporations showed their faith in the University to use their gifts and grants productively to benefit faculty, staff, students and citizens of North Carolina. Among the year's highlights:

Gifts and private grants in support of the University totaled \$107.5 million — the largest amount ever. Of that total, \$89.4 million — 83 percent — was directed to academics. Fiscal 1997 was Carolina's sixth straight record-setting year for fund raising — and the first year in which total gifts and private grants topped \$100 million. Only about 25 universities nationwide reach the \$100 million a year benchmark in private giving.

The year's major gifts, grants and pledges included \$5.5 million from the Park Foundation to create a fellowship program for graduate journalism students; \$3 million from Charles Loudermilk of Atlanta to help fund Kenan-Flagler Business School's Paul J. Rizzo Conference Center; \$2 million from Dr. and Mrs. Thomas Royster to the Society of Fellows, Carolina's flagship program for exceptional graduate students, renamed for Dr. and Mrs. Royster this spring; \$2 million from Banks D. Kerr of Raleigh to the School of Pharmacy — its largest gift ever — to help build a new teaching facility; and \$1.9 million to the College of Arts and Sciences' Program in the Humanities and Human Values from the estate of Guilford County's May Bell Penn Jones. In the public-private partnership realm, private gifts helped the University receive state matching funds to establish nine additional endowed professorships across campus.

Gifts and grants by corporations and foundations totaled \$35.6 million in 1997. Foundation gifts were particularly useful for leveraging other private donations. For instance, the Kresge

Foundation's grant to help renovate Graham Memorial for the Johnston Center for Undergraduate Excellence successfully challenged 624 new donors to close out this \$5.7 million capital campaign. Fiscal 1997 was also the critical first year of the chancellor's public education and technology initiatives, to which corporations and foundations gave \$1.8 million in cash and highly advanced networking and computing equipment.

The student callers at the Carolina Phonathon booked \$2.1 million in pledges, breaking the \$2 million mark for the second straight year. They also set a record in 1997 for the largest number of prospective donors reached by phone: 86,234. New hard-

ware and software were installed this summer at Phonathon headquarters in the old Porthole building to increase calling stations from 20 to 30, thereby enabling callers to reach even more prospective donors.

In 1997, the University received the Circle of Excellence in Educational Fund-raising Award for overall fund-raising performance — for the fourth straight year — from the Council for Advancement and Support of Education (CASE). Only Harvard and Stanford have also received this award four times.

Capital Construction

The capital construction activity is at its highest level in the University's more than 200 year history, and the current and planned capital projects will have a significant impact on the campus.

During fiscal 1997, fourteen capital improvement projects were completed at a cost of \$15.2 million. The \$38.7 million additions

to Kenan Stadium and the \$32.2 million McColl Building for the Kenan-Flagler School of Business are substantially complete. Also nearing completion are the \$18.8 million addition to the Lineberger Cancer Center, and the \$17.3 million addition to the School of Dentistry. Other major projects under construction include the \$11 million addition to the Law School, the \$9.7 million Center for Dramatic Art, the \$6.1 million addition to the Institute of Marine Sciences in Morehead City, and the \$23.1 million Health Affairs parking Deck #2. A major initiative is also being undertaken to install fiber optic wiring in residence halls and academic buildings.

During the first six calendar months of 1997, twenty-five projects were placed under construction, with a value of \$108 million, bringing the number of projects under construction to a total of 37 with a value of \$235 million. An additional 44 projects, totaling \$223 million, are in various stages of design.

DURING THE FIRST SIX MONTHS OF 1997,

TWENTY-FIVE CONSTRUCTION PROJECTS

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Orientation Program

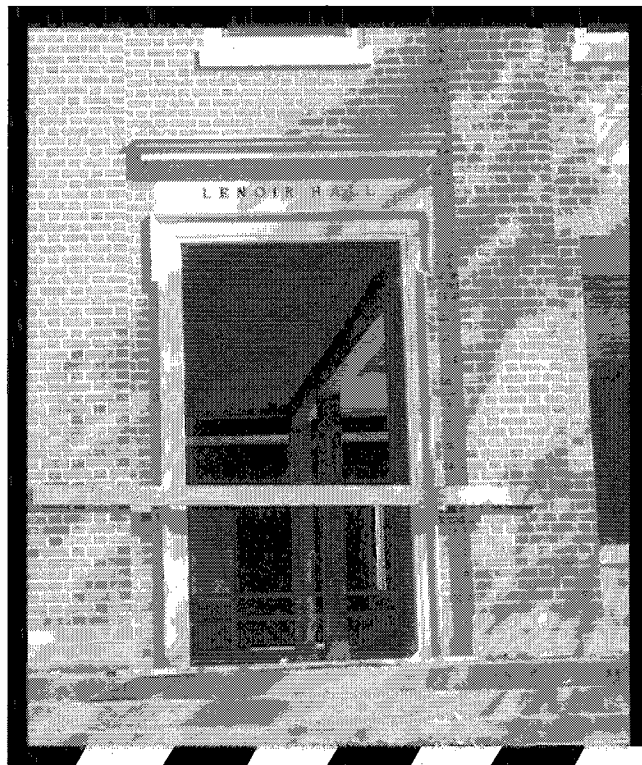
Since the Spring Semester of 1997, a group of students and staff from many departments across campus have been meeting to plan a back-to-school program named Fall Fest for the Sunday before classes begin. The purpose of the program is to provide returning and new students a fun activity at the beginning of the school year that encourages participation and interaction among all segments of the University community. The primary focus is to give student organizations, organizations serving students, and University departments a way to inform and recruit new members and service users. Through demonstrations, carnival booths, competitions, information tables, free food, prizes, and performances, organizations and departments were able to quickly and easily tell their stories. The intent was to welcome students to the opening of the 1997-98 academic year in a fun-filled, alcohol-free celebration of student activities.

Carolina Union

For three years the Carolina Union has been assessing community needs and developing plans for the expansion and renovation of the Frank Porter Graham Student Union Building. The planning phase will culminate in the 1997-98 academic year with the presentation of those plans to the University's student body for its approval. The Carolina Union is a student fee supported organization and student approval of a fee increase to support the proposed construction will take place in February. The student referendum is crucial to the current and future functioning of the Carolina Union. The current facility was constructed to serve approximately 10,000 students and is grossly undersized and in need of improvement. Construction will take into consideration all recommendations made by the Chancellor's Task Force on Intellectual Climate, August 1997.

The Carolina Union Performing Arts Series is attempting several new initiatives in an effort to expand access to and appreciation of the performing arts. Last year's success of the Virtuoso Series has been followed by this coming year's selection of Leontyne Price to perform in Memorial Hall in November 1997. This year's Virtuoso Concert will also host the first C.E.O. Night. Local C.E.O.s will be invited to a pre-concert reception and dinner aimed at acquainting them with the University's efforts on behalf of the performing arts, with the hope that new University/Business partnerships might develop for the benefit of

our communities. Also, each performance in the total Series will feature an outreach activity intended to bring the professional performer to the students and local community through workshops, lectures, demonstrations, and discussions. As an example, the Series received grant support for a week-long residency of Nucleodanza, a modern dance troupe from Argentina. Finally, the Union has supported arts' involvement of faculty and staff with students by offering the Taste of the Arts Program to all faculty and staff as well as students, and by offering payroll deduction for the purchase of Series tickets.



LENOIR HALL HAS BEEN GUTTED TO MAKE WAY FOR A THIRD FLOOR ALL-YOU-CAN-EAT CAFETERIA, MORE MODERN COOKING FACILITIES, AN EXTENSIVE FOOD COURT, AND AN OUTDOOR CAFÉ.

University Career Services

University Career Services (UCS) provides career planning and employment assistance to all students and recent alumni of the University with the exception of those in the professional programs of Law, Medicine, Dentistry, Masters in Business Administration, and Masters in Accounting. UCS has continued to make notable progress by using technology to provide cutting edge programs and services to students and employers. Most recently, UCS has added interactive services to its home page, allowing access to many services from any location with Internet access, 24 hours a day, 7 days a week. Previously this required visits to the UCS office during regular business hours. For example, students and alumni can now register for the UCS candidate referral service and on-campus interviews on-line, they can develop and submit resumes on-line, and they can make on-line

requests for their reference files to be sent to employers or graduate schools. Future plans include on-line access to the Carolina Connection database (a database of alumni career mentors) as well as on-line access to student resumes by employers. These initiatives not only provide convenience and accessibility to students and employers, they also result in significant cost savings: on-line registration has reduced UCS's cost of providing diskettes to students, on-line reference file requests reduce mailing or telephone costs to students and alumni, and on-line resume access by employers is expected to reduce UCS's mailing costs.

Public Safety

To improve service and increase efficiency, the Department of Transportation and Parking was merged into the Department of Public Safety in November, 1996. Annual recurring savings of

approximately \$300,000 were realized in fiscal 1997, and additional savings are anticipated when all efficiencies are accomplished.

Environmental Affairs

The University continued its commitment to clean up sites contaminated by landfilling of hazardous wastes and radioactive materials. The remediation plans for a hazardous waste site and a radioactive waste site were completed, and study of a municipal landfill sited on University property was begun.

Continuous Quality Improvement

As a result of efforts to improve the way the University does business, more efficient and effective services to constituents are being provided, and the University is continually striving to improve customer and employee satisfaction, enhance communication, and offer new services without the need for additional funding. A number of units within the University have used a management strategy commonly known as continuous quality improvement (CQI) to achieve this end. Units that have employed this strategy are the Treasurer, Finance, Auxiliary Services, Public Safety, Health & Safety, Facilities Management, Human Resources, Student Affairs, Undergraduate Admissions, Administrative Information Services, Learning Disability Services, University Legal Counsel, the English Department, the School of Dentistry, and the School of Nursing. The Medical School faculty have participated in the UNC Hospital's continuous quality improvement effort, and the Kenan-Flagler Business School and the School of Public Health offer instruction in continuous quality improvement strategies. To support continuous quality improvement efforts at Carolina, the Office of Quality Development provides training, consultation, team support, and documentation services to its campus clients. The following are some examples of initiatives that have been implemented or are currently underway:

Undergraduate Admissions: Undergraduate Admissions is implementing strategies to improve both service quality and recruitment. They have created a team-based organization that

has improved internal communication and cooperation. To improve effectiveness and responsiveness, they have developed service standards for personalized service, timeliness, accuracy, and consistency. Further, they now survey parents as well as students to get feedback in how they can improve their services. In the coming year they will focus on improvements to their phone system, as well as enhanced marketing efforts via college fairs, group information sessions, and other mechanisms.

Departmental Accounting System: The University is currently negotiating for the purchase of software for a comprehensive and integrated Departmental Accounting System. When implemented, this system will meet varying departmental accounting needs, eliminate duplicate data entry tasks, and provide more accessible and useful management information. Improved efficiency and savings to the campus are anticipated.

Student Information System Committee: Student services are being enhanced through the proactive assessment and prioritization of student needs and opportunities. For example, students can now apply to Carolina, change their address, and get their course schedules, grades, and bills using the World Wide Web.

Travel Management: To enhance the travel management program created two years ago, a team is developing a travel program that will further reduce campus travel costs. When fully implemented, departments are expected to save more than \$1 million per year in airfare alone.

Chiller Plant: Control systems for the University's three chilled water production plants are now linked via computer to automatically regulate the equipment. This will result in the avoidance of an estimated five to ten percent of consumption costs, which will translate into a cost avoidance of up to \$750,000 per year.

Human Resources Information Systems: The recently purchased InPower Human Resources Information System is expected to generate significant time and dollar savings. The system obviates double entry of personnel and payroll information, as well as the need for the "shadow" personnel systems that now exist in many departments. Process automation also will lead to a significant reduction in cost of paper, forms, and form storage, and the cost for maintaining existing legacy systems. The first phase of implementation will be complete in early 1998.

**TO SUPPORT CONTINUOUS
QUALITY IMPROVEMENT EFFORTS AT
CAROLINA, THE OFFICE OF QUALITY
DEVELOPMENT PROVIDES TRAINING,
CONSULTATION, TEAM SUPPORT, AND
DOCUMENTATION SERVICES TO
ITS CAMPUS CLIENTS.**

Materials Management and Distribution: A variety of efforts by the warehouses to reduce prices charged to departments and increase customer satisfaction have resulted in \$562,000 in annual recurring savings. A key component has been automation, including changing the inventory ordering system, reducing stock levels, introducing bar coding, and moving to paperless receiving and shelving by using radio frequency, hand-held computer equipment.

Procurement Card: The procurement card, which serves as a departmental "credit card" for purchases of less than \$2,500, will both streamline the purchase process and significantly reduce administrative costs associated with such purchases. Banking negotiations have been completed and preliminary program arrangements are currently underway.

Job Order Team: Nearly half of the building renovation projects completed by the Physical Plant cost less than \$5,000 each. By the end of 1997, a team developing a special process to handle these projects anticipates a reduction in the response time by 50%.

Accounts Receivables Process: A team is currently recommending improvements to collections, accounts receivable information, and customer payment options in response to an assessment of the needs of internal and external customers.

Automated Financial Aid Check: The electronic transfer of student loans, scholarships and grants has benefited students receiving student aid by eliminating the need to stand in two lines, one at the Office of Scholarships and Student Aid and another at the Cashier's Office. Additionally, the Cashier's Office is now mailing credit balance refund checks to student's local addresses, and has requested that a program be written to transfer credit balances on student accounts electronically to student bank accounts.

On-Line Check Request: For disbursements that do not require a purchase order, a new on-line check request system is significantly reducing the processing time for Accounts Payable checks. When all departments use the system it will eliminate the completion and processing of paper forms, and will enhance customer service by providing an on-line tracking system for disbursements.

Department of Athletics

The past school year was a highly successful one in a number of ways. On the field of play, it was truly a remarkable year for the Tar Heel teams. And in the realm of academics, our student-athletes reached new heights. Great strides were also made in improving the overall athletic facilities at the University.

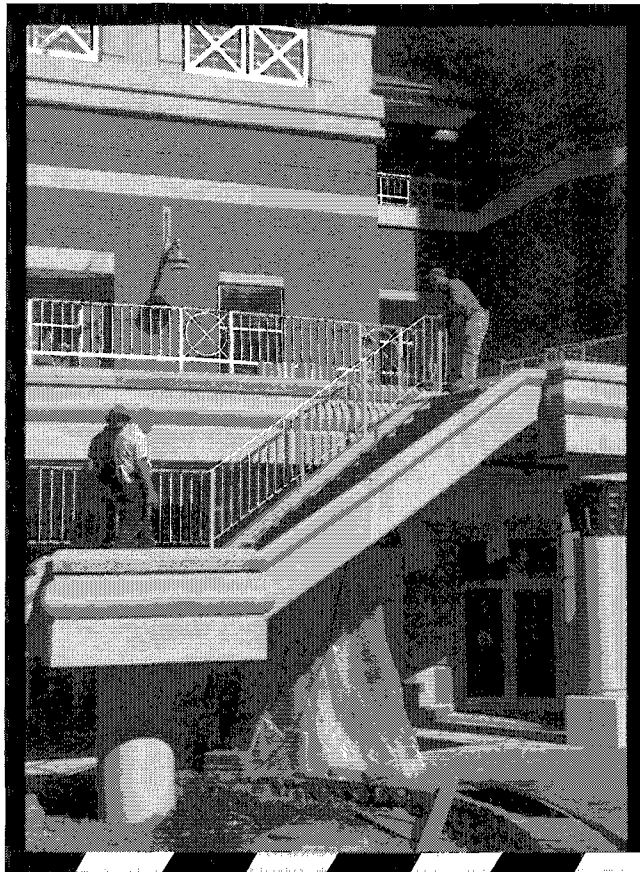
Carolina won eight Atlantic Coast Conference Championships during the past school year and two NCAA titles. The league crowns came in women's soccer, field hockey, men's swimming

and diving, women's indoor track and field, men's basketball, women's basketball, wrestling, and women's outdoor track and field. Over the past four years, Carolina has won 40 of the 93 conference championships which have been awarded. The NCAA championships were won in field hockey and women's soccer. It was the third national title for field hockey and the fourteenth for women's soccer. Overall, the Tar Heels finished second in the 1996-97 NACDA Sears Directors' Cup Standings. This award is emblematic of the nation's best overall athletic program.

Carolina's football team appeared in its fifth consecutive postseason bowl game, defeating West Virginia, 20-13, in the Gator Bowl. The Tar Heels finished 10-2 and ranked tenth in both wire service polls. Mack Brown was selected the ACC Coach-of-the-Year. Another highlight was the fourth NCAA Final Four appearance by the men's basketball team in the decade of the 1990s—(1991,1993,1995,1997). Coach Dean Smith's team finished fourth in both wire service polls. Coach Dean Smith's teams have now won 879 games making him the

winningest coach in NCAA basketball history. The women's basketball team went 29-3 and posted a 15-1 mark in ACC play.

In the classroom, a total of 231 student-athletes, an increase from 222 last fall, earned a 3.0 GPA or better in the fall of 1996. This was over 35% of the student-athlete population of UNC and represented the highest number of students reaching this level since the University has kept such records. Included in this group were 10 students with a perfect 4.0 GPA. In the spring semester of 1997, the student-athlete population at UNC went even eight better by placing a record total of 239 on the list of students with a 3.0 GPA or better for the semester. That total was the highest in school history.



AT THE WEST END OF KENAN STADIUM, WORKERS PUT IN A GUARD-RAIL FOR THE WINDING STAIRCASE ON THE NEW FOOTBALL CENTER, WHICH WILL BE TWICE THE SIZE OF THE CURRENT FIELD HOUSE. THE IMPROVEMENT TO KENAN STADIUM IS THE UNIVERSITY'S BIGGEST ATHLETIC RENOVATION.

In keeping with the University's long-standing tradition of having the best athletic facilities in the country, the following improvements have been made over the last year. At Kenan Stadium, the renovation of all concession stands and restrooms on both the North and South sides was completed in August of 1996. The final stage of the project calling for the addition of 8,000 seats, the construction of a new football center at the stadium's West End, and a new Stadium Box and Chancellor's Box on the North Side has been underway since the Summer of 1996. Six thousand of the new West End seats, the first and third floors, and a portion of the fourth floor of the Football Center, and all North Side Boxes were completed by September 6th. Final completion of the Football Center is scheduled for December of 1997 with the final 2,000 seats added in the Summer of 1998.

A new Soccer Facility adjacent and connected to Carmichael Auditorium is currently under construction which will provide locker rooms, coaches offices and equipment storage for the men's and women's soccer programs and a conference room for all Olympic Sports. Temporary offices have been provided for both teams at Finley fields until completion of the project in April of 1998.

Plans are being completed for a new stadium at Navy Field which will provide locker rooms for the Field Hockey and Women's Lacrosse teams, a sports medicine room, restroom and concession areas, and additional spectator seating. A new indoor practice facility, which is replacing the Tin Can, will be used by the Football and Track teams. It's design will provide an indoor astroturf practice surface and 200 meter track.

The improvements planned for Finley Fields and Finley Golf Course include the construction of five new soccer/lacrosse fields, two softball fields, expansion of the driving range, construction of a teaching facility and complete renovation of the existing 18 holes. Phase I of this project, the relocation of the soccer/lacrosse fields and softball fields, is being redesigned and will be submitted to the State Construction Office for final approval. The remainder of the project, which includes all golf course renovations and additions, will begin pending final approval and completion of all funding arrangements.

Financial Information

Internal Control Structure

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

University is accountable.

As a recipient of federal financial awards, the University is responsible for ensuring compliance with all applicable laws and regulations relating to such assistance. A combination of State and University policies and procedures, integrated with the University's system of internal controls, 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-133, 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 1997, the University expended \$1.05 billion fulfilling its mission of instruction, research, and public service. The \$1.05 billion consists of \$1,036 million in expenditures and mandatory transfers and \$14 million in other transfers and refunds to grantors. Approximately 54.3% of the total expenditures supported the instruction and research missions of the University including the academic and student support functions. Expenditures for the professional clinical services which are self-supporting operations providing medical, dental, and other health care were 11.1% of the total.

Other uses of operating resources were for public service of 6.7%; institutional support of 4.2%; physical plant operations of 5.7%; student financial aid of 3.7%; and self-supporting auxiliary and related operations of 9.7%. Mandatory and other transfers, refunds to grantors, and investment losses accounted for the remainder of 4.6%.

Current Funds for the year ended June 30, 1997 (in thousands)

		Sources...\$1,062,282	
\$331,650			State Appropriations (31.2%)
	\$102,277		Tuition and Fees (9.6%)
\$247,950			Governmental Contracts and Grants (23.3%)
	\$78,289		Private Gifts, Contracts and Grants (7.4%)
\$265,009			Sales and Services & Other Sources (25.0%)
	\$37,107		Investment and Endowment Income (3.5%)

		Uses...\$1,050,050	
Instruction, Academic Support, and Student Services (39.8%)			\$418,137
Organized Research (14.5%)		\$152,478	
Public Service (6.7%)		\$70,106	
Institutional Support (4.2%)		\$44,105	
Physical Plant Operations (5.7%)		\$60,224	
Student Financial Aid (3.7%)		\$38,625	
Auxiliary Enterprises and Internal Service (9.7%)		\$101,556	
Professional Clinical Services (11.1%)		\$116,393	
Transfers and Other Deductions (4.6%)		\$48,426	

Total expenditures of \$1,050 million represent an increase of 7.6% over the prior year. Instruction, academic support, and student services increased 8.5% over the prior year while professional clinical services increased 7.5%. Other increases included student financial aid (22.7% increase over prior year), institutional support (6.3% increase over prior year), and auxiliary enterprises / internal service (12.9%). The physical plant operations decreased 3.5% from the prior year along with organized research which decreased 2.3% from the prior year.

Resources of \$1.06 billion supporting these expenditures increased 7.9% over the prior year which, when combined with restricted receipts of \$995 thousand not transferred to revenues, resulted in a \$13.2 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 1997 (31.2% of total, 7.6% increase over prior year). Remaining revenue sources were tuition and fees (9.6% of total, 15.6% increase), governmental contracts and grants (23.3% of total, 1.4% increase), sales and services and other sources (25.0% of total, 9.7% increase), private gifts, grants, and contracts (7.4% of total, 5.6% increase), and investment and endowment earnings (3.5% of total, 34.5% increase).

Resources of proprietary funds, which include auxiliary enterprise, internal service, and professional clinical service activities, totaled \$270 million. The remaining current funds resources of \$792 million support the educational and general activities of the University and are summarized as follows:

Educational and General	Amount	<i>(in thousands)</i> % of Total
State Appropriations	\$331,650	41.9 %
Tuition and Fees	102,277	12.9 %
Governmental Contracts and Grants	247,950	31.3 %
Private Gifts, Contracts and Grants	77,274	9.7 %
Sales and Services and Other Sources	7,502	1.0 %
Investment and Endowment Income	25,353	3.2 %
Total	\$792,006	100.0%

The student headcount of the University was 24,141 for the Fall semester of fiscal 1997. Student enrollment has remained stable over the last five years, increasing 1.5%. Student enrollment for fiscal 1997 was composed of the following categories:

Women		58.5%
Men		41.5%
White		80.2%
African American	9.6%	
Other	10.2%	
Undergraduate		63.6%
Graduate	28.5%	
Professional	7.9%	
Resident		75.6%
Nonresident	24.4%	

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 princi-

ples 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 performing the primary missions of the University. Current Funds are considered unrestricted unless restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Proprietary Funds reflecting the operations of the student stores, dormitories, and other auxiliary enterprises and internal service funds are shown separately from other Unrestricted Funds. Receipts that are restricted are recorded as additions to Restricted Fund balances and recognized as revenue to the extent that such funds are expended for restricted purposes during the current fiscal year.

Fiduciary Funds - include Loan Funds, Endowment and Similar Funds, and Agency Funds. Loan Funds include resources received from donors, governmental agencies, and mandatory institutional matching grants which are restricted for use in making student loans. Endowment and Similar Funds are further categorized as Endowment Funds, Term Endowment Funds, Quasi-endowment Funds, and Annuity and Life Income Funds. Endowment Funds are subject to restrictions of gift instruments whereby principal is invested and only income is utilized. Term Endowment Funds are similar to Endowment Funds, except that all or part of the principal may be used after a stated period of time or on the occurrence of a certain event. 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.

**IN FISCAL 1997, THE UNIVERSITY
OF NORTH CAROLINA AT CHAPEL HILL
EXPENDED \$1.05 BILLION TOWARD
FULFILLING ITS MISSION OF
INSTRUCTION, RESEARCH AND
PUBLIC SERVICE.**

Debt Administration

The University of North Carolina at Chapel Hill has \$273 million of revenue bonds outstanding and \$94 thousand of notes outstanding at June 30, 1997. The bonds were issued to finance the construction and/or renovation of student housing facilities, student union facilities, parking facilities, football stadium expansion, dining facilities, student recreation facilities, utilities systems, ambulatory patient care facilities, hotel facilities, dental clinic facilities and a facility to be leased to the United States Environmental Protection Agency. The bonds are payable both as to principal and interest from the net revenue generated by the operations of the aforementioned

facilities and are consistently rated in the AA and AAA categories by Standard and Poor's Corporation. The note was issued for the renovation of student food service facilities. The note is paid from fees assessed to students.

Cash Management

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

The University administers a short-term investment pool for funds not required to be on deposit with the State Treasurer. The investment pool is administered in conjunction with cash receipts and disbursing requirements to minimize idle cash and to generate current income without loss of capital at a rate of return comparable to the North Carolina State Treasurer. The University uses the State's cash management control system to improve cash flow by electronically recording cash receipts and disbursements for funds deposited with the State Treasurer.

Risk Management

The University is exposed to various risks of loss related to property and employees. These risks are addressed in several ways, including participation in various State-administered risk pools, purchase of commercial insurance, and self retention of certain risks. Refer to Note 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 and the Audit Committee of the Board of Trustees.

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

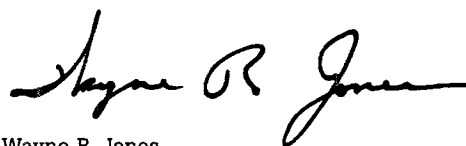
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The University of North Carolina at Chapel Hill for its comprehensive annual financial report for the fiscal year ended June 30, 1996. The Certificate 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, the Provost's Office, the Department of Athletics, Graduate Studies and Research, Student Affairs, Information Technology Services, University Advancement, News Services, Auxiliary Services, Institutional Research, Facilities Management, Office of Quality Improvement, University Design Services and Dr. James F. Smith, Professor of Finance in the Kenan-Flagler Business School. In addition, the Office of the State Auditor provided invaluable assistance.



Wayne R. Jones
University Treasurer

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President, General Alumni Association

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Assistant to the Chancellor and Senior University Counsel

Elson S. Floyd
Executive Vice Chancellor

William H. Graves
Interim Chief Information Officer

Wayne R. Jones
University Treasurer

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Vice Chancellor Student Affairs

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

Organization *Chart*

The University of North Carolina at Chapel Hill

Board of Trustees

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Chair

Chancellor

Michael K. Hooker

Director of Athletics

John D. Swofford

**Equal Opportunity
Officer**

Robert J. Cannon

Internal Auditor

Phyllis C. Petree

**Assistant to the
Chancellor & Senior
University Counsel**

Susan H. Ehringhaus

Provost

Richard J. Richardson

Executive Vice Chancellor

Elson S. Floyd

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, 1996

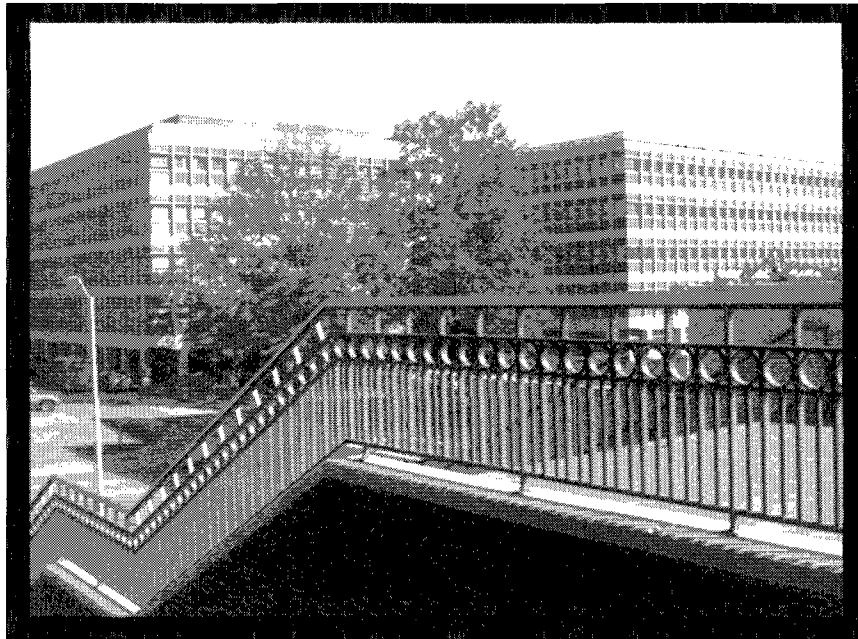
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



Linda K. Savitsky
President

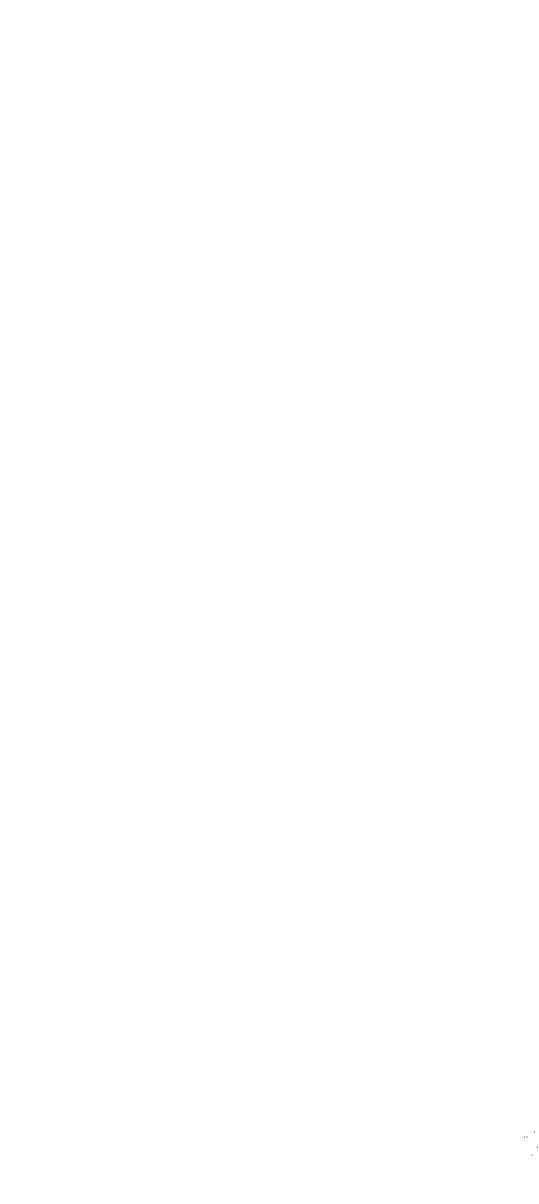
Jeffrey L. Esser
Executive Director

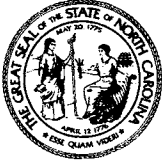
financial section



"It has been very exciting to watch Tarrson Hall from its start to almost-finished stage. As a student and graduate teaching assistant, I have experienced clinic chair availability problems firsthand. The clinical space that Tarrson Hall creates will provide UNC dental students with cutting edge technology as well as relief in clinical scheduling."

—MARIE COLLINS, GRADUATE TEACHING ASSISTANT IN THE SCHOOL OF DENTISTRY





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, 1997 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, 1997, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, The University of North Carolina at Chapel Hill implemented Governmental Accounting Standards Board Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, during the year ended June 30, 1997.

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 14, 1997



Balance Sheet *June 30, 1997*

	CURRENT FUNDS		
	General	Proprietary	Restricted
Assets			
Cash and Cash Equivalents (Note 1E and 2)	\$50,149	\$105,821	\$97,078
Investments (Note 1F and 2)	43,918	169,482	66,779
Accounts Receivable-Students	1,068	832	
Accounts Receivable-Patients (Net)(Note 1H)		31,996	
Due from Federal Government			20,371
Accrued Investment Earnings	2,718	769	213
Other Receivables	3,080	3,945	9,667
Due from Other Funds	19,462	186	
Due from State Agencies	1,591	1,085	2,303
Student Loans Receivable (Net) (Note 1H)			
Inventories (Note 1I)	1,548	12,800	66
Prepaid Expenses		74	1
Land and Improvements			
Furniture and Equipment			
Buildings and Fixed Equipment			
Other Structures and Improvements			
Artworks and Literature			
Construction-In-Progress			
Total Assets	\$123,534	\$326,990	\$196,478
Liabilities and Fund Equity			
Liabilities			
Accounts Payable	\$2,936	\$5,056	\$6,236
Accrued Payroll	13,568	5,999	6,099
Claims Payable		16,150	
Other Payables	195		
Contracts Payable-Retainage			
Due to State Agencies	68	400	191
Due to Other Funds	186	16,518	16,907
Deposits Payable	7,581	561	
Interest Payable			
Accrued Vacation Leave	18,521	8,727	8,565
Deferred Revenue	1,042	4,886	
Notes Payable (Note 8)			
Bonds Payable (Note 3)			
Obligations Under Reverse Repurchase Agreements	414	62,500	10,000
Obligations Under Securities Lending Transactions	18,586	51,929	54,408
Arbitrage Liability			
Unamortized Bond Discount			
Funds Held for Others			
Total Liabilities	63,097	172,726	102,406
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			94,072
Unrestricted	60,437	154,264	
Total Fund Equity	60,437	154,264	94,072
TOTAL LIABILITIES & FUND EQUITY	\$123,534	\$326,990	\$196,478

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

The University of North Carolina at Chapel Hill
June 30, 1997 (in thousands)

FIDUCIARY FUNDS			PLANT FUNDS		
Loan	Endowment & Similar Funds	Agency	Unexpended	Debt Service	Investment in Plant
\$6,388	\$36,100	\$87,276	\$82,552	\$1,062	
5,096	414,477	268,697	76,320	25,228	
31	3		182	1,979	
	311	148		13,963	
31,397				699	
					\$7,131
					162,550
					658,390
					40,415
					201,997
					143,265
\$42,912	\$450,891	\$356,121	\$159,054	\$42,931	\$1,213,748
	3,047		\$7,594		
		\$10,868			
	2,168				
			3,326		
				\$3,493	
					\$94
			37,006	15,203	220,662
	48,739	83,333			
3,855	20,885	42,262	49,843	641	
			222		
				(2,860)	
		219,658			
3,855	74,839	356,121	97,991	16,477	220,756
					992,992
28,529					
	270,991				
	48,704				
	43,476				
	12,881				
				2,714	
				15,225	
10,124			57,951	1,062	
404			3,112	7,453	
39,057	376,052	0	61,063	26,454	992,992
\$42,912	\$450,891	\$356,121	\$159,054	\$42,931	\$1,213,748

Statement of Changes in Fund Equity

	CURRENT FUNDS		
	Unrestricted		Restricted
	General	Proprietary	
Revenues and Other Additions			
State Appropriations	\$331,650		
Tuition and Fees	102,277		
Federal Contracts and Grants	48,759		\$222,392
State Contracts and Grants	1,072		28,093
Private Gifts, Contracts and Grants	4,308	\$1,015	68,626
Sales and Services	3,824	251,769	
Endowment Income	3,590		7,056
Investment Earnings	7,224	11,754	6,032
Realized Gain on Sale of Investments	185		3
Expended for Plant Facilities			
Retirement of Indebtedness			
Proceeds of Debt Refunding			
Other Revenues and Additions	3,493	5,738	6,946
Total Revenues and Other Additions	506,382	270,276	339,148
Expenditures and Other Deductions			
Educational and General	500,636		283,039
Auxiliary Enterprises		96,674	
Internal Service		4,882	
Professional Clinical Services		116,393	
Indirect Costs Recovered			52,529
Refunded to Grantors			804
Administrative and Collection Costs, Loan Cancellations, and Bad Debts			
Expended for Plant Facilities			
Retirement of Indebtedness			
Interest on Indebtedness			
Disposal of Plant Facilities			
Securities Transaction Fees	165	2,463	2,585
Realized Loss on Sale of Investments	456		
Payment to Escrow Agent			
Other Expenditures and Deductions			
Total Expenditures and Other Deductions	501,257	220,412	338,957
Excess of Revenues Over (Under) Expenditures	5,125	49,864	191
Transfers - Additions (Deductions)			
Mandatory Transfers	(664)	(28,318)	(25)
Non-Mandatory Transfers	5,138	(16,361)	1,524
Interinstitutional Transfers	(3,064)	(55)	(128)
Net Transfers	1,410	(44,734)	1,371
Net Increase in Fund Equity	6,535	5,130	1,562
Fund Equity July 1, 1996 as Restated (Note 12)	53,902	149,134	92,510
Fund Equity June 30, 1997	\$60,437	\$154,264	\$94,072

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

The University of North Carolina at Chapel Hill
 Year Ended June 30, 1997 (in thousands)

FIDUCIARY FUNDS		PLANT FUNDS		
Loan	Endowment & Similar Funds	Unexpended	Debt Service	Investment in Plant
		\$30,149		
\$10	\$15,798	26,672		\$579
50	3,749			
1,268		1,724	\$1,493	
120	60,654		310	
				99,850
				10,624
			11,856	
172	1,661	774		13
1,620	81,862	59,319	13,659	111,066
		502		
573		67,793		
			10,624	
			13,847	
				8,555
183	992	736	30	
	829			
			11,856	
	2,424			429
756	4,245	69,031	36,357	8,984
864	77,617	(9,712)	(22,698)	102,082
26		(139)	29,120	
143	(5,239)	15,151	(356)	
169	(5,239)	15,012	28,764	0
1,033	72,378	5,300	6,066	102,082
38,024	303,674	55,763	20,388	890,910
\$39,057	\$376,052	\$61,063	\$26,454	\$992,992

Statement of Current Funds Revenues, Expenditures and Other Changes

The University of North Carolina at Chapel Hill
Year Ended June 30, 1997 (in thousands)

	<i>Unrestricted</i>			Restricted	Total Current Funds
	General	Proprietary	Total		
Revenues					
State Appropriations	\$331,650		\$331,650		\$331,650
Tuition and Fees	102,277		102,277		102,277
Federal Contracts and Grants	48,759		48,759	\$172,789	221,548
State Contracts and Grants	1,072		1,072	25,330	26,402
Private Gifts, Contracts and Grants	4,308	\$1,015	5,323	72,966	78,289
Sales and Services	3,824	251,769	255,593		255,593
Endowment Income	3,590		3,590	11,954	15,544
Investment Earnings	7,224	11,754	18,978	2,585	21,563
Realized Gain on Sale of Investments	185		185		185
Other Revenues	3,493	5,738	9,231		9,231
Total Current Revenues	506,382	270,276	776,658	285,624	1,062,282
Expenditures					
Educational and General					
Instruction	254,648		254,648	98,063	352,711
Organized Research	22,423		22,423	130,055	152,478
Public Service	43,798		43,798	26,308	70,106
Academic Support	49,564		49,564	4,099	53,663
Student Services	11,378		11,378	385	11,763
Institutional Support	41,287		41,287	2,818	44,105
Physical Plant Operations	59,618		59,618	606	60,224
Student Financial Aid	17,920		17,920	20,705	38,625
Total Educational and General	500,636	0	500,636	283,039	783,675
Auxiliary Enterprises		96,674	96,674		96,674
Internal Service		4,882	4,882		4,882
Professional Clinical Services		116,393	116,393		116,393
Securities Transaction Fees	165	2,463	2,628	2,585	5,213
Realized Loss on Sale of Investments	456		456		456
Total Expenditures	501,257	220,412	721,669	285,624	1,007,293
Transfers and Additions/(Deductions)					
Excess of Restricted Receipts over					
Transfers to Revenues					
Refunded to Grantors					
Mandatory Transfers	(664)	(28,318)	(28,982)	(804)	(29,007)
Non-Mandatory Transfers	5,138	(16,361)	(11,223)	1,524	(9,699)
Interinstitutional Transfers	(3,064)	(55)	(3,119)	(128)	(3,247)
Net Increase in Fund Equity	\$6,535	\$5,130	\$11,665	\$1,562	\$13,227

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. (Foundation) and The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund) are reported as if they were part of the University. The Foundation's 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 while the Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support 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 Investment Fund is governed by a board consisting of nine ex officio directors and one or two elected directors. The 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, in addition to five members of the Board of Trustees of the Endowment Fund of the University of North Carolina at Chapel

Hill. The Foundation Board may, in its discretion, elect one or two of its at-large members to the Investment Fund Board.

The financial statements of the Foundation and the Investment Fund have been blended with those of the University. Separate financial statements for the Foundation and Investment Fund 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. Securities Lending:

The University implemented GASB Statement 28, Accounting and Financial Reporting for Securities Lending Transactions, this fiscal year. In accordance with that Statement, the University recognizes its portion of securities lending transactions that are held in the State Treasurer's "Securities Lending Collateral Investment Pool" (included in the Investments caption) as an asset and an equal amount as "Obligations Under Securities Lending Transactions". Under this method there is no effect on beginning or ending fund balances. In addition, the portion of the income and costs arising from pooled securities lending transactions are reported as "Securities Lending Income" (included in the Investment Earnings caption) and "Securities Transactions Fees". These amounts offset and have no effect on the fund balances.

H. 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 \$25,730,000, \$224,000, and \$1,065,000 respectively. The accounts and notes receivable for other funds are shown at book value with no provision for doubtful accounts considered necessary.

I. 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.

J. 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.

K. 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.

L. 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.

Note 2: Deposits and Investments

A. Deposits:

North Carolina General Statutes require that all cash be deposited with the North Carolina State Treasurer, except for 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.

Deposits include cash and cash equivalents and certificates of deposit totaling \$469,618,000. Cash and cash equivalents consists of cash on hand, cash on deposit with the State Treasurer, and commercial bank accounts. At year-end, cash on hand was \$56,000. The carrying amount of the University's deposits with the State Treasurer was \$416,699,000, and the bank balance was \$439,424,000. 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 consists of cash and cash equivalents totaling \$49,671,000 and certificates of deposit of \$3,192,000. The bank balance for these deposits was \$13,094,000 of which \$2,291,000 was covered by federal depository

tory insurance or by collateral held by the University's agent in the University's name, and \$10,803,000 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 ratings; obligations of any company, other organization or legal entity bearing specified ratings; notes secured by mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration on real estate located within the State of North Carolina; limited partnership interest in partnerships which are managed primarily for the purpose of investment in venture capital or corporate buy-out 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 \$8,374,000.

All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the University's policy is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. Such matching existed at year-end.

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, 1997 were:

	Market Value	(in thousands) Book Value
Investments by Fund Type:		
Endowment	\$336,544	\$285,382
Quasi Endowment Unrestricted	62,794	56,832
Quasi Endowment Restricted	65,868	55,891
Annuity and Life Income Funds	20,831	16,372
Total	\$486,037	\$414,477
Pooled and Non-pooled:		
Money Market	\$12,288	\$12,288
Equities	246,685	197,920
Fixed Income	148,416	146,965
Other	78,648	57,304
Total	\$486,037	\$414,477

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, 1997 is presented below.

	<i>(in thousands)</i>				
	1	Category 2	3	Carrying Amount	Market Value
Categorized Investments:					
U. S. Government Securities	\$61,061	\$1,074	\$0	\$62,135	\$64,525
Collateralized Mortgage Obligations	6,147	0	0	6,147	6,039
State and Municipal Securities	18,115	0	0	18,115	18,731
Corporate Bonds	22,671	1,693	0	24,364	24,363
Corporate Stock	165,099	516	1,172	166,787	208,902
International Stocks	59,399	0	0	59,399	80,409
Total Categorized Investments	\$332,492	\$3,283	\$1,172	\$336,947	\$402,969
Investments Not Categorized:					
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements					
U.S. Government Securities				121,176	121,721
Collateralized Mortgage Obligations				80,727	81,192
Corporate Bonds				10,637	10,078
Money Market Funds				76,320	76,320
Mutual Funds				119,331	126,905
Real Estate				9,680	9,680
Certificates of Deposit				3,192	3,192
Limited Partnerships				53,376	83,370
Real Estate Investment Trusts				14,757	15,322
Securities Lending Collateral Investment Pool				242,409	242,409
Other Investments				1,445	1,445
Total Investments Not Categorized				\$733,050	\$771,634
Total Investments				\$1,069,997	\$1,174,603

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

Securities Lending: Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its cash investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The State Treasurer's securities custodian manages the securities lending program. During the year the custodian lent U.S. government securities, corporate bonds, notes, and common stock for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

The University's portion of the equity in the State Treasurer's cash investment pools is a component of the deposit totals reported in the deposits section of this note. The University's portion of the cash collateral held by the State Treasurer's securities custodian at year-end are presented as unclassified in the preceding schedule of investment custodial credit risk. However, the University's portion of the securities collateral held by the State Treasurer's securities custodian at year end are not recorded in the accompanying financial statements or presented in the preceding schedule of investment custodial credit risk because the State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the securities custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral

investments do not differ materially from the average maturity of the securities lent. While cash can be invested in securities ranging from overnight up to two years, the securities custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At June 30, 1997, the weighted average maturity of unmatched investments was approximately one week.

At year-end, the value of the securities held by the securities custodian agent exceeded the value of the securities loaned by the State Treasurer. Under this condition, there is no credit risk exposure to the State Treasurer. The securities custodian is contractually obligated to indemnify the State Treasurer for certain conditions, the two most important include indemnity on a default by the borrowers to return the securities lent and on a failure by the borrowers to maintain collateral with the securities custodian agent equal to 100% of the market value of the securities lent.

The University believes it is in compliance with all legal, regulatory or contractual provisions including the investment policy of the University, its component units, 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 (PHLMC, FNMA), private trusts and private corporations. The securities held by the University as of June 30, 1997, 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, FHLMC and corporate REMIC issuers. 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, 1997, 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, 1997, 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, 1997, the futures held by the University had an unrealized gain of \$117,882.

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, 1997, the futures contracts held by the University had expiration dates not exceeding September 1997.

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, 1997, the University had no outstanding option transactions.

During the year ending June 30, 1997, 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.

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 available alternative investment opportunities and to diversify its asset holdings. These investments generally include equity and bond funds. Certain of these investments expose the University to significant amounts of market risk by trading or holding derivative securities and by leveraging the securities in the fund. The book value of these investments reflects their cost.

The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes. The fund investments which utilize derivative securities for the fiscal year ending June 30, 1997, 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 University's net book value in the GMO Trust as of June 30, 1997, is as follows:

Total funds invested in GMO Trust portfolios	\$79,907,537
Less: Amounts due to private foundations	<u>(22,462,009)</u>
Net University & Foundation funds invested	<u>\$57,445,528</u>

The University's net holdings in the GMO Trust represent approximately 8.59% of its total investments.

2. 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 five 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, 1997, is as follows:

Total funds invested in BlackRock	\$40,046,794
Less: Amounts due to private foundations	<u>(7,877,035)</u>
Net University and Foundation funds invested	<u>\$32,169,759</u>

The University's net holdings in BlackRock represent approximately 4.81% 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, 1997, is as follows:

Total funds invested in Oppenheimer fund	\$22,300,000
Less: Amounts due to private foundations	<u>(6,268,530)</u>
Net University and Foundation funds invested	<u>\$16,031,470</u>

The University's net holdings in Oppenheimer fund represent approximately 2.40% of its total investments.

4. 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 contracts. The

University's net book value in the Jaguar Fund as of June 30, 1997, is as follows:

Total funds invested in the Jaguar fund	\$11,668,915
Less: Amounts due to private foundations	<u>(2,898,558)</u>
Net University and Foundation funds invested	<u>\$ 8,770,357</u>

The University's net holdings in the Jaguar Fund represent approximately 1.31% of its total investments.

5. Bulldog Capital Partners, L.P.: The firm seeks to construct a portfolio of small to mid capitalization stocks through bottom-up fundamental research combined with top-down technical analysis. Typically, the partnership is focused on companies with market capitalizations under \$500 million which have significant profit potential, generally 25%-50%, depending on the time and risk involved. Core positions are augmented with trading positions where the holding period may vary from one day to several weeks. These positions are taken in response to changes observed in the overall market or specific sectors. The partnership will hold approximately 60 to 80 positions with only a few positions of over 5%. Net market exposure typically ranges from 30% to 60%, but is not limited to that. Moderate leverage is utilized to enhance positions prospects. The University's net book value in Bulldog Capital Partners as of June 30, 1997, is as follows:

Total funds invested in Bulldog Capital Partners	\$ 5,000,000
Less: Amounts due to private foundations	<u>(1,242,000)</u>
Net University and Foundation funds invested	<u>\$ 3,758,000</u>

The University's net holdings in Bulldog Capital Partners represent approximately 0.56% of its total investments.

6. Feirstein Partners, L.P.: The Partnership invests primarily in U.S. equity markets looking for significant changes in companies and industries that have not been recognized by the market. The Partnership may take long or short positions in securities, and can hedge the portfolio using options, futures, and other similar derivatives. Portfolios typically contain over 100 positions. Net exposure can range between 100% long and 100% short. Leverage is used. The University's net book value in Feirstein Partners as of June 30, 1997, is as follows:

Total funds invested in Feirstein Partners	\$ 5,000,000
Less: Amounts due to private foundations	<u>(1,242,000)</u>
Net University and Foundation funds invested	<u>\$ 3,758,000</u>

The University's net holdings in Feirstein Partners represent approximately 0.56% of its total investments.

7. 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, 1997, is as follows:

Total funds invested in the No Margin L.P.	\$ 3,000,000
Less: Amounts due to private foundations	<u>(745,200)</u>
Net University and Foundation funds invested	<u>\$ 2,254,800</u>

The University's net holdings in the No Margin L.P. represent approximately 0.34% of its total investments.

8. 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, 1997, is as follows:

Total funds invested in Pequot L.P.	\$ 2,368,865
Less: Amounts due to private foundations	<u>(588,426)</u>
Net University and Foundation funds invested	<u>\$ 1,780,439</u>

The University's net holdings in the Pequot L.P. represent approximately 0.27% of its total investments.

9. 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, 1997, is as follows:

Total funds invested in the Raptor Fund	\$ 2,334,684
Less: Amounts due to private foundations	<u>(579,936)</u>
Net University and Foundation funds invested	<u>\$ 1,754,748</u>

The University's net holdings in the Raptor Fund represent approximately 0.26% of its total investments.

Note 3: Interfund Receivables and Payables

Due From/To Other Funds as of June 30, 1997 are summarized below (in thousands):

Due From	Due To			Total Due From
	Unrestricted General	Proprietary Funds	Debt Service Funds	
Unrestricted General Funds		186		186
Proprietary Funds	2,555		13,963	16,518
Restricted Funds	16,907			16,907
Total Due To	\$19,462	\$186	\$13,963	\$33,611

The above includes amounts related to capital appreciation bonds that are not currently payable.

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 multiple-employer, cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

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 1.75% 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 year ended June 30, 1997. Benefit and contribution provisions are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

For the year ended June 30, 1997, the University had a total payroll of \$527,949,000 of which \$260,457,000 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$15,627,000 and \$21,227,000, respectively. The University has no pension plan obligations beyond the required matching contributions already paid into the System. The University made one hundred percent of its required contributions for the years ended June 30, 1997, 1996, and 1995, which were \$21,227,000, \$20,010,000, and \$20,673,000, respectively.

The Teachers' and State Employees' Retirement System is included in the State of North Carolina Comprehensive Annual Financial Report. A copy of the North Carolina CAFR may be obtained from the Financial Reporting Section, North Carolina Office of State Controller, 3512 Bush Street, Raleigh, North Carolina 27609-7509, or by calling (919) 981-5454.

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 contribu-

ry 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, 1997, the University had a total payroll of \$527,949,000 of which \$167,566,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$10,054,000 and \$11,160,000, 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 \$274,000 for the year ended June 30, 1997.

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, a defined contribution 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, 1997 were \$55,000. The voluntary contributions by employees amounted to \$1,067,000 for the year ended June 30, 1997.

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 \$13,952,000 for the year ended June 30, 1997.

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, 1997, the University's total contribution for postemployment health care benefits was \$8,560,000. 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 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, 1997, the University's total contribution to the Plan was \$2,226,000. 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 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, 1997, the University's total contribution to the Trust Fund was \$417,000. 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 Comprehensive Annual Financial Report.

Note 6: Changes in Fixed Assets

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

	Balance 06/30/96	Additions	Deletions	(in thousands) Balance 06/30/97
Land and Improvements	\$6,439	\$692		\$7,131
Furniture and Equipment	149,645	20,849	\$7,944	162,550
Buildings and Fixed Equipment	638,745	19,770	125	658,390
Other Structures and Improvements	40,161	254		40,415
Artworks and Literature	193,023	9,492	518	201,997
Construction in Progress	75,495	67,770		143,265
Total Fixed Assets	\$1,103,508	\$118,827	\$8,587	\$1,213,748

Note 7: Commitments and Contingencies

A. Construction Commitments:

The University had commitments of \$60,414,000 for various capital improvement projects that include construction of a new parking deck, construction and completion of new buildings, renovation of Kenan Stadium, and renovations of existing buildings. These commitments are funded by bond proceeds of \$14,990,000, State appropriations of \$25,210,000, University funds of \$19,964,000 and other outside sources in the amount of \$250,000.

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 has been submitted in the amount of \$3,400,000. 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.

The University is currently under audit by the Internal Revenue Service. Historically, similar audits at other universities have resulted in significant assessments against those universities. Since the current audit is in its early stages, the amount of such assessments, if any, against the University is unknown.

Note 8: Long-term Debt

The University was indebted for notes payable in the amount of \$94,000 at June 30, 1997 for the purposes shown in the following table.

<i>(in thousands)</i>					
Purpose	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 06/30/97	Principal Outstanding 06/30/97
Food Service	62% of prime	Aug. 22, 1997	\$4,500	\$4,406	\$94
Total Notes Payable			\$4,500	\$4,406	\$94

The University was indebted for bonds payable in the amount of \$272,871,000 at June 30, 1997 for the purposes shown in the following table.

<i>(in thousands)</i>							
Purpose	Series	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 6/30/97	Accretion on Capital Appreciation Bonds	Principal Outstanding 6/30/97
Student Family Housing	"A"	3.500%	Sept. 1, 2002	\$995			
	"B"	3.000%	Sept. 1, 1998	1,942			
Total Student Family Housing				2,937	\$2,515		\$422
Dormitory System	"E"	2.875%	Nov. 1, 2000	985			
	"F"	3.000%-					
		3.750%	Nov. 1, 2003	2,544			
	"G"	3.000%	Nov. 1, 2005	3,000			
Total Dormitory System	1991	5.400%-					
		6.400%	Nov. 1, 2011	9,830			
				16,359	5,556		10,803
Utility System	1993	4.000%-					
		6.000%	Aug. 1, 2011	108,455			
	1992	3.000%-					
		6.800%	Aug. 1, 2021	22,827		\$7,782	
Total Utility System				131,282	15,944	7,782	123,120
Parking System	1997A	4.350%-					
		5.700%	May 15, 2027	11,750			
	1997B	3.900%-					
		5.150%	May 15, 2009	8,245			
	1997C	Variable	May 15, 2027	10,750			
Total Parking System				30,745			30,745
Student Union	1967	3.000%	Nov. 1, 2007	2,000	1,180		820
Kenan Memorial Stadium	1996	Variable	Nov. 1, 2016	13,800			13,800
Ambulatory Care Facility	1990	Variable	July 1, 2012	20,000	2,300		17,700
Amb. Care Fac. Equipment	1992	Variable	Oct. 1, 2002	3,000	1,700		1,300
Student Recreation Center	1991	5.300%-					
		7.000%	June 1, 2011	4,665	745		3,920
U.S. EPA Project, Series 1991	1991	8.250%-					
		9.250%	Feb. 15, 2015	36,679	2,695	2,687	36,671
U.S. EPA Project, Series 1996	1996	6.720%	Feb. 15, 2006	2,400			2,400
Carolina Inn	1994	Variable	Nov. 15, 2019	13,475			13,475
School of Dentistry	1995	Variable	Sept. 1, 2010	4,000			4,000
Dining System	1997	5.200%-					
		5.400%	May 15, 2017	13,695			13,695
Total Bonds Payable				\$295,037	\$32,635	\$10,469	\$272,871

The schedule below shows the annual requirements to pay principal and interest on the long-term obligations at June 30, 1997.

<i>(in thousands)</i>		
Annual Requirements (Principal and Interest)		
Fiscal Year	Revenue Bonds	Notes
1998	\$21,650	\$0
1999	22,498	0
2000	23,514	0
2001	23,526	0
2002	23,155	0
2003-2007	115,210	0
2008-2012	108,744	0
2013-2017	87,319	0
2018-2022	59,652	0
2023-2027	7,787	0
Total Requirements	\$493,055	\$0

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.

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, 1997, the earliest such termination date is December 27, 1997. 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, 1997, the letter of credit terminates on July 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.

Kenan Stadium, Series 1996: In 1996 the University issued variable rate demand bonds in the amount of \$13,800,000 that have a final maturity date of November 1, 2016. The bonds are subject to mandatory sinking fund redemption that begins on November 1, 1998. The proceeds of this issuance were used for certain additions and renovations to Kenan Memorial Stadium. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, NationsBank, 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 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 November 5, 1997, subject to automatic extension of successive calendar months until the fifth day of the thirteenth month following notice of non-extension from the credit provider.

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 .30% of the stated amount of the line of credit then in effect.

Parking System, Series 1997C: In 1997 the University issued variable rate demand bonds in the amount of \$10,750,000 that have a final maturity date of May 15, 2027. The bonds are subject to mandatory sinking fund redemption that begins on May 15, 2000. The proceeds of this issuance are to be used for the con-

struction of the Health Affairs parking deck adjacent to UNC Hospitals on the campus of the University. The bonds are subject to purchase on demand with seven days notice and delivery to the University's paying agent, The Bank of New York. Smith Barney is the remarketing agent.

The University has arranged for a standby bond purchase agreement with NationsBank, N.A., whereby the bank agrees to purchase 1997C bonds when remarketing proceeds are not available. This liquidity facility provides moneys only with respect to the purchase price of the bonds and does not otherwise secure payment of 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 364 days following notice of non-extension from the credit provider. As of June 30, 1997 the earliest such termination date is June 29, 1998.

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 \$27,121,000 and \$6,516,000, respectively, which is the accreted value at June 30, 1997. 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, 1997 the outstanding balance of the defeased Carolina Inn bonds was \$100,000.

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 were called and redeemed. At June 30, 1997 the outstanding balance of the defeased Utility System bonds was \$0.

Kenan Stadium: On November 7, 1996 the University issued \$13,800,000 in Kenan Memorial Stadium Variable Rate Demand Revenue Bonds, Series 1996. The refunding component of this bond issue was used to defease \$3,650,000 of outstanding Kenan Memorial Stadium Variable Rate Demand Revenue Bonds, Series 1988. Net proceeds of \$13,689,000 resulted from the bond sale. \$3,692,000 of the net proceeds, combined with \$68,000 of Series 1988 reserve assets, were used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for the refunding of the

defeased bonds, which occurred on February 4, 1997. For financial reporting purposes, the refunding of the defeased bonds is not included in the statement of changes in fund equity. As both bond series are variable interest rate issues with essentially the same future interest rates, the cumulative effect on the University's future debt service requirements is not material with respect to the defeased and refunded bonds.

Parking System: On June 19, 1997 the University issued \$8,245,000 in Parking System Refunding Revenue Bonds, Series 1997B with an average interest rate of 4.97%. The refunding component of this bond issue was used to defease \$9,100,000 of outstanding Parking System Revenue Bonds, Series B (1989), with a combined average interest rate of 6.48%. Net proceeds of \$8,167,000 resulted from the bond sale. \$8,164,000 of the net proceeds, combined with \$1,285,000 of Series B (1989) reserve assets, were used to purchase U. S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University reduced its debt service requirements by \$2,311,000 over the next 12 years and obtained an economic gain of \$381,000. At June 30, 1997 the outstanding balance for the defeased Parking System Revenue Bonds, Series B (1989) was \$9,100,000.

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, 1997:

Fiscal Year	Operating Leases	(in thousands) Capital Leases
1998	\$3,767	\$ 0
1999	2,657	
2000	2,037	
2001	1,766	
2002	702	
Thereafter	249	
Minimum Lease Payments	\$11,178	0
Present Value of Future Lease Payments		\$ 0
Total rental expense for operating leases for the year ended June 30, 1997	\$6,345	

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 agree-

ment 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, 1997, 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 individual 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 \$11 million public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the University directly to the insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses for all operations supported by the State's General Fund is provided at no cost to the University. Other operations not supported by the State's General Fund are charged for fire coverage. The University also purchased through the Fund extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft and "all risks" for buildings and contents. The Fund charges premiums for this coverage discounted from industry manual rates. The Fund generally insures fire losses up to \$1.1 million and extended coverage losses up to \$100,000 per building and \$500,000 per occurrence. All losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft that carries a \$1,000 per occurrence deductible. The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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. Through June 30, 1993, the Trust Fund provided coverage to the program participants with no stated limitation either per occurrence or in the aggregate; however, any benefits payable by the Trust Fund are limited to the extent of its assets or the extent of other funding sources. Subsequent to June 30, 1993, the Trust Fund limits the coverage per occurrence to \$5 million 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 necessary amounts up to \$30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. Claims liabilities are recomputed annually based upon an independent actuary's study to produce current estimates that reflect recent settlements,

claims frequency, inflation, and other factors. Participant assessments are determined at a level to fund claims liabilities, discounted for future investment earnings. Each participant is required by statute to maintain a fund balance of \$100,000 at all times. Participants are subject to additional premium assessments in the event of deficiencies. Participants do not receive dividends or other distributions from the Fund if the actuarial study indicates that excess funds are on deposit.

Disclosures relative to the funding status and obligations of the Trust Fund are set forth in the Audited Financial Statements of the Liability Insurance Trust Fund for the years ended June 30, 1997 and 1996. Copies of this report may be obtained from The University of North Carolina Liability Insurance Trust Fund, 6001 East Wing, University of North Carolina Hospitals, 101 Manning Drive, Chapel Hill, North Carolina 27514, or by calling (919) 966-3041.

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 million per occurrence. The University is charged premiums to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

The University is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is handled by the State Department of Insurance with coverage of \$5 million 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 of \$25,000 to \$50,000 is provided to eligible workers. This self insured death benefit is administered by the State Treasurer's Office and funded via employer contributions, as more fully described in Note 5c.

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

Note 12: Prior Period Adjustment

As a result of review during the current reporting period, some fund equity balances as of July 1, 1996 are restated for certain accounting changes or adjusted for the correction of errors in the reported balances of the fiscal year ended June 30, 1996. The following table summarizes these changes as they appear in the accompanying financial statements.

	Debt Service	<i>(in thousands)</i> Investment in Plant
Fund Balance June 30, 1996		
as Previously Reported	\$10,833	\$902,856
Restatement - Utilities Bonds	1,676	(10,617)
Restatement - EPA Bonds	6,550	
Restatement - ACC Bonds	1,019	(1,019)
Restatement - Parking Bonds	310	(310)
Total Restatement	9,555	(11,946)
Fund Balance July 1, 1996		
as Restated	\$20,388	\$890,910

Note 13: Subsequent Events

On October 30, 1997 The Board of Governors of the University of North Carolina issued The University of North Carolina at Chapel Hill Housing System Revenue Bonds, Series 1997A, in the amount of \$9,170,000, and The University of North Carolina at Chapel Hill Housing System Revenue Refunding Bonds, Series

1997B, in the amount of \$7,210,000. The bonds, together with the remaining unrefunded Housing System Series 1991 Bonds, are limited obligations of the University payable solely from net revenues of the Housing System after payment of the debt service on the Dormitory System Bonds, Series A-F of 1963. The series 1997A and 1997B bonds mature in varying amounts beginning in fiscal year 1999 and ending in fiscal year 2018. Proceeds from the 1997A series will be used to renovate the Aycock and Graham Residence Halls. Proceeds from the 1997B series will be used to refund \$6,630,000 of the Housing System Series 1991 bonds.

On October 30, 1997 The Board of Governors of the University of North Carolina issued The University of North Carolina at Chapel Hill Student Fee Revenue Refunding Bonds, Series 1997, in the amount of \$3,545,000. The bonds are limited obligations of the University payable solely from revenues derived from the Student Indebtedness Fee. The bonds mature in varying amounts beginning in fiscal year 1998 and ending in fiscal year 2011. Proceeds from the bonds will be used to refund \$3,140,000 of the Student Fee Bonds, Series 1991.

On October 30, 1997 The Board of Governors of the University of North Carolina issued The University of North Carolina at Chapel Hill Utilities System Revenue Refunding Bonds, Series 1997, in the amount of \$30,379,142. The bonds are limited obligations of the University payable solely from net revenues derived from the Utilities System. The bonds mature in varying amounts beginning in fiscal year 2013 and ending in fiscal year 2022. Proceeds from the bonds will be used to refund \$19,337,370 of the Utilities System Bonds, Series 1992.

statistical section



"I was amazed at their [Carolina alumni] generosity in funding this facility [Kenan Stadium renovations]. Then when I learned the same people gave three times as much to academics,



I got a better feel for what the University means to people in this state. Our alumni are proud of their school and want it to be the best, academically and athletically."

—MACK BROWN,
HEAD FOOTBALL COACH

Current Funds Revenues by Source

(in thousands)

	For the Year Ended June 30				
	1997	1996	1995	1994	1993
Current Funds Revenues					
State Appropriations	\$331,650	\$308,245	\$302,337	\$283,826	\$270,700
Tuition and Fees	102,277	88,478	81,465	75,531	66,718
Federal Contracts and Grants	221,548	219,878	208,802	190,534	172,288
State Contracts and Grants	26,402	24,607	26,394	22,696	17,948
Private Gifts, Contracts and Grants	78,289	74,174	67,668	64,146	60,820
Sales and Services	255,593	233,888	224,600	210,767	187,390
Endowment Income	15,544	13,599	13,798	11,895	9,212
Investment Earnings	21,563	13,998	12,504	13,047	12,887
Realized Gain on Sale of Investments	185	1,276	222	701	1,647
Other Revenues	9,231	6,526	5,679	4,246	4,632
Total Current Funds Revenues	\$1,062,282	\$984,669	\$943,469	\$877,389	\$804,242

	For the Year Ended June 30				
	1997	1996	1995	1994	1993
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	31.2	31.3	32.1	32.3	33.7
Tuition and Fees	9.6	9.0	8.6	8.6	8.3
Federal Contracts and Grants	20.8	22.3	22.1	21.7	21.4
State Contracts and Grants	2.5	2.5	2.8	2.6	2.2
Private Gifts, Contracts and Grants	7.4	7.5	7.2	7.3	7.6
Sales and Services	24.1	23.8	23.8	24.0	23.3
Endowment Income	1.5	1.4	1.5	1.4	1.1
Investment Earnings	2.0	1.4	1.3	1.5	1.6
Realized Gain on Sale of Investments	0.0	0.1	0.0	0.1	0.2
Other Revenues	0.9	0.7	0.6	0.5	0.6
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				
	1992	1991	1990	1989	1988
Current Funds Revenues					
State Appropriations	\$255,003	\$257,219	\$252,585	\$239,732	\$230,780
Tuition and Fees	60,247	50,221	46,719	40,237	37,258
Federal Contracts and Grants	147,556	136,059	123,352	117,896	105,266
State Contracts and Grants	15,498	13,518	9,614	7,807	6,191
Private Gifts, Contracts and Grants	58,892	53,685	49,754	43,227	38,433
Sales and Services	176,297	166,182	152,114	142,211	140,301
Endowment Income	8,040	6,851	7,307	5,177	4,683
Investment Earnings	13,508	11,750	11,647	9,138	8,576
Realized Gain on Sale of Investments	2,320	611	53	0	0
Other Revenues	3,847	3,312	2,539	1,029	1,304
Total Current Funds Revenues	\$741,208	\$699,408	\$655,684	\$606,454	\$572,792

	For the Year Ended June 30				
	1992	1991	1990	1989	1988
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	34.4	36.8	38.5	39.5	40.3
Tuition and Fees	8.1	7.2	7.1	6.6	6.5
Federal Contracts and Grants	19.9	19.5	18.8	19.4	18.4
State Contracts and Grants	2.1	1.9	1.5	1.3	1.1
Private Gifts, Contracts and Grants	8.0	7.7	7.6	7.1	6.7
Sales and Services	23.8	23.8	23.2	23.5	24.5
Endowment Income	1.1	0.9	1.1	0.9	0.8
Investment Earnings	1.8	1.7	1.8	1.5	1.5
Realized Gain on Sale of Investments	0.3	0.0	0.0	0.0	0.0
Other Revenues	0.5	0.5	0.4	0.2	0.2
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 (1988=100)

(in thousands)

	For the Year Ended June 30				
	1997	1996	1995	1994	1993
Current Funds Revenues					
State Appropriations	\$228,142	\$219,131	\$223,246	\$218,205	\$214,855
Tuition and Fees	70,356	62,899	60,154	58,068	52,954
Federal Contracts and Grants	152,403	156,311	154,179	146,483	136,745
State Contracts and Grants	18,162	17,493	19,489	17,449	14,245
Private Gifts, Contracts and Grants	53,855	52,730	49,966	49,315	48,273
Sales and Services	175,822	166,271	165,845	162,038	148,731
Endowment Income	10,693	9,668	10,188	9,145	7,312
Investment Earnings	14,833	9,951	9,233	10,031	10,228
Realized Gain on Sale of Investments	127	907	164	539	1,307
Other Revenues	6,350	4,639	4,193	3,264	3,676
Total Current Funds Revenues	\$730,743	\$700,000	\$696,657	\$674,537	\$638,326

	For the Year Ended June 30				
	1997	1996	1995	1994	1993
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	31.2	31.3	32.1	32.3	33.7
Tuition and Fees	9.6	9.0	8.6	8.6	8.3
Federal Contracts and Grants	20.8	22.3	22.1	21.7	21.4
State Contracts and Grants	2.5	2.5	2.8	2.6	2.2
Private Gifts, Contracts and Grants	7.4	7.5	7.2	7.3	7.6
Sales and Services	24.1	23.8	23.8	24.0	23.3
Endowment Income	1.5	1.4	1.5	1.4	1.1
Investment Earnings	2.0	1.4	1.3	1.5	1.6
Realized Gain on Sale of Investments	0.0	0.1	0.0	0.1	0.2
Other Revenues	0.9	0.7	0.6	0.5	0.6
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

Consumer Price Index	2.30	2.75	3.04	2.49	3.00
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The University of North Carolina at Chapel Hill
Last Ten Fiscal Years

(in thousands)

	For the Year Ended June 30				
	1992	1991	1990	1989	1988
Current Funds Revenues					
State Appropriations	\$210,046	\$219,819	\$227,731	\$227,338	\$230,780
Tuition and Fees	49,625	42,919	42,122	38,157	37,258
Federal Contracts and Grants	121,542	116,276	111,214	111,801	105,266
State Contracts and Grants	12,766	11,552	8,668	7,403	6,191
Private Gifts, Contracts and Grants	48,509	45,879	44,858	40,992	38,433
Sales and Services	145,216	142,019	137,146	134,859	140,301
Endowment Income	6,623	5,855	6,588	4,909	4,683
Investment Earnings	11,127	10,042	10,501	8,666	8,576
Realized Gain on Sale of Investments	1,911	522	48	0	0
Other Revenues	3,169	2,830	2,289	976	1,304
Total Current Funds Revenues	\$610,534	\$597,713	\$591,165	\$575,101	\$572,792

	For the Year Ended June 30				
	1992	1991	1990	1989	1988
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	34.4	36.8	38.5	39.5	40.3
Tuition and Fees	8.1	7.2	7.1	6.6	6.5
Federal Contracts and Grants	19.9	19.5	18.8	19.4	18.4
State Contracts and Grants	2.1	1.9	1.5	1.3	1.1
Private Gifts, Contracts and Grants	8.0	7.7	7.6	7.1	6.7
Sales and Services	23.8	23.8	23.2	23.5	24.5
Endowment Income	1.1	0.9	1.1	0.9	0.8
Investment Earnings	1.8	1.7	1.8	1.5	1.5
Realized Gain on Sale of Investments	0.3	0.0	0.0	0.0	0.0
Other Revenues	0.5	0.5	0.4	0.2	0.2
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

Consumer Price Index	3.09	4.70	4.67	5.17
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Current Funds *Expenditures and Mandatory Transfers by Function*

(in thousands)

	For the Year Ended June 30				
	1997	1996	1995	1994	1993
Current Funds Expenditures					
Instruction	\$352,711	\$326,546	\$301,323	\$278,587	\$253,662
Organized Research	152,478	156,034	154,817	140,586	130,570
Public Service	70,106	65,502	68,317	62,834	56,111
Academic Support	53,663	47,771	43,423	40,507	35,845
Student Services	11,763	10,986	9,998	9,191	8,585
Institutional Support	44,105	41,500	37,698	36,800	32,118
Physical Plant Operations	60,224	62,402	59,662	58,447	49,606
Student Financial Aid	38,625	31,479	29,595	28,030	26,997
Auxiliary Enterprises and Internal Services	101,556	89,946	89,532	80,587	85,774
Professional and Clinical Services	116,394	108,282	99,140	97,265	85,187
Other Expenditures and Deductions	5,669	1,027	1,391	4,125	1,197
Total Current Funds Expenditures	1,007,294	941,475	894,896	836,959	765,652
Current Funds Mandatory Transfers	29,007	24,084	20,758	21,158	18,140
Total Current Funds Expenditures and Mandatory Transfers	\$1,036,301	\$965,559	\$915,654	\$858,117	\$783,792

	For the Year Ended June 30				
	1997	1996	1995	1994	1993
	%	%	%	%	%
Current Funds Expenditures					
Instruction	34.0	33.8	32.9	32.5	32.4
Organized Research	14.7	16.2	16.9	16.4	16.7
Public Service	6.8	6.8	7.5	7.3	7.2
Academic Support	5.2	4.9	4.7	4.7	4.6
Student Services	1.1	1.1	1.1	1.1	1.1
Institutional Support	4.3	4.3	4.1	4.3	4.1
Physical Plant Operations	5.8	6.5	6.5	6.8	6.3
Student Financial Aid	3.8	3.3	3.2	3.3	3.4
Auxiliary Enterprises and Internal Services	9.8	9.3	9.8	9.4	10.9
Professional and Clinical Services	11.2	11.2	10.8	11.3	10.9
Other Expenditures and Deductions	0.5	0.1	0.2	0.4	0.1
Total Current Funds Expenditures	97.2	97.5	97.7	97.5	97.7
Current Funds Mandatory Transfers	2.8	2.5	2.3	2.5	2.3
Total Current Funds Expenditures and Mandatory Transfers	100.0	100.0	100.0	100.0	100.0

(percent of total current funds expenditures and mandatory transfers)

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

(in thousands)

	For the Year Ended June 30				
	1992	1991	1990	1989	1988
Current Funds Expenditures					
Instruction	\$241,956	\$241,058	\$233,975	\$213,214	\$198,813
Organized Research	115,014	103,139	94,499	88,618	79,474
Public Service	52,952	47,723	41,589	43,522	42,021
Academic Support	32,740	33,348	30,431	30,789	28,573
Student Services	7,624	7,345	7,288	6,643	6,075
Institutional Support	30,097	27,124	27,799	25,152	22,381
Physical Plant Operations	48,552	42,947	41,062	36,852	34,474
Student Financial Aid	23,715	20,123	19,390	18,192	16,411
Auxiliary Enterprises and Internal Services	73,199	75,882	72,033	69,200	70,259
Professional and Clinical Services	74,769	71,229	62,840	56,103	52,282
Other Expenditures and Deductions	345	401	143	0	0
Total Current Funds Expenditures	700,963	670,319	631,049	588,285	550,763
Current Funds Mandatory Transfers	9,066	16,046	15,251	5,110	4,058
Total Current Funds Expenditures and Mandatory Transfers	\$710,029	\$686,365	\$646,300	\$593,395	\$554,821

	For the Year Ended June 30				
	1992	1991	1990	1989	1988
	%	%	%	%	%
Current Funds Expenditures					
Instruction	34.1	35.1	36.2	35.9	35.8
Organized Research	16.2	15.0	14.6	14.9	14.3
Public Service	7.5	7.0	6.4	7.3	7.6
Academic Support	4.6	4.8	4.7	5.2	5.2
Student Services	1.1	1.1	1.1	1.1	1.1
Institutional Support	4.2	3.9	4.3	4.2	4.0
Physical Plant Operations	6.8	6.3	6.4	6.2	6.2
Student Financial Aid	3.3	2.9	3.0	3.1	3.0
Auxiliary Enterprises and Internal Services	10.3	11.1	11.1	11.7	12.7
Professional and Clinical Services	10.5	10.4	9.7	9.5	9.4
Other Expenditures and Deductions	0.1	0.1	0.1	0.0	0.0
Total Current Funds Expenditures	98.7	97.7	97.6	99.1	99.3
Current Funds Mandatory Transfers	1.3	2.3	2.4	0.9	0.7
Total Current Funds Expenditures and Mandatory Transfers	100.0	100.0	100.0	100.0	100.0

(percent of total current funds expenditures and mandatory transfers)

Ten Year Summary of Ratios

Ratio of Total Current Revenues to Total Current Expenditures

	<i>(in thousands)</i>				
	1997	1996	1995	1994	1993
Total Current Revenues	\$1,062,282	\$984,669	\$943,469	\$877,389	\$804,242
Total Current Expenditures and Mandatory Transfers	1,036,301	965,559	915,654	858,117	783,792
Ratio	102.51%	101.98%	103.04%	102.25%	102.61%

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

	1997	1996	1995	1994	1993
Current Fund Balance - Educational and General	\$60,437	\$53,902	\$49,726	\$44,104	\$37,536
Current Fund Balance - Proprietary	154,264	149,134	140,429	127,098	116,643
Quasi Endowment Fund Balance - Unrestricted	48,704	35,640	34,988	36,656	36,066
Total Availability	263,405	238,676	225,143	207,858	190,245
Total Availability	263,405	238,676	225,143	207,858	190,245
E&G Expenditures and Mandatory Transfers	812,682	766,304	725,591	676,140	611,634
Ratio	32.41%	31.15%	31.03%	30.74%	31.10%

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

	<i>(in thousands)</i>				
	1992	1991	1990	1989	1988
Total Current Revenues	\$741,208	\$699,408	\$655,684	\$606,454	\$572,792
Total Current Expenditures and Mandatory Transfers	710,029	686,365	646,300	593,395	554,821
Ratio	104.39%	101.90%	101.45%	102.20%	103.24%

	1992	1991	1990	1989	1988
Current Fund Balance - Educational and General	\$29,681	\$25,784	\$18,906	\$19,298	\$24,185
Current Fund Balance - Proprietary	111,371	93,950	89,168	86,410	80,124
Quasi Endowment Fund Balance - Unrestricted	33,761	31,931	33,482	31,512	27,978
Total Availability	174,813	151,665	141,556	137,220	132,287
Total Availability	174,813	151,665	141,556	137,220	132,287
E&G I Expenditures and Mandatory Transfers	561,716	538,853	511,284	468,092	433,542
Ratio	31.12%	28.15%	27.69%	29.31%	30.51%

Ten Year Summary of Ratios (continued)

Ratio of Expendable Fund Balance to Total Expenditures and Mandatory Transfers

	<i>(in thousands)</i>				
	1997	1996	1995	1994	1993
Current Fund Balance - Educational and General	\$60,437	\$53,902	\$49,726	\$44,104	\$37,536
Current Fund Balance - Proprietary	154,264	149,134	140,429	127,098	116,643
Current Fund Balance - Restricted	94,072	92,510	91,586	77,839	66,205
Quasi Endowment Fund Balance	92,180	71,023	64,935	66,525	63,364
Unexpended Plant Fund Balance	61,063	55,763	48,658	34,830	20,573
Debt Service Fund Balance	26,454	10,833	17,073	16,421	16,244
Total Expendable Fund Balance	488,470	433,165	412,407	366,817	320,565
Total Expendable Fund Balance	488,470	433,165	412,407	366,817	320,565
Total Current Expenditures and Mandatory Transfers	1,036,301	965,559	915,654	858,117	783,792
Ratio	47.14%	44.86%	45.04%	42.75%	40.90%

This ratio is an important measure of financial strength relative to institutional operating size. Expendable fund balances 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

	1997	1996	1995	1994	1993
Instruction	\$352,711	\$326,546	\$301,323	\$278,587	\$253,662
Other Academic Support	53,663	47,771	43,423	40,507	35,845
Total Instruction and Academic Support	406,374	374,317	344,746	319,094	289,507
Educational and General Expenditures and Mandatory Transfers	784,364	742,277	705,323	656,305	595,696
Less: Restricted Scholarships	20,705	19,021	17,713	17,439	17,116
Total Educational and General Expenditures Less Restricted Scholarships	763,659	723,256	687,610	638,866	578,580
Total Instruction and Academic Support	406,374	374,317	344,746	319,094	289,507
Total E&G Expenditures less Restricted Scholarships	763,659	723,256	687,610	638,866	578,580
Ratio	53.21%	51.75%	50.14%	49.95%	50.04%

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. A decrease in instruction and academic support expenditures as a proportion of the operating budget may not indicate an absolute decline, specifically when there is an alternative increase in quality; however, such a change in quality is difficult to measure.

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

	<i>(in thousands)</i>				
	1992	1991	1990	1989	1988
Current Fund Balance - Educational and General	\$29,681	\$25,784	\$18,906	\$19,298	\$24,185
Current Fund Balance - Proprietary	111,371	93,950	89,168	86,410	80,124
Current Fund Balance - Restricted	53,318	51,863	51,085	43,120	36,732
Quasi Endowment Fund Balance	56,024	50,917	50,246	44,145	38,923
Unexpended Plant Fund Balance	9,657	25,909	20,354	29,074	20,227
Debt Service Fund Balance	18,300	9,297	9,802	10,414	11,675
Total Expendable Fund Balance	278,351	257,720	239,561	232,461	211,866
Total Expendable Fund Balance	278,351	257,720	239,561	232,461	211,866
Total Current Expenditures and Mandatory Transfers	710,029	686,365	646,300	593,395	554,821
Ratio	39.20%	37.55%	37.07%	39.17%	38.19%

	1992	1991	1990	1989	1988
Instruction	\$241,956	\$241,058	\$233,975	\$192,725	\$179,641
Other Academic Support	32,740	33,348	30,431	30,789	28,573
Total Instruction and Academic Support	274,696	274,406	264,406	223,514	208,214
Educational and General Expenditures	555,404	524,365	497,752	463,024	430,017
Mandatory Transfers					
Less: Restricted Scholarships	14,940	13,126	12,156	11,947	10,744
Total Educational and General Expenditures Less Restricted Scholarships	540,464	511,239	485,596	451,077	419,273
Total Instruction and Academic Support	274,696	274,406	264,406	223,514	208,214
Total E&G Expenditures less Restricted Scholarships	540,464	511,239	485,596	451,077	419,273
Ratio	50.83%	53.67%	54.45%	49.55%	49.66%

Ten Year Summary of Ratios (continued)

Ratio of Net Gain in Endowment Assets

	<i>(in thousands)</i>				
	1997	1996	1995	1994	1993
Year - Ending Endowment Assets (Market Value)	\$486,037	\$390,146	\$335,076	\$293,214	\$223,948
Year - Beginning Endowment Assets (Market Value)	390,146	335,076	293,214	223,948	209,547
Yearly Change	95,891	55,070	41,862	69,266	14,401
Yearly Change	95,891	55,070	41,862	69,266	14,401
Year - Begin Endowment Assets (Market Value)	390,146	335,076	293,214	223,948	209,547
Ratio	24.58%	16.44%	14.28%	30.93%	6.87%

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.

Note: 1993 excludes \$9,000,000 invested in STIF

Revenue Bond Coverage

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

Fiscal Year Ended June 30,	Gross Operating Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service				Coverage
				Principal	Interest	Total	
1997	228,228	177,793	50,435	8,279	11,063	19,342	2.61
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

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

(in thousands)

	1992	1991	1990	1989	1988
Year - Ending Endowment Assets (Market Value)	\$209,547	\$181,413	\$171,139	\$152,334	\$132,154
Year - Beginning Endowment Assets (Market Value)	181,413	171,139	152,334	132,154	128,935
Yearly Change	28,134	10,274	18,805	20,180	3,219
Yearly Change	28,134	10,274	18,805	20,180	3,219
Year - Begin Endowment Assets (Market Value)	181,413	171,139	152,334	132,154	128,935
Ratio	15.51%	6.00%	12.34%	15.27%	2.50%

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 %
1997	19,342	1,007,294	1.92
1996	19,353	941,475	2.06
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

Admissions, Enrollment and Degree Statistics

	Fall Enrollment of Fiscal Year				
	1996-97	1995-96	1994-95	1993-94	1992-93
Admissions - Freshmen					
Applications	15,370	15,159	15,125	14,596	16,136
Accepted	5,826	5,571	6,145	5,985	5,735
Enrolled	3,278	3,239	3,498	3,331	3,211
Accepted as a Percentage of Applications	37.9%	36.8%	40.6%	41.0%	35.5%
Enrolled as a Percentage of Accepted	56.3%	58.1%	56.9%	55.7%	56.0%
Average SAT Scores - Total	1,222	1,142	1,128	1,126	1,122
Verbal	611	539	529	529	530
Math	611	603	599	597	592
Enrollment					
Undergraduate, Graduate and Professional FTE	21,709	21,961	21,918	21,758	21,398
Undergraduate, Graduate and Professional Headcount	24,141	24,439	24,463	24,299	23,944
Men (Headcount)	10,024	10,330	10,377	10,298	10,211
Percentage of Total	41.5%	42.3%	42.4%	42.4%	42.6%
Women (Headcount)	14,117	14,109	14,086	14,001	13,733
Percentage of Total	58.5%	57.7%	57.6%	57.6%	57.4%
African American (Headcount)	2,310	2,254	2,161	2,082	2,078
Percentage of Total	9.6%	9.2%	8.8%	8.6%	8.7%
White (Headcount)	19,376	19,808	20,042	20,007	19,812
Percentage of Total	80.2%	81.1%	82.0%	82.3%	82.7%
Other (Headcount)	2,455	2,377	2,260	2,210	2,054
Percentage of Total	10.2%	9.7%	9.2%	9.1%	8.6%
Degrees Granted					
Bachelor's	3,674	3,542	3,623	3,497	3,655
Master's	1,361	1,465	1,511	1,451	1,478
Doctoral	366	369	373	388	388
Professional	484	480	464	443	443

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

	Fall Enrollment of Fiscal Year				
	1991-92	1990-91	1989-90	1988-89	1987-88
Admissions - Freshmen					
Applications	14,860	14,737	16,441	17,569	15,290
Accepted	5,460	5,630	5,436	5,517	5,189
Enrolled	3,142	3,252	3,191	3,293	3,151
Accepted as a Percentage of Applications	36.7%	38.2%	33.1%	31.4%	33.9%
Enrolled as a Percentage of Accepted	57.5%	57.8%	58.7%	59.7%	60.7%
Average SAT Scores - Total	1,120	1,112	1,110	1,102	1,099
Verbal	530	527	527	522	523
Math	590	585	583	580	576
Enrollment					
Undergraduate, Graduate and Professional FTE	21,391	21,486	21,326	21,390	20,786
Undergraduate, Graduate and Professional Headcount	23,794	23,852	23,592	23,579	22,921
Men (Headcount)	10,161	10,340	10,282	10,202	9,943
Percentage of Total	42.7%	43.4%	43.6%	43.3%	43.4%
Women (Headcount)	13,633	13,512	13,310	13,377	12,978
Percentage of Total	57.3%	56.6%	56.4%	56.7%	56.6%
African American (Headcount)	2,033	2,060	1,921	1,840	1,726
Percentage of Total	8.5%	8.7%	8.1%	7.8%	7.5%
White (Headcount)	19,906	20,091	20,151	20,357	19,956
Percentage of Total	83.7%	84.2%	85.4%	86.3%	87.1%
Other (Headcount)	1,855	1,701	1,520	1,382	1,239
Percentage of Total	7.8%	7.1%	6.5%	5.9%	5.4%
Degrees Granted					
Bachelor's	3,538	3,591	3,529	3,195	3,272
Master's	1,375	1,391	1,269	1,157	1,197
Doctoral	336	337	299	301	311
Professional	456	463	457	447	449

Faculty and Staff Statistics

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

	Fall Employment of Fiscal Year				
	1996-97	1995-96	1994-95	1993-94	1992-93
Faculty					
Full-time	2,417	2,369	2,328	2,297	2,249
Part-time	223	216	210	204	186
Total Faculty	2,640	2,585	2,538	2,501	2,435
Percentage Tenured	57.9%	58.3%	59.2%	59.6%	60.7%
Staff and EPA Non-Faculty					
Full-time	653	648	627	596	570
Part-time	56	57	51	55	52
EPA Non-Faculty	709	705	678	651	622
Full-time	5,236	5,519	5,468	5,405	5,115
Part-time	298	322	328	360	334
SPA	5,534	5,841	5,796	5,765	5,449
Total Full-time	5,889	6,167	6,095	6,001	5,685
Total Part-time	354	379	379	415	386
Total Staff and EPA Non-Faculty	6,243	6,546	6,474	6,416	6,071

	Fall Employment of Fiscal Year				
	1991-92	1990-91	1989-90	1988-89	1987-88
Faculty					
Full-time	2,245	2,134	2,131	2,002	1,990
Part-time	185	161	165	221	229
Total Faculty	2,430	2,295	2,296	2,223	2,219
Percentage Tenured	61.1%	63.2%	60.1%	65.0%	64.2%
Staff and EPA Non-Faculty					
Full-time	572	646	640	648	645
Part-time	48	39	49	82	80
EPA Non-Faculty	620	685	689	730	725
Full-time	4,891	4,971	5,023	4,893	4,745
Part-time	314	298	285	278	258
SPA	5,205	5,269	5,308	5,171	5,003
Total Full-time	5,463	5,617	5,663	5,541	5,390
Total Part-time	362	337	334	360	338
Total Staff and EPA Non-Faculty	5,825	5,954	5,997	5,901	5,728

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

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