

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

The University of North Carolina at Chapel Hill



COMPREHENSIVE ANNUAL FINANCIAL REPORT

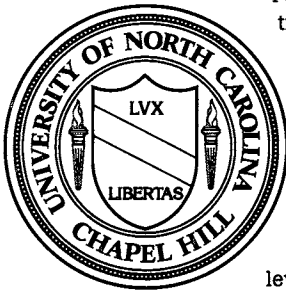
CHAPEL HILL, NORTH CAROLINA
FISCAL YEAR ENDED JUNE 30, 1998

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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, 1998

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INTRODUCTORY SECTION

TECHNOLOGY AT WORK: UNC has been educating teachers and other school personnel longer than any other public university in the nation — since we first opened our doors more than two centuries ago. Today, with more and greater technology at our fingertips, we are taking that mission to a new level.

This spring, for example, we unveiled **LEARN North Carolina** (Learners' and Educators' Assistance and Resource Network).

The unique computer initiative offers Tar Heel teachers the latest classroom technology and online support, including lesson plans consistent with the state core curriculum, as close as the nearest computer. Better prepared teachers translate into better prepared, higher achieving students. This state-of-the-art program now reaches almost all of the state's 117 school systems.

—CHANCELLOR'S FYI NEWSLETTER

Message from the Chancellor

As a public university, the University of North Carolina at Chapel Hill exists solely to serve the people of this State. As such, our three-pronged mission of teaching, research, and public service rests solidly upon a foundation of accountability — both within those arenas, as well as in the financial operations that underpin the greater institution. As this Comprehensive Annual Financial Report indicates, we take the mandate of accountability seriously, continuously striving to improve our services to the citizens of North Carolina.

We truly experienced a banner year for our fiscal operations in 1997-98. In a major effort to better define and finance campuswide priorities, we created the University Budget and Priorities Committee. With strong representation from both academic and business units, this very able panel played an integral role in setting the University's agenda by not only achieving campus consensus on our most important priorities (see inside back cover), but reallocating funds to pay for some of them such as the Freshman Seminars and the Carolina Computing Initiative.

The N.C. General Assembly continued to reward our fiscal responsibility and accountability by increasing our budget flexibility. During the 1997 session, we received permission, effective July 1, 1998, to keep overhead receipts that once went to the State. Likewise, lawmakers cut our reversion rate from 2 percent to 1 percent. Those actions are clear indicators that the State is confident of UNC-CH's management of its tax dollars.

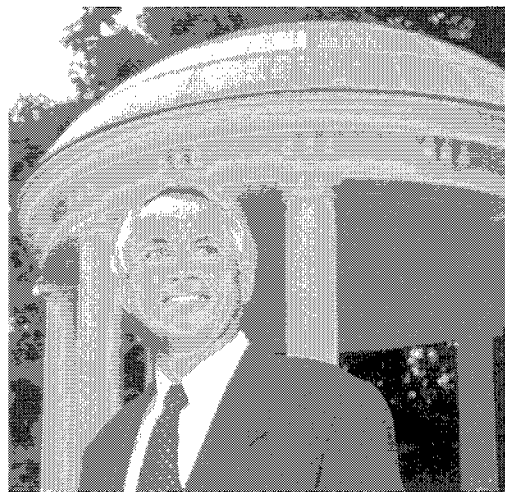
The University continued the biggest building boom in its history, with more than \$430 million in projects in design or under construction. A number of major projects also were completed, including the Kenan-Flagler Business School's new McColl Building, the School of Dentistry's new Tarrson Hall addition, an addition to the Lineberger Comprehensive Cancer Center, two phases of Kenan

Stadium renovations, and the renovation of our main campus dining facility. We also continued to target classroom renovations and repairs to ensure that students and faculty have quality facilities that are conducive to learning and to improving our intellectual climate.

At the same time, we earmarked a significant portion of our capital resources for infrastructure enhancements, particularly technology needs that will carry UNC-CH well into the 21st century.

Wiring residence halls and extending campus online capabilities were priorities. Perhaps most exciting was the development of the Carolina Computing Initiative, which will require all freshmen beginning in the year 2000 to own a laptop computer. The new requirement — which will be factored into financial aid packages — will help put all students on an equal educational footing. And under an outstanding contract negotiated with IBM, the University also will be able to purchase new computers for faculty and academic staff at a tremendous savings as part of the initiative. We take very seriously our mission of educating students to succeed and prosper in the technology-infused, knowledge-based society of the future.

All of these efforts — priority-setting and budget reallocation, increased budget flexibility, major capital projects, and technology improvements — were accomplished under a strict standard of accountability. UNC-CH also worked to continue previous projects aimed at streamlining administrative functions, saving money and improving efficiency. We are proud of the picture of success painted in this Financial Report and fully expect to embellish upon those achievements as we strive even harder to be good stewards of our resources.



MICHAEL HOOKER, CHANCELLOR

"PERHAPS MOST EXCITING WAS THE DEVELOPMENT OF THE CAROLINA COMPUTING INITIATIVE, WHICH WILL REQUIRE ALL FRESHMEN BEGINNING IN THE YEAR 2000 TO OWN A LAPTOP COMPUTER..."

"WE TAKE VERY SERIOUSLY OUR MISSION OF EDUCATING STUDENTS TO SUCCEED AND PROSPER IN THE TECHNOLOGY-INFUSED, KNOWLEDGE-BASED SOCIETY OF THE FUTURE."



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 20, 1998

*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, 1998, 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, 1998. The report is organized into three sections.

The **Introductory Section** includes a message from the Chancellor, the transmittal letter, a listing of the University Board of Trustees, a listing of executive and academic officers, and an organization chart. Also included is information on major University initiatives, as well as financial and economic data. This section is intended to acquaint the reader with the organization and structure of the University, the scope of its operations, its financial activities, the significant factors contributing to the current fiscal environment, and anticipated factors influencing our future.

The **Financial Section** presents the basic financial statements and a report of the Office of the State Auditor. The basic financial statements are prepared in accordance with generally accepted accounting principles for public colleges and universities, as defined by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

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

The financial statements in the Financial Section present all funds for which the University's Board of Trustees is accountable. Although legally separate, The University of North Carolina at

Chapel Hill Foundation, Inc. (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. The financial statements of the Foundation and the Investment Fund have been blended with those of the University. Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements. The University of North Carolina at Chapel Hill is a constituent institution of the sixteen campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

Economic Condition and Outlook

During the 1997-1998 fiscal year, the North Carolina economy continued both to 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 7,425,000 people on July 1, 1997.

Total personal income was \$172.1 billion in 1997, up 6.7 percent from 1996. By the second quarter of 1998, total personal income was running at a reasonably adjusted annual rate of \$179.1 billion, up \$7.8 billion or 4.6 percent from the same quarter in 1997.

Given these 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 at least the next two years.

Personal income per capita was \$25,298 for the entire United States in 1997. For North Carolina, the comparable figure was \$23,174 or 92 percent of the national average. This was up 5.1 percent from 1996, a little above the national average increase of 4.7 percent. This level of income was enough to put North Carolina in 31st place, just behind Iowa (\$23,177) and just ahead of Tennessee (\$22,752). These numbers can only be expected to improve in the next year or two. In September 1998, when the national unemployment rate was 4.8 percent, the unemployment rate in North

Carolina was only 3.1 percent. There were only 118,900 people in the entire state in September who were unemployed and looking for work. By contrast, there were 3,689,800 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 2.5 percent unemployment, while the Greensboro-Winston-Salem-High Point MSA had 2.4 percent and the Raleigh-Durham-Chapel Hill MSA had one of the lowest unemployment rates of any MSA in the country at 1.7 percent. The Asheville MSA had a 2.3 percent unemployment rate in September.

The current economic expansion in the United States will enter its 93rd month in December. This will move it past the 92 month 1982-1990 expansion into second place on the all time list.

The University of North Carolina at Chapel Hill is in the forefront of the process of helping the U.S. economy move from old industries and old ways of doing business to new knowledge-based technologies and methods. 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

The University continually strives for excellence in fulfilling its teaching, research, and public service missions. Certain successes and planned improvements are described herein.

College of Arts and Sciences

The College of Arts and Sciences had a productive and historic year in 1997-98. Risa Palm arrived on August 1 from the University of Oregon to become the Dean of the College, a post she held at Oregon for six years. Dean Palm arrived in Chapel Hill with three immediate objectives: 1) to ensure a high quality undergraduate educational program; 2) to pay attention to the instructional implications of new technologies; and 3) to foster interdisciplinary collaboration in research and teaching while continuing to strengthen the College's individual departments and programs.

In order to bring renewed attention to undergraduate education, the College set about implementing a freshman seminar program, the top priority of the Chancellor's Task Force on Intellectual Climate. With a new financial commitment of \$2.8 million over four years from the Chancellor and the Provost, the College will hire forty new faculty in the next two years and offer 160 seminars upon full implementation. All first year students will have the opportunity to take at least one seminar of twenty or fewer students taught by a tenure-track faculty member. The first year semi-

nars will cover all disciplines, better integrate first year students into the intellectual life of the campus, allow first year students to be known by faculty members, and set the tone for all future work at the University.

The forty new faculty will be hired, in part, to bring to Chapel Hill fresh perspectives and new skills in using information technology in instruction. Helping all faculty develop computer teaching skills is of immediate concern as the College is the first to benefit from the Carolina Computing Initiative. The College was chosen for the first phase of the Carolina Computing Initiative because its faculty teaches most of the 15,000-plus undergraduates. The University plans to spend about \$19 million over the next four years in the College to complete building wiring and equip all faculty and academic staff with desktop computers.

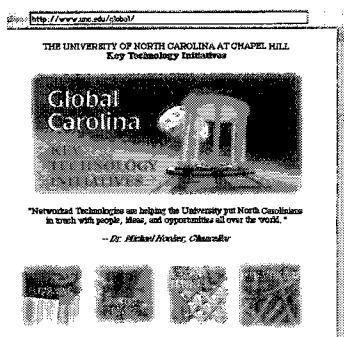
The College of Arts and Sciences obviously draws its strength first and foremost from the quality of its faculty. In the spring of 1998, more than twenty Arts and Sciences faculty won competitive teaching awards. The research accomplishments are as varied and distinguished as the almost 700 faculty in the College. Clearly, the support and recognition of these Arts and Sciences faculty are critical to the University's international reputation.

The College's 15,000 students have never been stronger. The College is using merit-based scholarships to attract the absolute best first year students to the University. From students enrolled in the University's top rated Honors program to those from the smallest North Carolina community, the College is fortunate to be able to attract excellent students with promise and skill.

Private support is critical to providing a suitable academic environment for these distinguished students and faculty. The College of Arts and Sciences had its best fund-raising year in history in 1997-98, the fifth straight year of record results. The College received \$17,632,555 in new gifts, pledges, and grants for the fiscal year. More than 15,000 donors supported Arts and Sciences. The number of Arts and Sciences donors has more than doubled in the past five years. These donors are increasingly recognizing that supporting the College is the best and most direct way to enhance the liberal arts and undergraduate education at the University.

School of Education

The School of Education revised two of its major academic programs. A number of discrete doctoral programs were combined into a single Ph.D. program in order to help students apply a variety of approaches and methodologies to the solution of challenging educational programs. The School also initiated a new fifth year program for the certification of secondary school teachers that will provide them with extended experience in public school classrooms. The five sites of the Research Triangle Professional Development



IN ORDER TO BRING RENEWED ATTENTION TO UNDERGRADUATE EDUCATION, THE COLLEGE SET ABOUT IMPLEMENTING A FRESHMAN SEMINAR PROGRAM, THE TOP PRIORITY OF THE CHANCELLOR'S TASK FORCE ON INTELLECTUAL CLIMATE.

Schools Partnership flourished this year. Faculty from the public schools and the University, together with students and local businesses, worked together to enhance student learning through the professional development of teachers, administrators, school psychologists, counselors, and other educational personnel.

The School of Education has played a major role in the expansion of LEARN NC, the electronic network which brings curriculum resources and information to the schools of North Carolina. LEARN NC is the Learners' and Educators' Assistance and Resource Network of North Carolina. By December 1998, all 117 school districts in the state will be connected to LEARN NC, which will continue to develop its on-line support programs for beginning teachers, as well as parent education networks.

The School of Education has revised a number of its programs to make them accessible to practicing school professionals, and has expanded its Master's program in School Administration to part-time students in order to provide leadership for the many new schools that are being built in this region and across the state. In order to establish a site which will be easily accessible to part-time students, the School is working with the local school district to collaborate on the design and development of a middle school, where courses for post-baccalaureate students will be offered in a new master's program for experienced teachers, as well as special programs in English as a Second Language and Birth — Kindergarten certifications.

The School will serve as a demonstration site, and participating teachers will communicate with their instructors through course work at the middle school site in addition to on-line courses and courses taught in their home schools or districts. Diversification of instruction will both improve access and focus the reference of these courses on the issues that participating teachers must address daily in their own classrooms and communities. The middle school will be constructed on approximately 44 acres of land leased by the University for \$1. This joint effort will serve as a national model for productive university-public school collaboration by providing a location for selected School of Education programs and offices.

The Institute of Government

In June, the Institute formally kicked off a much needed \$16.1 million renovation and expansion of its forty-two-year-old home, the Joseph Palmer Knapp Building. Upon completion in late summer 2001, the building's features will include 20 new and renovated classrooms, a two-story library, a 150-seat dining room, and an adjacent parking deck.

Rooms throughout the renovated facility will be wired to provide students, faculty and staff with access to the Internet and other computer networks. New computer and videoconferencing

equipment will make state-of-the-art information technology available to faculty and students and enable the Institute to expand its distance learning services.

Most of the necessary construction funds are being provided through appropriations from the North Carolina General Assembly. Additional private funding is being sought from individuals, businesses and professional associations throughout the State to meet the remaining construction, equipment and furnishing needs over the next three years.

Through an exciting new program called The Citizenship Project, the Institute is working to develop and support more effective civic participation among youth and adults in North Carolina. This privately funded initiative currently includes the statewide Civic Education Consortium, focused on students in kindergarten through twelfth grade, and the Civic Capacity-Building Project, which concentrates on helping adults improve their knowledge and skills for civic participation.

The consortium is a partnership of nearly 100 public and private organizations working to improve the teaching and learning of civics by bringing local community leaders into the classrooms and involving students in projects that explore important issues in their communities. The Z. Smith Reynolds Foundation has provided planning and start-up funding to the consortium, which continues to seek private contributions for its continuing operations and education projects across the state.

The western regional Small Towns Leadership Development Initiative (LDI) is the first undertaking of the civic capacity-building project. The LDI is a partnership of Handmade in America (an Asheville-based nonprofit organization that fosters community self-sustenance and renewal, particularly through promotion of handmade crafts), the Institute of Government, and six small western North Carolina towns. The partnership works to prepare citizens in rural western North Carolina for community leadership. The LDI also helps citizens to establish ongoing public, private, and nonprofit partnerships on a local level to revitalize their communities. The LDI was made possible by a \$73,400 grant from the Appalachian Regional Commission to Handmade, which then sought the assistance of Institute faculty.

The Institute, along with participating cities and counties and the North Carolina Local Government Budget Association, is entering the third phase of the North Carolina Local Government Performance Measurement Project. The project previously examined and compared the effectiveness of a number of large city and county governments in North Carolina in their quest to provide quality services at reasonable costs. Now the project is measuring similar services provided by small- to medium-sized cities and counties and creating a guidebook for local government performance measurement.

THE SCHOOL OF EDUCATION HAS PLAYED A MAJOR ROLE IN THE EXPANSION OF LEARN NC, THE ELECTRONIC NETWORK WHICH BRINGS CURRICULUM RESOURCES AND INFORMATION TO THE SCHOOLS OF NORTH CAROLINA.

NEW COMPUTER AND VIDEOCONFERENCING EQUIPMENT AT THE INSTITUTE OF GOVERNMENT WILL MAKE STATE-OF-THE-ART INFORMATION TECHNOLOGY AVAILABLE AND ENABLE THE INSTITUTE TO EXPAND ITS DISTANCE LEARNING SERVICES.

School of Social Work

The 1997-98 year was a busy and fruitful one for the School of Social Work. In September, the School hosted more than 550 people in the Dean E. Smith Center for the Jordan Institute for Families first anniversary celebration. The event was a wonderful black-tie dinner and auction event. Those in attendance included Michael Jordan; his wife, Juanita; his mother, Delores; two of his siblings and two sisters-in-law, as well as a large number of other celebrities and sports figures. The latter included, among others, WRAL's Pam Saulsby, who served as our Mistress of Ceremonies; Woody Durham, the voice of the Tar Heels, who served as our auctioneer; soccer star and Olympic gold medal winner Mia Hamm; and professional basketball stars Charlotte Smith, James Worthy, and Jerry Stackhouse. Many other celebrities and corporations donated items for the auction. Overall, the event raised over \$140,000 for the Jordan Institute for Families.

Throughout the 1997-98 fiscal year, the School's faculty and staff were very successful in their teaching, scholarship, and service activities. Student evaluations of classroom instruction indicated that the faculty did an excellent job. Faculty and staff published a large number of journal articles, book chapters and books during the course of the year. Further, the faculty and staff continued to experience a great deal of success in generating external support for research, training and technical assistance activities. Over the course of the year, training and technical assistance programs involved public and nonprofit agency personnel from every one of North Carolina's one hundred counties, as well as personnel from many other states and nations.

Development of several dual degree and collaborative certificate programs continued throughout the 1997-98 fiscal year. The dual degree involving the School of Social Work and the School of Public Health's Department of Maternal and Child Health continued to be popular with students. New dual degree programs implemented during the 1996-97 year with the School of Law and with the Department of Public Administration attracted student interest. In addition, interdisciplinary certificate programs in Nonprofit Leadership and in International Development and Social Change continued to evolve during the 1997-98 year, while a new certificate program in Substance Abuse Counseling was implemented. The School also continued to prepare students for state licensure/certification both in School Social Work and Marital and Family Counseling.

The first student to complete requirements for the Ph.D. in Social Work graduated in August of 1997, while two others completed their doctoral degrees in time for the May 1998 commencement ceremony. The initial cadre of doctoral students experienced a great deal of success in their job searches. Two were hired by

Columbia University, one by Florida International University, and one by Appalachian State University. Another was the recipient of a prestigious Congressional Internship and will spend the next twelve months working with a member of the U.S. Congress.

Kenan-Flagler School of Business

The Kenan-Flagler Business School is focused on the goal of transforming business education for the new millenium. The School is taking numerous bold initiatives toward that end. The School is pioneering programs in information technology and knowledge management, job creation, economic development, innovation, and entrepreneurship in the U.S. and around the globe. It is pushing the technology envelope to revolutionize the learning process. It is forging strategic partnerships with businesses, universities and organizations around the world to create a globally distributed learning network. It is restructuring its internal organization so that the School will operate more like a private enterprise to better serve the needs of its students and the business community. The 1997-98 fiscal year was a pivotal one in setting the stage for this transformation.

Kenan-Flagler's move in October 1997 from Carroll Hall to the McColl Building was both symbolic of and instrumental in this transformation. More than 4,000 alumni, parents, corporate partners, friends, faculty, staff, and students converged on Chapel Hill on September 12, 1997, to celebrate the dedication of the new state-of-the-art McColl Building. Federal Reserve Chairman Alan Greenspan gave the keynote remarks and cut the ribbon, along with podium guests. He was joined by building namesake Hugh McColl (BSBA '57), University Chancellor Michael Hooker, UNC System President Molly Broad and other state officials and building donors.

Once relocated, students, faculty and staff immediately began putting to use the latest classroom technology that is the hallmark of the McColl Building. The building was designed to function as a virtual learning environment. The School's 2,800 network ports and 1 million-plus feet of audio, video, data and fiber-optic cable offer easy access within the McColl Building and the world. Classrooms feature multimedia consoles that give presenters fingertip control of multimedia technology. A technology partnership with Price Waterhouse, Dell Computer Corp. and Cabletron Systems should ensure that the School's technological resources remain state-of-the-art.

Armed with a new building and the latest technology, the University recruited a new dean with the vision and experience to use those resources to move Kenan-Flagler forward in innovative ways. Dean Robert S. Sullivan, who assumed his post January 1, 1998, is an acknowledged leader in global business education, the application of technology to learning, entrepreneurship, and the commercialization of new technologies.

TRAINING AND TECHNICAL ASSISTANCE PROGRAMS AT THE SCHOOL OF SOCIAL WORK INVOLVED PUBLIC AND NONPROFIT AGENCY PERSONNEL FROM ALL NORTH CAROLINA'S ONE HUNDRED COUNTIES, AS WELL AS PERSONNEL FROM MANY OTHER STATES AND NATIONS.

THE MCCOLL BUILDING WAS DESIGNED TO FUNCTION AS A VIRTUAL LEARNING ENVIRONMENT. THE 2,800 NETWORK PORTS AND 1 MILLION-PLUS FEET OF AUDIO, VIDEO, DATA AND FIBER-OPTIC CABLE OFFER EASY ACCESS WITHIN THE BUILDING AND THE WORLD.

Kenan-Flagler received recognition during 1997-98 as a leader among business schools in key areas of importance to the School. The World Resource Institute (WRI) named Kenan-Flagler one of the top eight business schools in the country for its environmental management programs. It was one of only three schools surveyed to receive four stars, the highest rating, in each of four categories WRI evaluated. The School's Executive MBA and MBA Programs ranked 8th and 15th, respectively, in *U.S. News & World Report's* annual graduate school rankings, which were released February 20 in the magazine's "1998 America's Best Graduate Schools" issue. Kenan-Flagler's Price Waterhouse-Dell Computer-Cabletron Systems Technology Center has become part of the Smithsonian Institution's Permanent Research Collection on Information Technology at the National Museum of American History. The collection includes 442 of the year's most innovative applications of technology from 40 states and 19 countries. In a special report, "Corporate America Goes to School," *Business Week* ranked Kenan-Flagler No. 1 for custom executive education programs and 13th overall for executive programs, based on a survey of human resource and management development executives. Kenan-Flagler's Executive MBA Program was among the leading 20 (among 61 schools) identified in an unranked listing of programs.

School of Journalism and Mass Communication

Journalism and Mass Communication continues to be one of the majors with high enrollment on campus. One reason for the high enrollment is because the School has been called the best in the nation. In the last national accreditation report, in May 1997, the School received a rave review: "arguably the best all-around program in the country."

The School is expanding its mission in electronic communication and broadcasting. One activity in this area is the NC Association of Broadcasters' Hall of Fame, which is now in the School. A walnut and brass plaque was installed to commemorate the 60 members of this Hall of Fame. Honorees include entertainers Andy Griffith and Kate Smith and broadcasting giants Edward R. Murrow, Charles Kuralt, and David Brinkley.

A minority job fair for students and professionals was held in the Fall, cosponsored by the School and the *Raleigh News & Observer*. Twenty-eight newspapers and 11 colleges participated. The School's library, in cooperation with the School of Information and Library Science, was the host for 30 news librarians from five southern states for the MidAtlantic News Research Conference.

The fourth class of Freedom Forum Ph.D. students entered in May 1998. The program, funded at nearly \$500,000 a year by The Freedom Forum in Arlington, Virginia, enables distinguished professional journalists to earn the Ph.D. It is the most prestigious doctor-

al program in mass communication in the country. Two professors won Favorite Faculty Awards from the Senior Class of 1998: Raleigh Mann and Deb Aikat.

The School started a continuing education program during the 1997-98 fiscal year, with funding from the School's foundation. Mitch Kokai, a School graduate, is director of the program, which will provide ongoing continuing education seminars for journalists and professionals.

Assistant Professor Deb Aikat, the School's medial futurist, developed and taught the School's first distance-learning-on-the-Internet course: "Introduction to Internet Issues and Concepts," using the World Wide Web as a virtual classroom. The School received a \$100,000 instructional technology grant to upgrade one of its teaching labs. The grant, entitled "Enabling Students to Put Video and Audio Content on the World Wide Web," enabled the School to develop an exemplary classroom in which students will learn to create high-end multimedia content for the World Wide Web (photographs, video, graphics, QuickTime virtual reality applications and audio). The Class of 1998 honored Emily Krueger, editor of the Fifth Estate, with an Outstanding Senior Award and recognized her "superlative contribution" in developing the Fifth Estate into a full-fledged online student-run news publication. In 1996, Ryan Thornburg, then a senior JOMC major, launched The Fifth Estate as the University's first on-line magazine with some students and Assistant Professor Deb Aikat as the faculty adviser.

School of Information and Library Science

The School of Information and Library Science began a number of new institutional initiatives during the 1997-98 fiscal year. The School graduated its first class of undergraduate information systems minors. The 15 hour information systems minor is designed to be a useful complement to any undergraduate major and allows undergraduates to develop an understanding of computing, networking, multimedia, electronic information resources and the Internet. The minor has been a resounding success. A large number of undergraduates applied for the 70 spaces in the minor; those admitted had very high GPAs and SAT scores and came from 23 different majors.

The faculty continued its outstanding record in research, publication and service. During the past academic year, the sixteen members of the faculty published or had accepted for publication five books, 48 articles or chapters and numerous book reviews and other publications. The faculty also participated in numerous public service activities ranging from telling stories for children at festivals to creating web pages for various non-profit institutions.

Finally, Dean Barbara Moran announced that she would step down as dean after eight years in that position to return to

THE JOURNALISM SCHOOL RECEIVED A \$100,000 INSTRUCTIONAL TECHNOLOGY GRANT, ENABLING THE SCHOOL TO DEVELOP AN EXEMPLARY CLASSROOM IN WHICH STUDENTS WILL LEARN TO CREATE HIGH-END MULTIMEDIA CONTENT FOR THE WEB.

THE SCHOOL OF INFORMATION AND LIBRARY SCIENCE GRADUATED ITS FIRST CLASS OF INFORMATION SYSTEMS MINORS. THESE STUDENTS DEVELOP AN UNDERSTANDING OF COMPUTING, NETWORKING, MULTIMEDIA, ELECTRONIC INFORMATION RESOURCES AND THE INTERNET.

teaching. A national search was undertaken for her successor and the School expects to have a new dean in place by January 1999. The School is well positioned to face the challenges of tomorrow and looks forward to continued growth and advancement under the leadership of a new dean.

School of Law

During fiscal year 1997-98, the School of Law developed two major curricular initiatives that will better prepare its students to engage in the practice of law and broaden their understanding of societies and legal systems around the world. The School designed a new "practical skills enhancement" program that will allow advanced students to enroll in "externships" in a wide variety of government and non-profit settings, providing a broader array of applied learning opportunities that supplement the School's simulation courses and in-house clinical program. The faculty also approved a new course entitled "Perspectives in Asian and Pacific Rim Law" that will incorporate modules taught by visiting legal educators and judges with experience in such topics as the law of Japan, India, China, and Islamic societies.

The School enrolled a talented class of entering students drawn from more than 30 states and nations. It implemented a new "early decision" admissions program. During a period of declining or flat application patterns nationwide, it witnessed a 30% increase in applications over the previous year. Summer paid or volunteer employment continued at nearly 100%, and 98% of the class that graduated in 1997 reported employment within six months following the bar exam. The School initiated a major new Pro Bono Program that it believes will be a model for the nation. Through the program, UNC law students volunteer to be matched with lawyers engaged in unpaid representation of the poor. More than 110 students contributed pro bono service through this means during the academic year. The School held its first iPublic Interest Celebration honoring student volunteers, including two 1998 graduates who received highly competitive national fellowships to engage in public interest work following graduation. It also celebrated the creation of the new Gibson Smith Internship program that supports public interest summer work.

The School began a major initiative to enhance its communications abilities through improved publications and intensified use of electronic tools. It continued the development of regional alumni councils, building on the successful Charlotte program. It reorganized its Law Foundation and named a board of directors. Alumni and friends pledged more than \$500,000 in the School's ongoing "Living Legacy" capital campaign, designed to raise funds for incorporating advanced technology and furnishing its building addition and renovations. It is anticipated that the occupancy of the new

facilities will occur during the 1998-99 fiscal year. Judith Wegner announced that she would conclude her ten years of service as dean by the end of the 1998-99 fiscal year, and a search committee to identify her successor was appointed and is chaired by Dean Richard Cole of the School of Journalism and Mass Communication.

The Law School also continued its strides in using advanced information technology tools to support its curriculum, admissions program, and outreach. Professor Marilyn Yarbrough received a grant to develop a model course in professional responsibility drawing on multi-media and other new teaching tools. Professor Lissa Broome completed a new nationally-recognized set of computer-based teaching materials relating to commercial law ("Teach Yourself the UCC"). Professor and Library Director Lolly Gasaway continued her successful course in cyberspace law that featured student research projects posted on the World Wide Web. The Law School admission program developed an enhanced web presence including an on-line application. The Law Library continued its strides to develop a new on-line index to briefs submitted to the United States Court of Appeals for the Fourth Circuit and to make legal materials available in the public domain available to members of the public, the bench and bar. The Law School also provided continuing legal education programs featuring instruction in computer-assisted research and "cyberspace law". The School continued its efforts to incorporate advanced technology capabilities into its ongoing building construction and renovation plans.

Frank Porter Graham Child Development Center

Frank Porter Graham Child Development Center researchers have joined the European Child Care and Education Study and the International Child Care and Education Study. The primary focus of one study is analyzing the relationship between quality child care and child outcomes. The first phase of the study involved assessing if two widely used scales in the US — the Early Childhood Environment Rating Scale and the Caregiver Interaction Scale — could be used with accuracy in other countries.

Funded by the Center for Disease Control and Prevention, the NC Office on Disability and Health is a joint effort of Frank Porter Graham and the Division of Women's and Children's Health in the NC Department of Health and Human Services. The activities of Frank Porter Graham include research, evaluation, policy development, and technical assistance.

School of Dentistry

Developing and opening of major new teaching facilities and programs were the primary initiatives during the 1997-98 fiscal year in the School of Dentistry. Specifically, a 92,000 square foot clinical teaching facility was launched, greatly enhancing and



THE LAW LIBRARY IS DEVELOPING A NEW ON-LINE INDEX TO BRIEFS SUBMITTED TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT AND TO MAKE LEGAL MATERIALS AVAILABLE IN THE PUBLIC DOMAIN AVAILABLE TO MEMBERS OF THE PUBLIC, THE BENCH AND BAR.

expanding clinical teaching programs, as well as dental health care services for North Carolina citizens. An extremely novel clinical simulation laboratory was opened that provides state-of-the-art technology instruction for dental students. Both facilities are heavily dependent on new information technology infrastructure.

The School of Dentistry has launched a new electronic curriculum project. In collaboration with the School of Medicine, all freshman dental students are required to utilize notebook computers with which to acquire, at the students' own pace and intensity, interactive curriculum information made available to them on the School of Dentistry Internet site. The School is also developing this technology for distance education in North Carolina, and for professional continuing dental education in the state and beyond. Continuing Education participants can now register and pay for CE programs on our Internet site.

The Dental School's freshman class has the highest average GPA of any class accepted in the last 50 years. The School continues to lead the nation in the number of continuing education programs offered and participants enrolled.

Area Health Education Centers (AHEC)

The North Carolina AHEC Program continues to serve as the primary vehicle for conducting community-based educational programs for health science students and health practitioners in North Carolina. During the 1997-98 fiscal year over 11,000 student months of training occurred in hospitals and other sites in communities across the state. Of these, over 3,500 student months occurred in physician offices, mental health centers, or other primary care settings. Nearly 150,000 health professionals attended AHEC-sponsored continuing education programs during the past year, with programs being held in virtually all 100 North Carolina counties. The AHEC technology initiative continues, as AHEC builds an electronic educational infrastructure connecting the University health science centers, AHEC centers, and eventually, all of the community-based training sites. Through the AHEC network library and information services, degree programs and other curricula as well as other educational support will be available to all learners through one integrated seamless system.

School of Medicine

A new device to detect pre-malignant lung cancer earlier and more accurately than conventional X-rays or sputum tests is now being used by School of Medicine oncologists at the Lineberger Comprehensive Cancer Center. LIFE — which stands for Lung Imaging Fluorescence Endoscope — uses clearly detectable red or green light waves, and is 50 percent more sensitive than the traditional white-light bronchoscopy. The University's medical center is

the only one in the state with the LIFE device. Physicians believe that finding lesions early may improve a patient's chance of survival. Last year, lung cancer was the leading cause of cancer deaths in North Carolina.

A new Human Applications Lab has been developed to produce viral vectors to be used in some of the first human studies of gene therapy. Located in the Caviness Clinical Research Center, the lab is one of only a handful in the United States. It contains four separate chambers where workers dressed in protective clothing can grow, refrigerate and freeze the viruses that will be used in gene therapy research.

Patients from around the state with a family history of breast, ovarian or colon cancer are now able to meet with a team of specialists at the Lineberger Comprehensive Cancer Center to determine genetic susceptibility to cancer and discuss management options. The Risk Assessment Clinic team consists of an oncologist, a genetic counselor, a clinical social worker, and molecular genetics staff. Patients meet with the team initially for a clinical examination, genetic counseling, psychological assessment, and a discussion about treatment and testing options. When testing is appropriate, the team meets again with the patient to review test results and to plan for follow-up and management.

A new adolescent medicine curriculum developed by Carol Ford, MD, assistant professor of pediatrics, teaches pediatric and internal medicine residents how to provide comprehensive health care for teens, a population whose health care needs are often underserved, and how to do it in a time-efficient way that will work in their own practices. A major component of the program is "Teen Week," a clinic held one week each month where house staff can focus on the health care needs of young peoples ages 11 to 21. In addition, Ford holds monthly seminars on teen health issues for the residents, with topics ranging from communicating with teens to sports exams and from substance abuse to issues of confidentiality.

Radiologists at the School of Medicine are now using the first digital mammography machine in North Carolina, one of only eight such machines in the world. They will study if this new technology is an improvement over conventional, film-based mammograms. Clearer mammograms could help doctors detect breast cancer earlier and offer better care to their patients.

School of Nursing

The School of Nursing created the Center for Instructional Technology and Educational Support (CITES) to facilitate instructional technology assistance for faculty; including providing an environment for design, consultation and development of instructional materials, and enabling faculty to enhance instruction through innovative uses of technology in on-campus teaching and

AHEC IS BUILDING AN ELECTRONIC EDUCATIONAL INFRASTRUCTURE CONNECTING THE UNIVERSITY HEALTH SCIENCE CENTERS, AHEC CENTERS, AND EVENTUALLY, ALL OF THE COMMUNITY-BASED TRAINING SITES.

THE SCHOOL OF NURSING CREATED THE CENTER FOR INSTRUCTIONAL TECHNOLOGY AND EDUCATIONAL SUPPORT (CITES) TO FACILITATE INSTRUCTIONAL TECHNOLOGY ASSISTANCE FOR FACULTY

distance learning programs. New partnerships were developed with the University of North Carolina Hospitals, including an agreement for joint nursing continuing education. The School continued to expand its outreach programs with the addition of offerings in the Area L AHEC located in Rocky Mount, NC, and successful student recruitment efforts resulted in an increase of enrollments in the PhD program. Planning began for the expansion of the Biobehavioral Laboratory, which will better posture the School of Nursing to compete for NIH funding of biologically focused research.

School of Pharmacy

The second century of pharmacy education at the University begins with completely reinventing the School of Pharmacy. For many years, higher education has relied on the tripartite mission of teaching, research, and service. The School, after careful investigation and input from faculty and staff, is embarking on a journey toward a bimodal school of pharmacy.

This journey entails focusing on the two areas by which the public "grades" the program, and through which the School fulfills its social contract. The first area is life saving research. The School possesses a unique area of knowledge and expertise to excel in drug development, drug discovery, and outcomes assessment. That, coupled with a learning environment that includes the Research Triangle Park and highly rated Health Affairs Programs, will allow the School to expand and grow its research capabilities — meeting the needs of patients.

The second area of focus is progressive pharmaceutical care practice. The United States is currently experiencing an epidemic of drug-related morbidity and mortality. Death due to adverse or sub-optimal use of drugs is the sixth leading cause of death in the nation. The School is committed to graduating students who will be ready to provide the best care to the citizens of their communities. The graduates must be able and ready to overhaul practice environments and create sites where pharmacists optimize drug therapy for patients and eliminate the frequency of drug misadventures, inappropriate drug use, medicinal failures, adverse effects, and contraindications that occur all too frequently. This will involve demonstration projects, placing faculty in external sites, and building curricula around what is an optimum practice environment.

This initiative will not only involve curricular changes, but also the reorganization of the School's academic program. Outdated departmental silos will be replaced with a matrix structure that eliminates administrative boundaries and enhances collaboration both within the School and with colleagues in other academic units. This new structure will dramatically increase innovations in both bench and clinical research. Within the matrix, old department

names will be eliminated, and areas of expertise will evolve. These areas will include Pharmacotherapy, Drug Disposition and Pharmacodynamics, Drug Design and Discovery, and Pharmaceutical Policy and Evaluative Sciences.

The School will initiate its bimodal approach by creating several new "scholarly programs." These are focus areas that will involve faculty and research staff representing all academic areas of the School. The first scholarly program has been established under the title In-Vivo/In-Vitro Correlates of Drug Disposition. This initiative involves faculty, formerly in separate departments, now collaborating to explain and clinically predict important drug effects for the optimal care of patients. The research generated by this program could also redirect the way the pharmaceutical industry presently conducts clinical drug development. Additional topics under consideration for scholarly program status include informatics, evidence-based practice, and oncology. The creation of interdisciplinary scholarly programs at the University may well be one of the most significant initiatives in pharmacy education in the nation.

School of Public Health

Seeking to build upon its 1997 *U.S. News and World Report* ranking as the best school of its type at a public university in the nation and second best overall, the School of Public Health worked during the 1997-98 fiscal year to maintain its excellence and strengthen areas that will become increasingly important in the years to come.

A highlight for the School was authorization to proceed with design and construction planning of a new 90,000-square foot laboratory building to house state-of-the-art research facilities for the departments of Nutrition, Epidemiology and Environmental Sciences and Engineering. Having additional research facilities will allow for expansion of research programs in areas of particular concern to North Carolina and the nation, such as infectious-disease epidemiology, ecotoxicology, and nutritional biochemistry. In addition, such facilities will aid in the School's continuing efforts to attract top faculty and student candidates, as well as in its continued success in attracting competitive research grant dollars, a process in which facilities often play a key role.

Beyond bricks and mortar, significant strides were made in better supporting students and faculty financially. Professor-turned-entrepreneur Dennis Gillings pledged \$3 million to endow the Dennis Gillings Professorship in Biostatistics and meet other needs in the department. And public and private partners together invested more than \$30 million in sponsored research support to the School. Notable among the projects receiving support were: a \$580,000 grant from the Robert Wood Johnson Foundation to devel-

THE SCHOOL OF PHARMACY IS IMPLEMENTING A MATRIX STRUCTURE THAT WILL ELIMINATE ADMINISTRATIVE BOUNDARIES AND ENHANCE COLLABORATION WITHIN THE SCHOOL AND WITH COLLEAGUES IN OTHER ACADEMIC UNITS.

THE SCHOOL OF PUBLIC HEALTH IS PLANNING A NEW 90,000-SQUARE FOOT LABORATORY BUILDING TO HOUSE STATE-OF-THE-ART RESEARCH FACILITIES FOR THE DEPARTMENTS OF NUTRITION, EPIDEMIOLOGY AND ENVIRONMENTAL SCIENCES AND ENGINEERING.

op a strategic plan to promote consumption of folic acid among women of reproductive age as a prevention measure against birth defects; a \$1.3 million National Institutes of Health grant to analyze the effects of hormone replacement therapy on mammographic density change in postmenopausal women; a \$944,000 grant from the National Cancer Institute and National Institute of Child Health and Human Development to test a program designed to change smoking-specific socialization of children in households where parents smoke cigarettes; and a \$1.9 million grant from the National Cancer Institute to assess the potential of isoflavonoids to lower the risk of certain cancers.

Whether studying on-campus or from a remote site, public health students will continue to be on the cutting edge with the upcoming transfer of five core courses from the traditional classroom to the Internet. The goal of the initiative, which was developed by the School's Center for Distance Learning, is to have all five core courses online and field-tested in one year. Funding for this project bolsters the investment that the UNC System has already made in the master's in public health leadership that is offered at remote sites across the state — further extending the School's educational outreach to more communities in North Carolina and around the world.

Graduate Studies and Research

Graduate Studies and Research is comprised of the Graduate School, the Institute for Research in Social Science, the Office of Research Services, the Proposal Development Initiative, the Office of Technology Development, and the Office of Information and Communications. Overseeing the departments is the Office of the Vice Provost for Graduate Studies and Research (OVP).

The University topped the \$300 million mark for contracts and grants awarded for research, teaching, and public service for the first time in 1997-98. University faculty attracted \$304.95 million from federal and other sources to support their work. The total was an increase of 5% from the prior year. US Department of Defense support increased 37%, primarily due to two large grants to the Physics and Astronomy department. One of those projects involves a high-tech telescope in Chili's Andes Mountains that is part of the Southern Observatory for Astrophysical Research. Support from the US Environmental Protection Agency increased 40%, support from the National Science Foundation increased 23%, and private industry support increased 32%.

During fiscal year 1997-98, assistance was provided in forming the new Office of Economic Development (OED), located in the Kenan Institute. OED's mission is to provide local governments and industries of North Carolina — not just those in larger cities — with a valuable and objective source of information on economic development.

The Graduate School oversaw the award and distribution of over \$3.6 million to 363 graduate students. A new associate dean within the Graduate School is providing focused effort to the outreach and recruitment of minority students. The Institute for Research in Social Science completed a major project that allows computer users to download data archive files directly to their desktop machines via the campus network. Together with the Proposal Development Initiative (PDI), the Office of Research Services managed the University's response to a major solicitation from the National Science Foundation (NSF). All three of the selected teams were successful in completing their proposals for competition; two teams were invited by NSF to submit final proposals for the centers.

PDI was involved with more than 40 proposals at various stages of development. They handled the nomination process for 13 limited award programs, sending 18 University nominees forward. The Office of Technology Development increased the number of inventions licensed by 22 percent, and the number of U.S. applications filed increased by 25 percent.

During a ten-month period in fiscal year 1997-98, the Office of Information and Communications (OIC) saw an increase of 20 percent in the number of logins to the GrantSource Service, which enables faculty, students, and staff to search databases of information about funding opportunities from their own computers. Graduate students increased their use of the Stanford search service by 43 percent.

Endeavors magazine, which is produced three times a year by OIC and highlights research and creative activities at the University, saw added pages and stories, color printing, and improvements to layouts and graphics. The press run was also increased by about 1,000 to meet demand.

University Libraries

The University Libraries continue to develop traditional areas of strength, while enhancing innovative electronic information services and building the infrastructure to support future programs. The Libraries rank first in the southeast and maintained their ranking of seventeenth on the Association of Research Libraries' annual national index. The Libraries' rich print collections continue to attract students, faculty, and researchers, even as a variety of initiatives use technology to make library resources available across and beyond campus.

This fall, the Davis Library Circulation Department began checking out laptop computers for use in the library, an initiative that will provide greater electronic access for patrons and will help the Library prepare for the upcoming Carolina Computing Initiative. The Law Library completed remodeling of existing facilities during the summer and plans to open its new wing in January, 1999.

WHETHER STUDYING ON-CAMPUS OR FROM A REMOTE SITE, PUBLIC HEALTH STUDENTS WILL CONTINUE TO BE ON THE CUTTING EDGE WITH THE UPCOMING TRANSFER OF FIVE CORE COURSES FROM THE TRADITIONAL CLASSROOM TO THE INTERNET.

THIS FALL, DAVIS LIBRARY BEGAN CHECKING OUT LAPTOP COMPUTERS FOR USE IN THE LIBRARY, AN INITIATIVE THAT WILL PROVIDE GREATER ELECTRONIC ACCESS FOR PATRONS AND WILL HELP THE LIBRARY PREPARE FOR THE UPCOMING CAROLINA COMPUTING INITIATIVE.

Academic Enhancement funds have been used to create an Assistive Technologies Lab in Davis Library fitted with equipment and software, including closed-circuit television and both text-to-audio and voice-to-text packages.

While providing access to online information has been one of the Libraries' priorities in 1997-98, so has ensuring the availability of high-quality electronic resources. The Libraries were instrumental in planning for NC LIVE, the North Carolina Libraries and Virtual Education Project, inaugurated in April, 1998. The Health Sciences Library, in conjunction with the Office of Information Systems in the School of Medicine, manages UNCLE, a digital library of health information available via the Web. UNCLE has received broad attention; its diverse users include corporations and organizations throughout North Carolina, the nation, and the world. Health Sciences Library staff completed an initial pilot to support distance learning in three courses: one each in Nursing, Pharmacy, and Public Health. The library provided over 100 course readings or documents needed by students; databases, electronic journals, and other documents; online learning modules for building information skills; and individualized reference, education, and consultation services. Services were web-based and faculty and librarians collaborated to select, acquire, and link to electronic resources. The Law Library redesigned its Web site to increase access to legal materials for students, faculty, and the North Carolina legal community.

Office of Scholarships and Student Aid

A new Director of the Office of Scholarships and Student Aid, Shirley Ort, was appointed in November, following the retirement of Eleanor Morris. During the 1997-98 fiscal year, the Office made efforts to do more outreach programs and provide information to local high school communities about the financial aid process.

The University, through the Office of Scholarships and Student Aid, served as a test institution for a pilot program involving public high school guidance counselors with the State Education Assistance Authority. The Office also facilitated an internship for a guidance counselor, so the counselor could learn more about the financial aid process.

The Office of Scholarships and Student Aid continued streamlining of the financial aid process for students through electronic transfer of funds to the Cashier's Office. Another initiative involved providing information and encouraging students to research financial aid opportunities on the internet and to encourage electronic submission of federal financial aid forms. The Office also increased efforts to make financial aid awards more timely and to provide information to incoming freshmen students earlier.

Consolidation of all non-need-based academic scholarship programs in the Office was accomplished, and a coordinated selection process for all academic scholarships was established. Successful

development efforts resulted in the availability of twice as many (80) academic scholarships as the previous year. The addition of these academic scholarships enhanced the University's ability to recruit and enroll the most talented students in the State and nation. Development efforts continue for academic scholarships, with the expectation that the number of available academic scholarships will continue to increase each year.

The commitment to provide access to education for students who need financial assistance continues to be a priority, and development efforts continue for need-based scholarships. The University currently maintains over 650 need-based scholarship funds from which to award deserving students.

As part of the Carolina Computing Initiative, freshmen entering the University in 2000 will be required to have laptop computers. To assist students with the purchase, a computer purchase loan program through Student Stores for students, faculty and staff was established. Also, a need-based institutional grant program to assist qualified entering freshmen during the year 2000 with the purchase price of a computer is being established. The grant program will be pilot tested during the 1999-2000 fiscal year.

Information Technology Services

Information Technology continued to increase in importance for the University. The year was one of significant advancement toward supporting University goals and planning for the further integration of instructional technologies into the academic endeavors of the faculty and students. New Chief Information Officer Marian Moore finalized the consolidation of Academic Technology and Networks (ATN) and Administrative Information Services (AIS) as the operational divisions of the campus Information Technology Services (ITS) division.

Chancellor Michael Hooker announced the adoption of the Carolina Computing Initiative (CCI) in February of 1998. This announcement was the culmination of several years of campus deliberations and an intensive assessment by CIO Moore. The CCI is a plan to ensure that students, faculty and staff have appropriate technology and are able to use it effectively and efficiently in their various endeavors. At the center of the Initiative is the requirement that, beginning with freshmen in the fall of 2000, undergraduates at the University of North Carolina at Chapel Hill must own laptop computers that meet University specifications. The laptop requirement is both a recognition of and response to the University's responsibility to prepare students to live and work successfully in the 21st century. It is also an obligation to make computer ownership purposeful and affordable. Thoughtfully executed, the CCI will pave the way for information technology to be as second nature to the Carolina community as pens, paper, and books are now.

Implementation planning for the CCI began in the Spring of 1998 when Ms. Moore created a CCI Steering Committee to coordi-

Carolina Courses Online
The University of North Carolina at Chapel Hill

General Information

Do Online Courses Work?

Carolina Courses Online enables students with access to the appropriate technology to earn college credit by taking courses electronically. Online students do not need to attend class, but must interact with the instructor and other students via the Internet. Online students are able to complete their coursework at their own pace, but must adhere to the deadlines for each course.

Carolina Courses Online are open to any student who wishes to enroll in this method of study, regardless of whether they are currently enrolled at UNC-CH. Online students who wish to enroll in online courses must first complete the online application process.

For more information, please visit our website at www.unc.edu/~carolina or contact your advisor.

Technical Support
UNC-CH Online Support
UNC-CH Online Support
UNC-CH Online Support
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THE CAROLINA COMPUTING INITIATIVE (CCI) WAS ADOPTED IN FEBRUARY. THE CCI IS A PLAN TO ENSURE THAT STUDENTS, FACULTY AND STAFF HAVE APPROPRIATE TECHNOLOGY AND ARE ABLE TO USE IT EFFECTIVELY AND EFFICIENTLY IN THEIR VARIOUS ENDEAVORS.

nate the project. This committee and each of the nine implementation teams reporting to it are comprised of representatives from faculty, staff and students and by mid-summer had close to 150 individuals actively involved in the day-to-day planning. The early planning included the development of a highly competitive Request for Proposals (RFP) to select a strategic vendor to support the CCI. The awarding of this State-approved contract to IBM marked a milestone for the Carolina Computing Initiative. "This sound business arrangement with IBM maximizes the University's collective buying power to obtain better computers and service and more effectively carry out our academic mission in the knowledge-based economy of the 21st century," said Chancellor Michael Hooker. "The contract will help us better incorporate what has become a standard tool — the personal computer — into the daily life of our University, to the benefit of all." This contract with IBM provides more than just competitively priced computers; it encompasses a variety of additional services and on-site support that are representative of the commitment IBM has made to higher education institutions. Conservative estimates show that the University could save \$500 per computer under the new contract.

ATN conducted an internal assessment of services and support obligations that resulted in a substantial reorganization of the unit. Several aspects are noteworthy. One is the creation of the Information Technology Response Center (ITRC) which represents a commitment to consolidate "help-desk" services into a 360 day a year and 24 hour a day campus-wide service. Another is the creation of the Center for Instructional Technology (CIT) as an expansion of the highly successful Simple Start program. The CIT works with the Faculty Information Technology Advisory Committee and the Center for Teaching and Learning to support faculty initiatives to integrate information technology into the curriculum. The reorganization also resulted in the creation of a Distributed Support organization that will be tasked with supporting much of the CCI logistical and distributed support services. ATN also continued its conversion of academic systems into production environments in recognition of the University's increasing dependence on these systems and their mission critical nature to the academic enterprise. This included major upgrades to central systems that support the University's scientific, statistical, and bio-science research programs.

The University made significant advancements in developing its network infrastructure with the addition of four residence halls representing over 3,000 student connections. Progress was also made toward wiring academic buildings and migrating existing legacy network environments to high performance switched Ethernet. The reliability and capacity of the campus fiber backbone network was also enhanced by providing redundant paths to core buildings. University connections to the Internet and other universities were significantly improved through a direct connection to the vBNS in

conjunction with the Internet2 project. Substantial progress was also made toward migrating the University's production two-way video network from a legacy broadband coaxial network to a high capacity and high reliability fiber-optic system.

Administrative Information Services made substantial progress toward the on-schedule remediation of all Year 2000 compatibility issues in the University's numerous core operational computer systems. In addition, a major project to remove Social Security Numbers as personal identifiers in those systems was completed.

Despite the substantial resource requirements for those two University-wide projects, major new application system projects were scheduled. A new Facilities Management information system was purchased and successfully implemented. A new distributed Human Resources Information System, incorporating redesigned and streamlined processes was installed and is approaching deployment. A modern departmental accounting system that will be tightly integrated with the University's central financial systems was selected, purchased, staffed and is currently being tested. A new team was established to deliver a comprehensive grant management system that will aid University researchers in all phases of grant application and management. Development and testing of this system is underway.

Existing central systems were enhanced through the addition of new web-based interfaces and services. These included major offerings in the financial and student services areas. For students, key new components are an on-line degree progress analysis tool and a web-based class registration process. Web application for admission is also available.

Information Technology continues to grow in importance to practically every facet of University life.

University Advancement

Fiscal year 1997-98 was an extraordinary year, by far the best ever for private giving to the University. Alumni and friends gave \$131.8 million, an increase of 23 percent from 1996-97. Fiscal year 1997-98 was the seventh straight record year for private giving to the University. It also was the second year in which private gifts and grants topped the \$100 million mark. This extraordinary support speaks for the University's loyal, well-informed alumni and friends, and especially for the several hundred volunteers, including National Development Council and Young Alumni Council members, who help carry the message about the University's needs and achievements to their peers.

Private funds played a major role in restoring the Academic Affairs Library to its current ranking of 17th in the nation, after it fell from the top 20 in the budget crisis of the late 1980s and early 1990s. Gifts have paid for many graduate fellowships, most under-

"THE [CCI] CONTRACT WILL HELP US BETTER INCORPORATE WHAT HAS BECOME A STANDARD TOOL — THE PERSONAL COMPUTER — INTO THE DAILY LIFE OF OUR UNIVERSITY, TO THE BENEFIT OF ALL." —CHANCELLOR HOOKER

FISCAL YEAR 1997-98 WAS THE SEVENTH STRAIGHT RECORD YEAR FOR PRIVATE GIVING TO THE UNIVERSITY. IT ALSO WAS THE SECOND YEAR IN WHICH PRIVATE GIFTS AND GRANTS TOPPED THE \$100 MILLION MARK.

graduate scholarships, and virtually all of the 200 endowed professorships at the University; funds that allow the University to provide exceptional opportunities to more students and faculty members than would be possible with State funds alone.

Of the total gifts and private grants of \$131.8 million, \$117.3 million (89 percent) was directed to academics and \$14.5 million to athletics. Private grants totaled \$28.6 million, the highest ever. In 1997-98, the largest number of alumni ever, 44,604, made gifts to the University for academic support.

A total of 2,626 individuals made Chancellors' Club-level gifts, an 8 percent increase over the prior year and the largest number ever. An influx of young alumni members has begun to create a new generation of fund-raising volunteers and major donors. Chancellors' Club leadership is indispensable. Members contribute 90 percent of total gifts to Carolina for academics.

Young alumni are Tar Heels within 15 years of graduation (classes of 1984 through 1998). As potential fund-raising leaders and donors, they are vital to the University's future and are encouraged to give annually. Fiscal year 1997-98 was the third full year of operation for the young alumni-giving program. The results were that 371 young alumni joined the Chancellors' Club, an increase of 18 percent. A total of 10,354 young alumni gave \$1,186,715 to the University in 1997-98.

Corporations, foundations, and organizations made gifts and grants to the University of \$57.1 million for academics in 1997-98. Corporate and foundation support was instrumental in launching one new venture that students, faculty, staff and the general public enjoyed, the first-ever North Carolina Literary Festival at the University on April 3-5, 1998. Thousands attended, and more than 100 writers read from their works, took part in discussions and engaged with students and the public.

One way that students show their appreciation to Carolina and form the habit of giving back is by contributing to the senior class gift. This year's seniors, members of the Class of 1998, and their parents have given more than \$30,000. Their designated class gift is a travel-abroad fund. The Arts and Sciences Foundation has agreed to match the gifts dollar for dollar up to a total of \$40,000.

Parents of University students are tremendously enthusiastic about the opportunities their students are receiving. Many parents become donors. In fiscal 1997-98, gifts from parents, both non-alumni and alumni, totaled \$2.4 million. In January 1998, the University launched a parents' development program to broaden the involvement of parents with the University and to make the case for support among this group.

A total of 1,711 University faculty and staff members gave \$1.3 million in the annual University Campaign. They know firsthand the value of Carolina's teaching, research and public service, and are among the University's most loyal donors. For the third straight

year, the Phonathon student callers exceeded the \$2 million mark in pledges recorded. The students also set a record for the largest number of prospective donors reached by phone, 88,754. Having completed their calling to all available numbers, the Phonathon students then called 8,000 donors simply to thank them for their support. The Phonathon is among the top three employers of students on campus; more than 250 undergraduates worked as student callers in 1997-98.

For the third consecutive year, the number of stock gifts to the University increased. In 1997-98, there were 549 such gifts, totaling \$8.9 million. It was also a record year for bequests from alumni and friends who remembered the University in their wills. The University received \$29.1 million from 52 estates. Life-income gifts are another way for donors to include a charitable gift to the University in their estate planning. In 1997-98, the University recorded life-income gifts with a fair market value of \$4.2 million.

In 1997-98, donors contributed \$9.8 million to undergraduate scholarship programs, more than double the prior year total. A total of \$4.6 million was given for graduate and professional student fellowships, and \$5.8 million was contributed for professorships. Gifts and grants for capital projects totaled \$9.4 million.

Student Affairs

Vice Chancellor Sue Kitchen reorganized the Division of Student Affairs to reflect a more student-centered approach, creating two new associate vice chancellor posts focusing on student learning and student services. With a newly selected dean of students, there is a strong and enthusiastic leadership team in place.

Alcohol awareness remained a priority, and many education efforts involved Student Affairs. In August, 1997 Student Affairs sponsored the first Fall Fest, an alcohol-free, campus-wide block party the night before classes began. More than 5,000 students attended, and alcohol citations decreased 30% that weekend. Student Affairs extended the alcohol-free events to University football fans, who were invited to celebrate at "Tar Heel Town" before each home game.

The University paired with Tar Heel Sports Marketing for the "Don't Get Wasted" campaign, aimed at educating students who choose to drink about their responsibilities. Thanks to a \$570,000 grant, the University teamed with Cornell University and the Center for Science in the Public Interest to work on a first-of-its kind national media campaign to reduce binge drinking among college students. In January, 1998, plans to add 325 substance-free residence hall spaces to the existing 165 were announced. The past year marked the first alcohol-free rush for campus fraternities.

Technology is not just in the classrooms. Wiring was completed for four high-rise residence halls for computers and cable, and the

A TOTAL OF 1,711 UNIVERSITY FACULTY AND STAFF MEMBERS GAVE \$1.3 MILLION IN THE UNIVERSITY CAMPAIGN. THEY KNOW FIRSTHAND THE VALUE OF CAROLINA'S TEACHING, RESEARCH AND PUBLIC SERVICE.

WIRING WAS COMPLETED FOR FOUR HIGH-RISE RESIDENCE HALLS FOR COMPUTERS AND CABLE, AND THE REST ARE EXPECTED TO BE FINISHED IN THE NEAR FUTURE.

rest are expected to be finished in the near future. New web pages for the Division of Student Affairs, the Dean of Students Office, and the orientation program went up, among others. A web site was created to serve the needs of new students, and University Career Services offered online help for student job hunters.

Campus fraternities and sororities continued to be a valuable part of the University community, performing more than 39,000 hours of service and raising more than \$100,700 for local and national causes.

Institutional Effectiveness Initiatives

As a result of efforts to improve the way our business is conducted, the University is providing more efficient and effective services to our constituents, and 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 and Safety, Facilities Management, Human Resources, Student Affairs, Undergraduate Admissions, Administrative Information Services, Academic Technology and Networks, Learning Disability Services, University Legal Counsel, the English Department, and the Schools of Dentistry, Medicine, Nursing, and Pharmacy. 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 the University, the Office of Institutional Effectiveness provides training, consultation, team support, and documentation services to its campus clients. Over 1300 employees have participated in institutional effectiveness education programs, with 560 employees currently involved in 51 official process design and process improvement teams. The following are examples of initiatives that have been implemented or are currently underway.

Institutional Effectiveness Initiatives included the following:

Undergraduate Admissions: Undergraduate Admissions implemented 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. They have focused 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 recently purchased Pinnacle Software's InDEPTH Departmental Accounting System (DAS) will meet varying departmental accounting needs, eliminate duplicate data entry tasks, and provide more accessible and useful management information. The software has been designed specifically for higher education and to integrate with the University's central accounting system. Improved efficiency and monetary savings to the campus are anticipated. DAS will be interfaced with the Human Resources Information System and the Grants Management System described below to provide a comprehensive and integrated set of tools for campus departments.

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. Fourteen cards were issued to pilot departments, and the card is expected to be available to all departments by the end of 1998.

Job Order Team: Nearly half of the building renovation projects completed by the Physical Plant cost less than \$5,000 apiece. A team developed a special project management process to handle these projects. When backlogs have been eliminated and glitches worked out, the team anticipates a reduction in the response time by 50%.

Travel System Implementation Team: The team is now in the process of developing a central airfare billing system that will be available to all campus departments. The process will enable departments to purchase airline tickets through approved travel agencies electronically, eliminating much of the paperwork presently necessary to the process. When fully implemented, the University is expected to save more than \$1 million per year in airfare.

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 the University, change their address, and get their course schedules, grades, and bills using the World Wide Web. Recent priorities include students being able to register for courses and conduct degree audits online.

Human Resources Information System: The 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. Implementation of the system is underway, with the first phase completed in 1998.

Accounts Receivables Process: A team was chartered to examine processes involved in collections, accounts receivable informa-

TO SUPPORT CONTINUOUS QUALITY IMPROVEMENT EFFORTS AT THE UNIVERSITY, THE OFFICE OF INSTITUTIONAL EFFECTIVENESS PROVIDES TRAINING, CONSULTATION, TEAM SUPPORT, AND DOCUMENTATION SERVICES TO ITS CAMPUS CLIENTS.

UNDERGRADUATE ADMISSIONS CREATED A TEAM-BASED ORGANIZATION TO IMPROVE INTERNAL COMMUNICATION AND HAVE DEVELOPED SERVICE STANDARDS FOR PERSONALIZED SERVICE, TIMELINESS, ACCURACY, AND CONSISTENCY.

tion, and customer payment options in response to an assessment of the needs of internal and external customers. Recommendations for improvement are being implemented in the following areas: compliance under the statewide accounts receivable program, statewide accounts receivable program evaluation, and reporting capacities.

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. As of August 1998, 62.5% of the departments on campus were using the system. When all departments use the system it will eliminate the completion and processing of paper forms, and will further enhance customer service by providing an on-line tracking system for disbursements.

Campus Grants Management System: The time to review proposals has been reduced by implementing expedited processing of proposal applications, resulting in an estimated annual cost savings of \$30,000. Campus Grants Management software has recently been purchased, which when implemented will allow departments to realize additional efficiencies such as the electronic submission of proposals to Federal granting agencies.

Enrollment Services: The team was chartered to study all points of student contact in the enrollment system and (re)design these contact points where warranted. To resolve any informational conflicts, and to create a consistent repeated message among various departments, the team is examining mailings, World Wide Web sites, and telephone and in-person contacts from the student's point of view. The team is also studying the flow of data in order to streamline the overall process for both students and offices, making communication with the University easier and more understandable for parents and students.

Other Administrative Initiatives

The University Child Care Center, a joint project of the University of North Carolina at Chapel Hill and UNC Hospitals, neared completion. The new facility located near the Friday Center is a state-of-the-art child care facility designed to hold 120 children from infants to five years of age. Victory Village Day Care Corporation, a non-profit organization that has provided day care to children from the University community for many years, will operate the facility. The Center is scheduled to open in August, 1998.

A Transit and Parking Task Force spent the 1997-98 fiscal year studying the University's present transit and parking options, as well as successful integrated systems at other major universities, and recommended a slate of changes and improvements that were approved by the Board of Trustees in May 1998. Among the most important changes were a 200% increase in free on-campus transit services and the implementation of a free park-and-ride program. In addition,

the University agreed to lease to the Town of Chapel Hill a 7-acre tract of land to be used for an additional park-and-ride facility.

The Health and Safety Office reorganized its laboratory inspection activities into a comprehensive cross-functional program, the Collaborative Laboratory Inspection Program (CLIP). CLIP requires only one inspection, by a cross-trained Health and Safety inspector, instead of as many as five separate inspections; and allows each laboratory to be inspected at least annually. Prior to the reorganization, laboratories not using radioactive materials in their research could be inspected only once every three years because of insufficient manpower.

Improvements continued to be made in facilities of auxiliary services that serve students. The fiscal year-end found Carolina Dining Service putting the finishing touches on the major renovation of the main campus food service facility, Lenoir Hall, in preparation for the opening of the 1998 Fall semester. The Student Stores broke ground on a new 18,000 square foot Health Affairs Bookstore, to replace the current, seriously inadequate, 600 square foot space located in a classroom building.

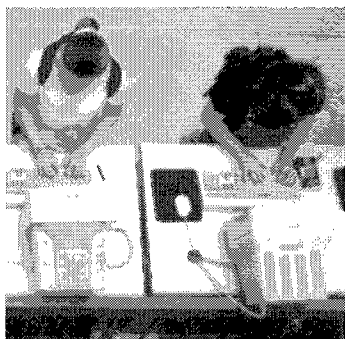
Department of Athletics

University athletic teams won Atlantic Coast Conference titles 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. The field hockey and women's soccer teams also captured national championships, while the men's basketball and women's lacrosse teams were both NCAA semifinalists, and the football team emerged victorious in the Gator Bowl.

Bill Guthridge succeeded his former boss, the legendary Dean Smith, as men's basketball coach, while Carl Torbush, formerly Tar Heel defensive coordinator, was named head football coach. Other new appointments were coaches John Inman in men's golf, Roland Thornquist in women's tennis, and Mike Fox in baseball.

The University also saw the expansion of its athletic program — both in the sports represented and in facilities. The addition of women's rowing brought the athletic program to 28 varsity sports. Two phases of renovations and expansion of Kenan Stadium were completed, increasing seating capacity to 60,100. Construction began on a new soccer facility, permanent seating at Cone-Kenfield Tennis Center, and a stadium complex for Navy Fields, which serves field hockey and women's lacrosse. Carmichael Auditorium received a new roof and work began on a new floor.

The University's athletic program also received a boost when the University signed a five-year, \$7.1 million contract with Nike. The revenue will go far in helping the athletic department remain self-supporting. Discussion about the contract spilled into academe-



UNIVERSITY ATHLETIC TEAMS WON ACC TITLES 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.

mics with the creation of a new seminar that examined global economics by using Nike's practices as a case study.

National Ratings

While subjective rankings are never the primary measurement of academic quality and value, it is gratifying that several publications have included The University of North Carolina at Chapel Hill in listings of the nation's top public universities. In the September 1998 issue of *Kiplinger's Personal Finance* magazine, the University was ranked number one for delivering a high-caliber education at the lowest possible cost. The article, "State Universities to Cheer About," ranked the nation's 100 "best buys" for in-state students. *U.S. News & World Report* magazine's "America's Best Colleges" issue dated August 31, 1998, ranked the University third among public universities and 24th overall among both public and private national universities. Among publics, the University trailed only California at Berkeley and Virginia, which were tied for first place. *The Select: Realities of Life and Learning in America's Elite Colleges* provides college-placement consultant Howard R. Greene's selection of America's 20 most prestigious colleges. The University was one of only three public institutions to make the list.

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 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.

The University Priorities and Budget Committee (UPBC) focuses on significant, campus-wide priorities and related funding decisions. The UPBC helps formulate the campus program priorities that lead to the achievement of vision, develops financial plans that can be used to obtain funds to address critical needs that support the priorities, and develops allocation strategies to guide how funds from all unrestricted sources will be allocated to meet campus needs.

Current Funds Revenues and Expenditures

In fiscal 1998, the University expended nearly \$1.121 billion fulfilling its mission of instruction, research, and public service. The \$1.121 billion consists of \$1.117 billion in expenditures and mandatory transfers and \$4 million in other transfers and refunds to grantors. Approximately 54.8% 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 12.0% of the total.

Other uses of operating resources were for public service (7.0%); institutional support (4.4%); physical plant operations

IN THE SEPTEMBER 1998 ISSUE OF *KIPLINGER'S PERSONAL FINANCE* MAGAZINE, THE UNIVERSITY WAS RANKED NUMBER ONE FOR DELIVERING A HIGH-CALIBER EDUCATION AT THE LOWEST POSSIBLE COST.

IN FISCAL 1998, THE UNIVERSITY EXPENDED NEARLY \$1.121 BILLION FULFILLING ITS MISSION OF INSTRUCTION, RESEARCH, AND PUBLIC SERVICE.

(5.7%); student financial aid (3.7%); and self-supporting auxiliary and related operations (10.1%). Mandatory and other transfers, refunds to grantors, and investment losses accounted for the remainder (2.3%).

[Please see chart below] Total expenditures of \$1.121 billion represent an increase of 6.7% over the prior year. Instruction, academic support, and student services increased 8.3% over the prior year while professional clinical services increased 16.1%. Other increases included student financial aid (7.9% increase over prior year), public service (12.2% increase over prior year), institutional support (11.8% increase over prior year), and auxiliary enterprises/ internal service (11.1%). Physical plant operations increased 5.2% from the prior year along with organized research which increased 5.7%.

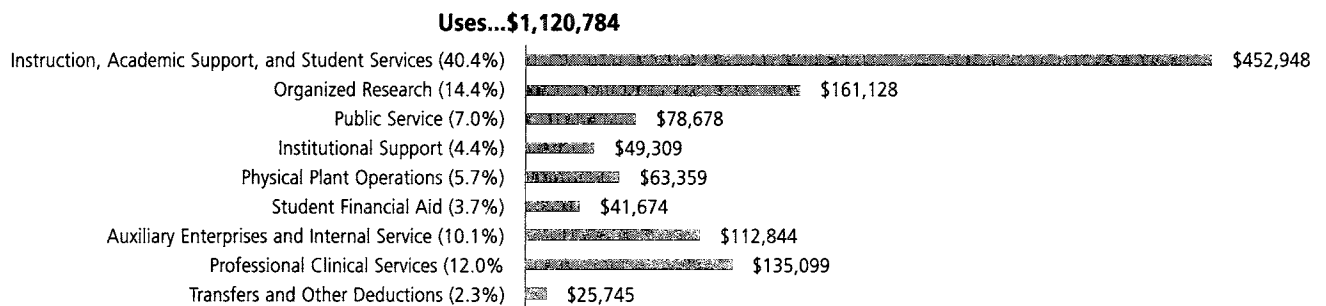
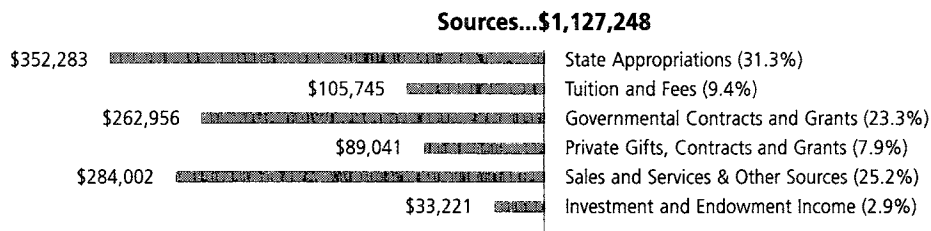
Resources of more than \$1.127 billion supporting these expenditures increased 6.1% over the prior year which, when combined with restricted receipts of \$10 million not transferred to revenues, resulted in a \$15.7 million increase to the Current Funds balances. The University has a diversified revenue 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 1998 (31.3% of total, 6.2% increase over prior year). Remaining revenue sources were tuition and fees (9.4% of total, 3.4% increase), governmental contracts and grants (23.3% of total, 6.1% increase), sales and services and other sources (25.2% of total, 7.2% increase), private gifts, grants, and contracts (7.9% of total, 14.0% increase), and investment and endowment earnings (2.9% of total, 10.5% decrease).

Resources of proprietary funds, which include auxiliary enterprise, internal service, and professional clinical service activities, totaled \$284 million. The remaining current funds resources of \$843 million support the educational and general activities of the University and are summarized as follows (in thousands):

Educational and General	Amount	% of Total
State Appropriations	\$352,283	41.8 %
Tuition and Fees	105,745	12.5 %
Governmental Contracts and Grants	262,956	31.2 %
Private Gifts, Contracts and Grants	88,012	10.5 %
Sales and Services and Other Sources	10,816	1.3 %
Investment and Endowment Income	23,038	2.7 %
Total	\$842,850	100.0%

Current Funds for the year ended June 30, 1998 (in thousands)



The student headcount of the University was 24,189 for the Fall semester of fiscal 1998. Student enrollment has remained stable over the last five years, increasing 1.0%. Student enrollment for fiscal 1998 was composed of the following categories:

Women	58.6%
Men	41.4%
White	80.0%
African American	9.8%
Other	10.2%
Undergraduate	63.3%
Graduate	28.0%
Professional	8.7%
Resident	76.1%
Nonresident	23.9%

Fund Accounting

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

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

Fiduciary Funds — include Loan Funds, Endowment and Similar Funds, and Agency Funds. Loan Funds include resources received

from donors, governmental agencies, and mandatory institutional matching grants which are restricted for use in making student loans. Endowment and Similar Funds are further categorized as Endowment Funds, Term Endowment Funds, Quasi-endowment Funds, and Annuity and Life Income Funds. Endowment Funds are subject to restrictions of gift instruments whereby principal is invested and only income is utilized. Term Endowment Funds are similar to Endowment Funds, except that all or part of the principal may be used after a stated period of time or on the occurrence of a certain event. Quasi-endowment Funds have been established by the governing board for the same purposes as Endowment Funds, and any portions of Quasi-endowment funds may be expended. Annuity and Life Income Funds are received by the University under deferred-giving agreement contracts that provide income to the donor and/or the donor's designee for life or for a fixed period of time. At the termination of the contracts, the funds become available for general institutional purposes or for any restricted purpose designated by the donor in the contract. Agency Funds are those funds of students and organizations held by the University as custodian. The transactions of the Agency Funds do not result in any revenue or expenditures for the University; therefore, these funds are not shown in the statement of changes in fund equity.

Plant Funds — include Unexpended Plant Funds, Debt Service Funds, and Investment in Plant Funds. Unexpended Plant Funds account for the resources utilized to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Debt Service Funds account for resources specifically accumulated for interest and principal payments, debt service reserve funds, and other debt related charges. Investment in Plant Funds account for all long-life assets of the University, construction in progress, and related debt for funds borrowed and expended for the acquisition of Plant Fund assets.

Debt Administration

The University of North Carolina at Chapel Hill has \$279 million of revenue bonds outstanding at June 30, 1998. 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.

IN ORDER TO ENSURE OBSERVANCE OF LIMITATIONS AND RESTRICTIONS PLACED ON THE RESOURCES AVAILABLE TO THE UNIVERSITY, THE ACCOUNTS OF THE UNIVERSITY ARE MAINTAINED IN ACCORDANCE WITH THE PRINCIPLES OF FUND ACCOUNTING.

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, AND MORE.

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.

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, 1997. 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.

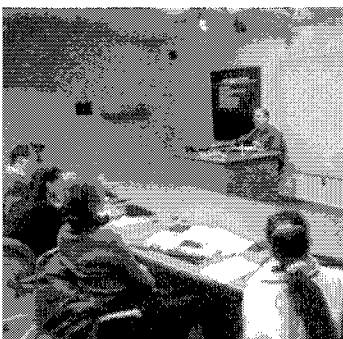
Acknowledgments

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, Academic Affairs, Health Affairs, Graduate Studies and Research, Student Affairs, Information Technology Services, University Advancement, Public Relations, Institutional Research, the Office of Scholarships and Student Aid, the Department of Athletics, 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.



James R. Ramsey

Vice Chancellor for Finance and Administration



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL
WAS AWARDED A CERTIFICATE OF ACHIEVEMENT FOR
EXCELLENCE IN FINANCIAL REPORTING FOR ITS COMPRE-
HENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL
YEAR ENDED JUNE 30, 1997.

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Assistant to the Chancellor
and Senior University Counsel

Elson S. Floyd

Executive Vice Chancellor

Wayne R. Jones

University Treasurer

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Vice Chancellor for Student Affairs

Matthew G. Kupec

Vice Chancellor for University Advancement

Thomas J. Meyer

Vice Provost for Graduate Studies and Research

Marian G. Moore

Chief Information Officer

James R. Ramsey

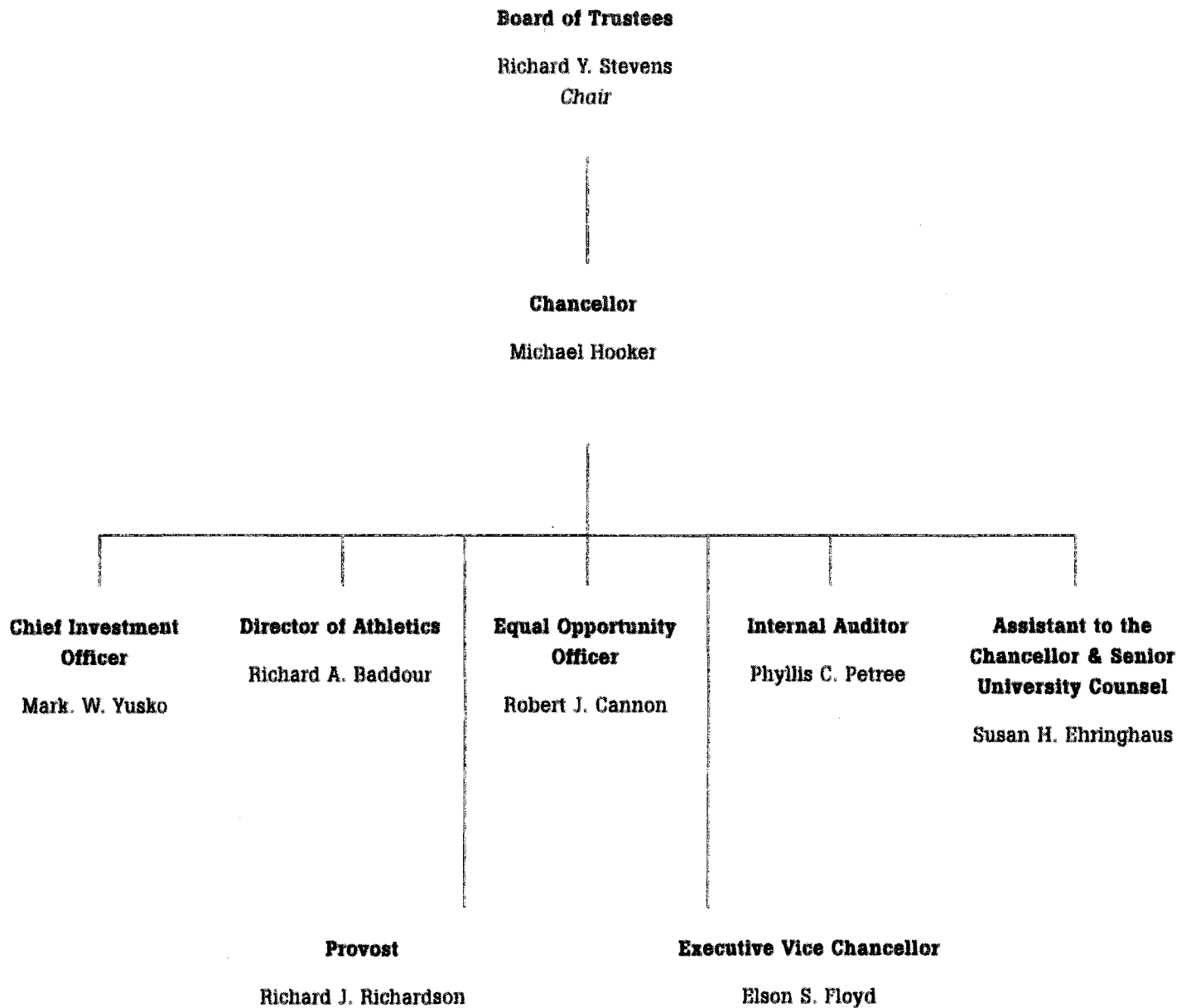
Vice Chancellor for Finance and Administration

Richard J. Richardson

Provost

Organization Chart

The University of North Carolina at Chapel Hill



Certificate of Achievement for Excellence in Financial Reporting

Presented to

The University of
North Carolina at
Chapel Hill

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1997

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.



Douglas R. Ellaworth
President

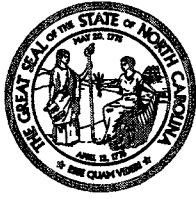
Jeffrey L. Esch
Executive Director



FINANCIAL SECTION

TECHNOLOGY AT WORK: We are moving forward with making a Carolina-quality education available across the state and beyond with the help of the Internet and other high-tech tools. During the spring we offered nine undergraduate courses online, and this fall we will add four new ones. We also are offering a master's in public health, a doctorate in pharmacy and a bachelor's of science in nursing degree using a variety of distance learning technologies.

—CHANCELLOR'S FYI NEWSLETTER



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, 1998, 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.

Except as discussed in the following paragraph, 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The University has included such disclosures in Note 7C to the financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the University's disclosures with respect to the year 2000 issue made in Note 7C to the financial statements. Further, we do not provide assurance that the University is or will be year 2000 ready, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, 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, 1998, 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.



INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS
(CONCLUDED)

As discussed in Note 1 to the financial statements, The University of North Carolina at Chapel Hill implemented Governmental Accounting Standards Board Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, during the year ended June 30, 1998. As discussed in Note 1G to the financial statements, the State of North Carolina changed its method of accounting and allocating securities lending transactions to participants in the State Treasurer's investment pools, including the University's funds, during the year ended June 30, 1998.

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.

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

Ralph Campbell, Jr.
State Auditor

November 12, 1998

Balance Sheet *June 30, 1998*

	CURRENT FUNDS		
	General	Unrestricted Proprietary	Restricted
Assets			
Cash and Cash Equivalents (Note 1E and 2)	\$51,676	\$87,037	\$98,709
Investments (Note 1F and 2)	11,985	179,200	85,643
Accounts Receivable-Students	1,423	884	
Accounts Receivable-Patients (Net)(Note 1H)		26,522	
Due from Federal Government			20,387
Accrued Interest Receivable	3,224	832	221
Other Receivables	3,628	5,924	17,575
Due from Other Funds	29,985	186	
Due from State Agencies	1,399	1,108	2,496
Student Loans Receivable (Net) (Note 1H)			
Inventories (Note 1I)	1,614	12,212	79
Prepaid Expenses	4	95	1
Land and Improvements			
Furniture and Equipment			
Buildings and Fixed Equipment			
Other Structures and Improvements			
Artworks and Literature			
Construction-In-Progress			
Total Assets	\$104,938	\$314,000	\$225,111
Liabilities and Fund Equity			
Liabilities			
Accounts Payable	\$3,414	\$3,962	\$6,001
Accrued Payroll	12,011	5,764	5,663
Claims Payable		20,436	
Other Payables	200		
Contracts Payable-Retainage			
Due to State Agencies	7	691	56
Due to Other Funds	186	17,729	21,244
Deposits Payable	4,655	889	
Accrued Interest Payable			
Accrued Vacation Leave	20,051	9,450	9,598
Deferred Revenue	1,602	5,003	26
Bonds Payable (Note 8)			
Obligations Under Reverse Repurchase Agreements	979	36,500	5,840
Obligations Under Securities Lending Transactions	7,190	55,879	63,828
Arbitrage Liability			
Unamortized Bond Discount			
Funds Held in Trust for Pool Participants			
Funds Held for Others			
Total Liabilities	50,295	156,303	112,256
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			112,855
Unrestricted	54,643	157,697	
Total Fund Equity	54,643	157,697	112,855
TOTAL LIABILITIES & FUND EQUITY	\$104,938	\$314,000	\$225,111

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

The University of North Carolina at Chapel Hill
June 30, 1998 (in thousands)

FIDUCIARY FUNDS			PLANT FUNDS		
Loan	Endowment & Similar Funds	Agency	Unexpended	Debt Service	Investment in Plant
\$6,340	\$50,482	\$69,069	\$84,314	\$1,129	
5,942	586,499	305,026	36,302	29,429	
28			86	2,505	
	368	201		16,275	
32,211				856	
					\$7,015
					163,987
					743,061
					42,744
					211,490
					136,815
\$44,521	\$637,349	\$374,296	\$120,702	\$50,194	\$1,305,112
	\$3,600		\$8,444		
	2,995		4,244		
					\$7,287
				\$3,474	
			20,580	16,436	242,080
	50,534	\$67,299			
\$4,119	32,470	42,996	14,826	734	
			276		
				(2,779)	
		196,495			
		67,506			
4,119	89,599	374,296	48,370	17,865	249,367
					1,055,745
28,817					
	384,910				
	85,787				
	57,256				
	19,797				
				2,365	
				17,529	
11,165			66,041	1,130	
420			6,291	11,305	
40,402	547,750	0	72,332	32,329	1,055,745
\$44,521	\$637,349	\$374,296	\$120,702	\$50,194	\$1,305,112

Statement of Changes in Fund Equity

	CURRENT FUNDS		
	Unrestricted		Restricted
	General	Proprietary	
Revenues and Other Additions			
State Appropriations	\$352,283		
Tuition and Fees	105,745		
Federal Contracts and Grants	50,000		\$238,609
State Contracts and Grants	2,243		34,336
Private Gifts, Contracts and Grants	5,164	\$1,029	82,847
Sales and Services	4,160	264,295	
Endowment Income	3,481		10,713
Investment and Interest Income	6,862	10,183	2,730
Securities Lending Income	2,568	2,059	1,347
Expended for Plant Facilities			
Retirement of Indebtedness			
Proceeds of Debt Refunding			
Other Revenues and Additions	2,741	6,832	4,583
Total Revenues and Other Additions	535,247	284,398	375,165
Expenditures and Other Deductions			
Educational and General	540,840		306,256
Auxiliary Enterprises		106,837	
Internal Service Funds		6,007	
Professional Clinical Services		135,099	
Indirect Costs Recovered			57,483
Refunded to Grantors			661
Administrative and Collection Costs, Loan Cancellations and Bad Debts			
Expended for Plant Facilities			
Retirement of Indebtedness			
Interest on Indebtedness			
Disposal of Plant Facilities			
Securities Lending Transaction Fees	2,568	2,059	1,347
Payment to Escrow Agent			
Other Expenditures and Deductions			
Total Expenditures and Other Deductions	543,408	250,002	365,747
Excess of Revenues Over (Under) Expenditures	(8,161)	34,396	9,418
Transfers — Additions (Deductions)			
Mandatory Transfers	(43)	(22,809)	
Non-Mandatory Transfers	3,265	(8,888)	9,365
Net Transfers	3,222	(31,697)	9,365
Net Increase in Fund Equity	(4,939)	2,699	18,783
Fund Equity July 1, 1997 as Restated (Note 12)	59,582	154,998	94,072
Fund Equity June 30, 1998	\$54,643	\$157,697	\$112,855

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

The University of North Carolina at Chapel Hill
Year Ended June 30, 1998 (in thousands)

FIDUCIARY FUNDS		PLANT FUNDS		
Loan	Endowment & Similar Funds	Unexpended	Debt Service	Investment in Plant
		\$32,655		
\$11	\$33,918	19,189		\$1,754
45	1,034			
1,305	75,639	2,395	\$2,123	
267	1,755	924	51	
				77,577
				7,550
			40,591	
123	2,530	101		
1,751	114,876	55,264	42,765	86,881
704		50,778		
			7,550	
			14,231	
				20,585
267	1,755	924	51	
			40,591	
	3,062			3,543
971	4,817	51,702	62,423	24,128
780	110,059	3,562	(19,658)	62,753
43		(916)	23,725	
198	(12,563)	8,623		
241	(12,563)	7,707	23,725	0
1,021	97,496	11,269	4,067	62,753
39,381	450,254	61,063	28,262	992,992
\$40,402	\$547,750	\$72,332	\$32,329	\$1,055,745

Statement of Current Funds Revenues, Expenditures and Other Changes

The University of North Carolina at Chapel Hill
Year Ended June 30, 1998 (in thousands)

	Unrestricted			Restricted	Total Current Funds
	General	Proprietary	Total		
Revenues					
State Appropriations	\$352,283		\$352,283		\$352,283
Tuition and Fees	105,745		105,745		105,745
Federal Contracts and Grants	50,000		50,000	\$181,687	231,687
State Contracts and Grants	2,243		2,243	29,026	31,269
Private Gifts, Contracts and Grants	5,164	\$1,029	6,193	82,848	89,041
Sales and Services	4,160	264,295	268,455		268,455
Endowment Income	3,481		3,481	12,695	16,176
Investment and Interest Income	6,862	10,183	17,045		17,045
Securities Lending Income	2,568	2,059	4,627	1,347	5,974
Other Revenues	2,741	6,832	9,573		9,573
Total Current Revenues	535,247	284,398	819,645	307,603	1,127,248
Expenditures					
Educational and General					
Instruction	272,050		272,050	111,709	383,759
Organized Research	25,411		25,411	135,717	161,128
Public Service	48,104		48,104	30,574	78,678
Academic Support	53,180		53,180	3,348	56,528
Student Services	12,233		12,233	428	12,661
Institutional Support	46,938		46,938	2,371	49,309
Physical Plant Operations	62,739		62,739	620	63,359
Student Financial Aid	20,185		20,185	21,489	41,674
Total Educational and General	540,840	0	540,840	306,256	847,096
Auxiliary Enterprises					
		106,837	106,837		106,837
Internal Service					
		6,007	6,007		6,007
Professional Clinical Services					
		135,099	135,099		135,099
Securities Lending Transaction Fees	2,568	2,059	4,627	1,347	5,974
Total Expenditures	543,408	250,002	793,410	307,603	1,101,013
Transfers and Additions/(Deductions)					
Excess of Restricted Receipts over					
Transfers to Revenues				10,079	10,079
Refunded to Grantors				(661)	(661)
Mandatory Transfers	(43)	(22,809)	(22,852)		(22,852)
Non-Mandatory Transfers	3,265	(8,888)	(5,623)	9,365	3,742
Net Increase in Fund Equity	(\$4,939)	\$2,699	(\$2,240)	\$18,783	\$16,543

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, a governmental external investment pool, have been blended with those of the University. Separate financial statements for the Foundation and Investment Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370. 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, external investors in the Investment Fund, and other 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.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

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, equity investments, limited partnerships, real estate investment trusts, and other investments held by the University. Other investments consist of real estate not held in an external investment pool. Effective July 1, 1997, the University implemented Governmental Accounting Standards Board (GASB) Statement Number 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools which requires that certain investments be reported at fair value for year-end financial reporting purposes. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. Per GASB 31, the net increase (decrease) in the fair value of investments is recognized as a part of investment income. The adoption of GASB 31 also resulted in a restatement of beginning fund balances as described in Note 12. GASB 31 does not apply to other investments noted above. If purchased, other investments are valued at cost. Other investments received by gift are valued at fair market or appraised value at date of gift.

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. Fund ownership of pooled investments are measured using the unit value method. Under this method, each participating fund's investment balance is determined on a market value basis. Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's pooled endowment funds, which can vary between 4% and 7% of market value, are determined by increasing the prior year payout per share by the inflation rate. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference.

G. Securities Lending Transactions:

These transactions occur when government entities loan their securities to broker-dealers and other entities (borrowers) in exchange for collateral and simultaneously agree to return the collateral for the securities in the future.

The University does not directly engage in securities lending transactions; however, it deposits certain funds with the State Treasurer's investment pools, which do participate in securities lending activities. The State Treasurer's Office allocates a prorata share back to the individual entities owning the funds. The University recognizes its portion of securities lending transactions that are held in the State Treasurer's "Securities Lending Collateral Investment Pool" as an asset and an equal liability amount as "Obligations Under Securities Lending Transactions." Similarly, the allocated portion of the income and costs arising from pooled securities lending transactions is reported as "Securities Lending Income" and "Securities Lending Transactions Fees." Under this method there is no effect on beginning or ending fund balances. During the year, the State reassessed which funds and component

units bear the risk of loss on the collateral assets. This significantly affected the assets and liabilities reported by the University.

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 \$37,044,000, \$261,000, and \$1,350,000 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 that 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.

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as: (1) expenditures, in the case of normal replacement of furniture and movable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization, interest, and equipment renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

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 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 held directly by the University.

Cash and cash equivalents include cash on hand, cash on deposit with the State Treasurer, commercial bank accounts, and certificates of deposit totaling \$451,823,000. At year-end, cash on hand was \$59,000. The carrying amount of the University's deposits with the State Treasurer was \$438,037,000, and the bank balance was \$453,484,000. 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 \$10,660,000 and certificates of deposit of \$3,067,000. The bank balance of these deposits was \$14,411,000 of which \$1,596,000 was covered by federal depository insurance or by collateral held by the University's agent in the University's name, and \$12,815,000 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 buyout transactions, not to exceed \$30 million; obligations or securities of the North Carolina Enterprise Corporation, or of a limited partnership in which the North Carolina Enterprise Corporation is the only general partner, not to exceed \$20 million.

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

funds are expected to be required for expenditure or withdrawal.

General Statutes also provide that the trustees of the Endowment Fund shall be responsible for the prudent investment of the fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the endowment fund to be invested.

Investments of the Foundation and the Investments Funds are restricted only by the requirements placed on them by pool participants and contracted or donor agreements.

Under the University's authority to purchase and sell securities, it has entered into fixed coupon reverse repurchase (reverse repurchase) agreements, that 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 \$9,714,000.

The University's investments in the underlying securities and the securities purchased with proceeds from the reverse repurchase agreements are in accordance with the statutory requirements as noted.

The University invests the majority of the proceeds of reverse repurchase agreements in the investment pool managed by the State Treasurer. These deposits are available on demand.

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, 1998:

	(in thousands)
	Fair Value
Investments by Fund Type:	
Endowment	\$402,801
Quasi Endowment Unrestricted	81,098
Quasi Endowment Restricted	76,400
Annuity and Life Income Funds	26,200
Total	\$586,499
Pooled and Non-pooled:	
Money Market	\$ 7,347
Equities	280,679
Fixed Income	188,679
Other	109,794
Total	\$586,499

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 financial institution's trust department or agent in the University's name.

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, 1998, the University had no outstanding option transactions.

During the year ending June 30, 1998, 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, 1998, 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 eleven 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, 1998, is as follows (in thousands):

Total funds invested in GMO Trust portfolios	\$90,543
Less: Amounts due to private foundations	(24,581)
Net University & Foundation funds invested	\$65,962

The University's net holdings in the GMO Trust represent approximately 9.28% 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 seven 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, 1998, is as follows (in thousands):

Total funds invested in BlackRock	\$44,366
Less: Amounts due to private foundations	(7,946)
Net University and Foundation funds invested	\$36,420

The University's net holdings in BlackRock represent approximately 5.12% 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, 1998, is as follows (in thousands):

Total funds invested in Oppenheimer fund	\$22,300
Less: Amounts due to private foundations	(6,097)
Net University and Foundation funds invested	\$16,203

The University's net holdings in Oppenheimer fund represent approximately 2.28% 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 manger 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, 1998, is as follows (in thousands):

Total funds invested in the Jaguar fund	\$ 9,911
Less: Amounts due to private foundations	(2,710)
Net University and Foundation funds invested	\$ 7,201

The University's net holdings in the Jaguar Fund represent approximately 1.01% of its total investments.

5. Trust Company of the West ("TCW"): TCW currently manages closed-end funds (which trade on the New York Stock Exchange and American Stock Exchange), several open-end mutual funds, and separate institutional portfolios. The University participates in two 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 TCW as of June 30, 1998, is as follows (in thousands):

Total funds invested in TCW	\$ 5,373
Less: Amounts due to private foundations	(409)
Net University and Foundation funds invested	\$ 4,964

The University's net holdings in TCW represent approximately 0.70% of its total investments.

6. Mitchell Hutchins Asset Management ("MHAM"): MHAM currently manages closed-end funds (which trade on the New York Stock Exchange and American Stock Exchange), several open-end mutual funds, and separate institutional portfolios. The University participates in one of the closed-end funds, 2002 Target Term Trust, Inc. (TTR 2002), which invests 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 TTR 2002, as of June 30, 1998, is as follows (in thousands):

Total funds invested in TTR 2002	\$ 4,280
Less: Amounts due to private foundations	(75)
Net University and Foundation funds invested	\$ 4,205

The University's net holdings in TTR 2002 represent approximately 0.59% of its total investments.

7. 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, 1998, is as follows (in thousands):

Total funds invested in Bulldog Capital Partners	\$ 5,000
Less: Amounts due to private foundations	(1,367)
Net University and Foundation funds invested	\$ 3,633

The University's net holdings in Bulldog Capital Partners represent approximately 0.51% of its total investments.

8. 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, 1998, is as follows (in thousands):

Total funds invested in Feirstein Partners	\$ 5,000
Less: Amounts due to private foundations	(1,367)
Net University and Foundation funds invested	\$ 3,633

The University's net holdings in Feirstein Partners represent approximately 0.51% of its total investments.

9. Peak Investment Limited Partnership ("Peak L.P."): Peak L.P. invests for superior risk-adjusted capital appreciation over a long term time horizon while maintaining a commitment to capital preservation. This involves the purchase and sale of securities, including publicly traded common and preferred equities, bonds, debentures, warrants, options to buy and sell securities and the writing of such options. The University's net book value in the Peak L.P. as of June 30, 1998, is as follows (in thousands):

Total funds invested in the Peak L.P.	\$ 4,195
Less: Amounts due to private foundations	(1,147)
Net University and Foundation funds invested	\$ 3,048

The University's net holdings in the Peak L.P. represent approximately 0.43% of its total investments.

10. 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, 1998, is as follows (in thousands):

Total funds invested in the No Margin L.P.	\$ 3,000
Less: Amounts due to private foundations	(820)
Net University and Foundation funds invested	\$ 2,180

The University's net holdings in the No Margin L.P. represent approximately 0.31% of its total investments.

11. 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, 1998, is as follows (in thousands):

Total funds invested in the Raptor Fund	\$ 2,335
Less: Amounts due to private foundations	(638)
Net University and Foundation funds invested	\$ 1,697

The University's net holdings in the Raptor Fund represent approximately 0.24% of its total investments.

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in the BlackRock as of June 30, 1998, is as follows (in thousands):

Total funds invested in BlackRock	\$44,366
Less: Amounts due to private foundations	(7,946)
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The University's net holdings in BlackRock represent approximately 5.12% of its total investments.

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Total funds invested in the Jaguar fund	\$ 9,911
Less: Amounts due to private foundations	(2,710)
Net University and Foundation funds invested	\$ 7,201

The University's net holdings in the Jaguar Fund represent approximately 1.01% of its total investments.

5. Trust Company of the West ("TCW"): TCW currently manages closed-end funds (which trade on the New York Stock Exchange and American Stock Exchange), several open-end mutual funds, and separate institutional portfolios. The University participates in two 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 TCW as of June 30, 1998, is as follows (in thousands):

Total funds invested in TCW	\$ 5,373
Less: Amounts due to private foundations	(409)
Net University and Foundation funds invested	\$ 4,964

The University's net holdings in TCW represent approximately 0.70% of its total investments.

6. Mitchell Hutchins Asset Management ("MHAM"): MHAM currently manages closed-end funds (which trade on the New York Stock Exchange and American Stock Exchange), several open-end mutual funds, and separate institutional portfolios. The University participates in one of the closed-end funds, 2002 Target Term Trust, Inc. (TTR 2002), which invests 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 TTR 2002, as of June 30, 1998, is as follows (in thousands):

Total funds invested in TTR 2002	\$ 4,280
Less: Amounts due to private foundations	(75)
Net University and Foundation funds invested	\$ 4,205

The University's net holdings in TTR 2002 represent approximately 0.59% of its total investments.

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Total funds invested in Bulldog Capital Partners	\$ 5,000
Less: Amounts due to private foundations	(1,367)
Net University and Foundation funds invested	\$ 3,633

The University's net holdings in Bulldog Capital Partners represent approximately 0.51% of its total investments.

8. 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, 1998, is as follows (in thousands):

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The University's net holdings in Feirstein Partners represent approximately 0.51% of its total investments.

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Total funds invested in the Peak L.P.	\$ 4,195
Less: Amounts due to private foundations	(1,147)
Net University and Foundation funds invested	\$ 3,048

The University's net holdings in the Peak L.P. represent approximately 0.43% of its total investments.

10. 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, 1998, is as follows (in thousands):

Total funds invested in the No Margin L.P.	\$ 3,000
Less: Amounts due to private foundations	(820)
Net University and Foundation funds invested	\$ 2,180

The University's net holdings in the No Margin L.P. represent approximately 0.31% of its total investments.

11. 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, 1998, is as follows (in thousands):

Total funds invested in the Raptor Fund	\$ 2,335
Less: Amounts due to private foundations	(638)
Net University and Foundation funds invested	\$ 1,697

The University's net holdings in the Raptor Fund represent approximately 0.24% of its total investments.

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A summary of the University's investments at June 30, 1998 is presented below.

	Fair Value			(in thousands)
	Risk Category			
	1	2	3	Total
Categorized Investments:				
U. S. Government Securities	\$32,658	\$1,223	\$0	\$33,881
Collateralized Mortgage Obligations	42,201	0	0	42,201
State and Municipal Securities	6,653	0	0	6,653
Corporate Bonds	32,486	0	0	32,486
Corporate Stock	240,619	814	655	242,088
International Stocks	101,337	8	0	101,345
Total Categorized Investments	\$455,954	\$2,045	\$655	\$458,654
Investments Not Categorized:				
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements				
U.S. Government Securities				\$110,876
Collateralized Mortgage Obligations				28,994
Corporate Bonds				29,035
Money Market Funds				67,132
Mutual Funds				148,114
Real Estate				9,391
Certificates of Deposit				3,067
Limited Partnerships				113,734
Real Estate Investment Trusts				17,025
Securities Lending Collateral Investment Pool				222,041
Other Investments				31,963
Total Investments Not Categorized				\$781,372
Total Investments				\$1,240,026

Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a financial institution's trust department or agent but not in the University's name.

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

Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The 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 securities lent at year-end for cash collateral is presented as unclassified in the preceding schedule of custodial credit risk. Securities received as collateral are not recorded in either the Treasurer's or the University's financial statements because the State Treasurer cannot pledge or sell the collateral securities unless the borrower defaults.

The cash collateral received is invested by the 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 custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At June 30, 1998, the weighted average maturity of unmatched investments was approximately one week.

At year-end, the State Treasurer has no credit risk exposure to borrowers and incurred no losses during the year ended June 30, 1998 related to these transactions. The securities custodian is contractually obligated to the Treasurer for certain conditions, including indemnity on a default by the borrowers to return securities 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 (FHLMC, FNMA), private trusts and private corporations. The securities held by the University as of June 30, 1998, 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 the AAA ratings of these pass-through securities held at June 30, 1998.

D. Other Asset Backed Securities:

The University invests in various asset backed securities. As of June 30, 1998, these securities include mortgage servicing rights issued through the United States Small Business Administration (SBA). 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, 1998, the futures held by the University had an unrealized gain of \$970,085.

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, 1998, the futures contracts held by the University had expiration dates not exceeding September 1998.

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, 1998, the University had no outstanding option transactions.

During the year ending June 30, 1998, 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, 1998, 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 eleven 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, 1998, is as follows (in thousands):

Total funds invested in GMO Trust portfolios	\$90,543
Less: Amounts due to private foundations	(24,581)
Net University & Foundation funds invested	\$65,962

The University's net holdings in the GMO Trust represent approximately 9.28% 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 seven 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, 1998, is as follows (in thousands):

Total funds invested in BlackRock	\$44,366
Less: Amounts due to private foundations	(7,946)
Net University and Foundation funds invested	\$36,420

The University's net holdings in BlackRock represent approximately 5.12% 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, 1998, is as follows (in thousands):

Total funds invested in Oppenheimer fund	\$22,300
Less: Amounts due to private foundations	(6,097)
Net University and Foundation funds invested	\$16,203

The University's net holdings in Oppenheimer fund represent approximately 2.28% 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 manger 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, 1998, is as follows (in thousands):

Total funds invested in the Jaguar fund	\$ 9,911
Less: Amounts due to private foundations	(2,710)
Net University and Foundation funds invested	\$ 7,201

The University's net holdings in the Jaguar Fund represent approximately 1.01% of its total investments.

5. Trust Company of the West ("TCW"): TCW currently manages closed-end funds (which trade on the New York Stock Exchange and American Stock Exchange), several open-end mutual funds, and separate institutional portfolios. The University participates in two 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 TCW as of June 30, 1998, is as follows (in thousands):

Total funds invested in TCW	\$ 5,373
Less: Amounts due to private foundations	(409)
Net University and Foundation funds invested	\$ 4,964

The University's net holdings in TCW represent approximately 0.70% of its total investments.

6. Mitchell Hutchins Asset Management ("MHAM"): MHAM currently manages closed-end funds (which trade on the New York Stock Exchange and American Stock Exchange), several open-end mutual funds, and separate institutional portfolios. The University participates in one of the closed-end funds, 2002 Target Term Trust, Inc. (TTR 2002), which invests 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 TTR 2002, as of June 30, 1998, is as follows (in thousands):

Total funds invested in TTR 2002	\$ 4,280
Less: Amounts due to private foundations	(75)
Net University and Foundation funds invested	\$ 4,205

The University's net holdings in TTR 2002 represent approximately 0.59% of its total investments.

7. 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, 1998, is as follows (in thousands):

Total funds invested in Bulldog Capital Partners	\$ 5,000
Less: Amounts due to private foundations	(1,367)
Net University and Foundation funds invested	\$ 3,633

The University's net holdings in Bulldog Capital Partners represent approximately 0.51% of its total investments.

8. 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, 1998, is as follows (in thousands):

Total funds invested in Feirstein Partners	\$ 5,000
Less: Amounts due to private foundations	(1,367)
Net University and Foundation funds invested	\$ 3,633

The University's net holdings in Feirstein Partners represent approximately 0.51% of its total investments.

9. Peak Investment Limited Partnership ("Peak L.P."): Peak L.P. invests for superior risk-adjusted capital appreciation over a long term time horizon while maintaining a commitment to capital preservation. This involves the purchase and sale of securities, including publicly traded common and preferred equities, bonds, debentures, warrants, options to buy and sell securities and the writing of such options. The University's net book value in the Peak L.P. as of June 30, 1998, is as follows (in thousands):

Total funds invested in the Peak L.P.	\$ 4,195
Less: Amounts due to private foundations	(1,147)
Net University and Foundation funds invested	\$ 3,048

The University's net holdings in the Peak L.P. represent approximately 0.43% of its total investments.

10. 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, 1998, is as follows (in thousands):

Total funds invested in the No Margin L.P.	\$ 3,000
Less: Amounts due to private foundations	(820)
Net University and Foundation funds invested	\$ 2,180

The University's net holdings in the No Margin L.P. represent approximately 0.31% of its total investments.

11. 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, 1998, is as follows (in thousands):

Total funds invested in the Raptor Fund	\$ 2,335
Less: Amounts due to private foundations	(638)
Net University and Foundation funds invested	\$ 1,697

The University's net holdings in the Raptor Fund represent approximately 0.24% of its total investments.

Note 3: Interfund Receivables and Payables:

Due From/To Other Funds as of June 30, 1998 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	\$1,454		\$16,275	17,729
Restricted Funds	21,244			21,244
Investment In Plant Funds	7,287			7,287
Total Due To	\$29,985	\$186	\$16,275	\$46,446

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

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 1.80% 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, for pension benefits, of 7.78% of covered payroll for the year ended June 30, 1998. 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, 1998, the University had a total payroll of \$568,115,000 of which \$273,238,000 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$16,394,000 and \$21,258,000, 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, 1998, 1997, and 1996, which were \$21,258,000, \$21,227,000, and \$20,010,000, 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 contributory requirements are established by General Statute 135-5.1. Participants contribute 6% of their salary and the University matches with a 6.84% 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, 1998, the University had a total payroll of \$568,115,000 of which \$186,090,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$11,165,000 and \$12,729,000, 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, and 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 \$268,000 for the year ended June 30, 1998.

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, 1998 were \$59,000. The voluntary contributions by employees amounted to \$1,355,000 for the year ended June 30, 1998.

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 \$15,537,000 for the year ended June 30, 1998.

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, 1998, the University's total contribution for postemployment health care benefits was \$9,187,000. 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 fis-

cal year ended June 30, 1998, the University's total contribution to the Plan was \$2,389,000. 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.

Note 6: Changes in Fixed Assets

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

	Balance July 1, 1997	Additions	Deletions	Balance June 30, 1998
Land and Improvements	\$7,131	\$110	\$226	\$7,015
Furniture and Equipment	162,550	21,185	19,748	163,987
Buildings and Fixed Equipment	658,390	84,678	7	743,061
Other Structures and Improvements	40,415	3,568	1,239	42,744
Artworks and Literature	201,997	10,120	627	211,490
Construction In Progress	143,265		6,450	136,815
Total Fixed Assets	\$1,213,748	\$119,661	\$28,297	\$1,305,112

Note 7: Commitments and Contingencies:

A. Construction Commitments:

The University had commitments of \$50,158,000 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 \$10,915,000, State appropriations of \$14,884,000, University funds of \$24,138,000 and other outside sources in the amount of \$221,000.

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 undertaking environmental remediation efforts at three sites on University property. The amount of the liability associated with these sites cannot reasonably be estimated at this time.

The University is contingently liable for possible billing errors under Medicare Part B. The amount of this liability cannot reasonably be estimated at this time. The University is also contingently liable for possible taxes and penalties in connection with the Internal Revenue Service's Coordinated Examination Program audit initiated two years ago. The amount of this liability cannot reasonably be estimated at this time.

C. Year 2000 Issues:

Governmental Accounting Standards Board Technical Bulletin 98-1 (TB 98-1), *Disclosures about Year 2000 Issues*, dated October 1998, states in part that (a) the year 2000 issue is the result of shortcomings in many electronic data processing systems and other

equipment that may adversely affect a government's operations as early as fiscal year 1999, and (b) problems affecting a wide range of government activities will likely result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. TB 98-1 further states that these problems have a potential for causing a disruption to some government operations and may temporarily increase the cost of those operations. In accordance with the requirements of TB 98-1, the University makes the following disclosures about Year 2000 issues.

Year 2000 Issues and the Stages of Work Necessary to Make Systems Compliant: The University recognized the urgency in dealing with the year 2000 dilemma and established a Year 2000 Project Team (project team) during fiscal year 1996. The project team's roles and responsibilities include: conducting awareness sessions with departmental/technical contacts; determining the business impact of system failures; identifying date sensitive systems, electronic equipment, and equipment with embedded chips; determining contingency plans; determining source of funds; determining conversion approaches and schedules; analyzing third-party compliance; working with application analysts and programmers to test acceptance and production readiness, convert applications and equipment, and test applications; and work with a special year 2000 test resource team to perform quality assurance reviews.

The University has completed an inventory of its electronic data processing systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the University's operations. The University is subjecting those systems and equipment to the following stages of work to address year 2000 issues:

- *Awareness Stage* – Establishing a budget and project plan for dealing with the year 2000 issue.
- *Assessment Stage* – Identifying the systems and components for which year 2000 compliance work is needed.
- *Remediation Stage* – Making changes to systems and equipment.
- *Validation/Testing Stage* – Validating and testing the changes that were made during the remediation stage.

The University's year 2000 remediation work for its mission critical systems and electronic equipment are in the following stages of work as of June 30, 1998: A – needs to be addressed, P – in process, C – completed.

Mission Critical Systems Requiring Year 2000 Remediation	Awareness Stage	Assessment Stage	Remediation Stage	Validation/Testing Stage
Student Admissions, Student Records, Student Billing Systems, Student Housing, Payroll, Specialized Clinical Systems	C	C	C	C
Financial Records, Contract Billing Systems, Student Financial Aid, Student Loans, Human Resource Systems	C	C	C	P
Data Storage Systems (including research databases)	C	C	P	P
Communication Systems, Library and Academic Resources Systems, Co-generation and Electric Distribution Systems	C	P	P	A
LAN and Distributive Network Systems	P	P	P	A

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until year 2000 and thereafter. As a result of this uncertainty, management cannot assure that the University is or will be year 2000 ready, that the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be year 2000 ready.

Outstanding Contractual Commitments Related to Year 2000 Efforts: Contractual commitments outstanding at June 30, 1998 related to year 2000 remediation efforts totaled \$34,000.

Note 8: Long-term Debt

The University was indebted for bonds payable in the amount of \$279,096,000 at June 30, 1998 for the purposes shown in the following table.

(in thousands)							
Purpose	Series	Interest Rate	Final Maturity Date	Original Principal Amount	Principal Paid Through 6/30/98	Accretion on Capital Appreciation Bonds	Principal Outstanding 6/30/98
Student Family Housing	"A"	3.500%	Sept. 1, 2002	\$995			
	"B"	3.000%	Sept. 1, 1998	1,942			
Total Student Family Housing				2,937	\$2,638		\$299
Dormitory System	"E"	2.875%	Nov. 1, 2000	985			
	"F"	3.000%-					
		3.750%	Nov. 1, 2003	2,544			
	"G"	3.000%	Nov. 1, 2005	3,000			
	1991	5.400%-					
		5.900%	Nov. 1, 2002	3,200			
	1997A	4.500%-					
		5.100%	Nov. 1, 2017	9,170			
Total Dormitory System	1997B	4.000%-					
		5.000%	Nov. 1, 2011	7,210			
				26,109	6,216		19,893
Utility System	1997	5.250%-					
		5.500%	Aug. 1, 2021	30,379			
	1993	4.000%-					
		6.000%	Aug. 1, 2011	108,455			
	1992	3.000%-					
Total Utility System		6.000%	Aug. 1, 2007	3,490			
				142,324	20,455	1,107	122,976
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	550		30,195
Student Union	1967	3.000%	Nov. 1, 2007	2,000	1,245		755
Kenan Memorial Stadium	1996	Variable	Nov. 1, 2016	13,800			13,800
Ambulatory Care Facility	1990	Variable	July 1, 2012	20,000	3,000		17,000
Amb. Care Fac. Equipment	1992	Variable	Oct. 1, 2002	3,000	2,000		1,000
Student Recreation Center	1997	3.900%-					
		5.000%	June 1, 2011	3,545	105		3,440
Student Recreation Center	1991	5.300%-					
		6.300%	June 1, 2001	1,525	920		605
U.S. EPA Project, Series 1991	1991	8.250%-					
		9.050%	Feb. 15, 2015	36,679	4,210	3,304	35,773
U.S. EPA Project, Series 1996	1996	6.720%	Feb. 15, 2006	2,400	210		2,190
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				\$316,234	\$41,549	\$4,411	\$279,096

The schedule below shows the annual requirements to pay principal and interest on the long-term obligations at June 30, 1998.

Fiscal Year	(in thousands)	
	Annual Requirements (Principal and Interest)	
	Revenue Bonds	
1999	\$22,902	
2000	24,222	
2001	24,231	
2002	23,861	
2003	23,904	
2004-2008	118,166	
2009-2013	108,961	
2014-2018	76,107	
2019-2023	43,507	
2024-2028	6,230	
Total Requirements	\$472,091	

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. With regards to all of the following demand bonds, the University has not entered into take out agreements, which would convert any bonds not successfully remarketed into another form of long-term debt.

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 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 or interest on the bonds. The University is required to pay an annual commitment fee for the liquidity facility of .10% of the amount of bonds then currently outstanding.

The University has agreed to pay interest on each liquidity bond at LIBOR (London Interbank Offering Rate) plus .40% on each scheduled bond interest payment date. At June 30, 1998, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement upon expiration or termination of the agreement. The term of the agreement is automatically extended for successive 364-day periods from the closing date, unless a notice of non-extension by NationsBank is received 365 days prior to the expiration date. As of June 30, 1998, the earliest such termination date is June 30, 1999.

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, N.A.

The University has arranged a standby note purchase agreement with Wachovia Bank, N.A., whereby Wachovia will purchase notes tendered or deemed tendered for purchase on any purchase date at the purchase price plus accrued interest when remarketing proceeds or other funds are not available. The University is required to pay an annual commitment fee for the liquidity facility of .30% of the amount of notes then currently outstanding plus an amount for accrued interest.

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 at the Adjusted Euro-Dollar rate. At June 30, 1998, no notes had been purchased under the liquidity facility.

The liquidity facility terminates not earlier than 180 days following delivery of a termination notice by Wachovia. As of June 30, 1998, the earliest such termination date is December 27, 1998.

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, The Bank of New York.

The University has arranged a standby bond purchase agreement with NationsBank, 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 University is required to pay an annual standby fee for the liquidity facility of .10% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has agreed to pay interest on each liquidity bond at LIBOR plus .50% on each scheduled bond interest payment date. At June 30, 1998, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement upon expiration or termination of the agreement. The term of the agreement is automatically extended for successive 364-day periods from the closing date, unless a notice of non-extension by NationsBank is received 365 days prior to the expiration date. As of June 30, 1998, the earliest such termination date is June 30, 1999.

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 Tarrson Hall which will house the majority of the School of Dentistry's patient care and clinical teaching facilities. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Wachovia Bank, N.A.

Under an irrevocable letter of credit issued by Wachovia Bank, 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. The University is required to pay an annual commitment fee of .35%

of the amount of the bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia in which it has agreed upon termination of the letter of credit to repay all amounts that are drawn under the letter of credit. Interest at the rate of prime for the first 90 days and prime plus 1.5% thereafter is payable quarterly and upon termination. At June 30, 1998, no drawings had been made under the letter of credit.

The letter of credit automatically extends every 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. As of June 30, 1998, the earliest such termination date is July 5, 1999.

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, 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. The University is required to pay an annual commitment fee for the letter of credit of .30% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia in which it has agreed that upon the earlier of termination of the letter of credit or one year from a purchase draw date to repay amounts that represent purchase drawings under the letter of credit. Interest at the rate of prime is payable quarterly and upon draw repayment. At June 30, 1998, no purchase drawings had been made under the letter of credit.

The letter of credit automatically extends so that termination will not occur until 364 days after notice is received from Wachovia that the letter of credit will not be extended. As of June 30, 1998, the earliest such termination date is June 29, 1999.

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 construction 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. Salomon Smith Barney, Inc. 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 amount of bonds then currently outstanding.

The University has agreed to pay interest on each liquidity bond at LIBOR plus .50% on each scheduled bond interest payment date. At June 30, 1998, no bonds had been purchased under the liquidity facility.

The University is required to purchase or cause to be purchased any liquidity bonds purchased under the agreement upon expiration or termination of the agreement. The term of the agreement is auto-

matically extended for successive 364-day periods from the closing date, unless a notice of non-extension by NationsBank is received 365 days prior to the expiration date. As of June 30, 1998, the earliest such termination date is June 30, 1999.

B. Capital Appreciation Bonds:

The Series 1997 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 \$84,135,000 and \$25,275,000 respectively. These bonds are recorded in the amounts of \$31,486,000 and \$7,133,000, respectively, which is the accreted value at June 30, 1998. 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 through June 1, 1998, at which time all the outstanding bonds were redeemed. At June 30, 1998 the outstanding balance of the defeased Carolina Inn bonds was \$0.

Parking System: On June 19, 1997 the University defeased \$9,100,000 of outstanding Parking System Revenue Bonds, Series B (1989). Securities were deposited into an irrevocable trust 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, 1998 the outstanding balance for the defeased Parking System bonds was \$8,600,000.

Housing System: On October 30, 1997 the University defeased \$6,630,000 of outstanding Housing System Revenue Bonds, Series 1991 (original issue amount \$9,830,000). Securities were deposited into an irrevocable trust 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. The University reduced its debt service requirements by \$354,000 over the next 14 years and obtained an economic gain of \$255,000. At June 30, 1998 the outstanding balance of the defeased Housing System bonds was \$6,630,000.

Student Recreation Center: On October 30, 1997 the University defeased \$3,140,000 of outstanding Student Fee Revenue Bonds, Series 1991 (original issue amount \$4,665,000). Securities were deposited into an irrevocable trust 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. The University reduced its debt service requirements by \$250,000 over the next 14 years and obtained an economic gain of \$188,000. At June 30, 1998 the outstanding balance of the defeased Student Fee bonds was \$3,140,000.

Utility System: On October 30, 1997 the University defeased \$19,337,370 of outstanding Utility System Revenue Bonds, Series 1992 (original issue amount \$22,827,370). Securities were deposited into an irrevocable trust 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. The University reduced its debt service requirements by \$13,365,000 over the next 24 years and obtained an economic gain of \$4,825,000. At June 30, 1998 the outstanding balance of the defeased Utility System bonds was \$19,337,370.

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, 1998:

Fiscal Year	(in thousands) Operating Leases
1999	\$4,080
2000	2,803
2001	2,239
2002	1,161
2003	540
Thereafter	0
Minimum Lease Payments	\$10,823

Total rental expense for operating leases for the year ended June 30, 1998 was \$6,943,000.

B. Other Lease Agreements:

The University of North Carolina at Chapel Hill Foundation, Inc. (Foundation) issued certificates of participation to provide for construction of Alumni Facilities. The University constructed the facilities as an agent for the Foundation. In October 1989, the University entered into a 20 year lease agreement with the Foundation and simultaneously entered into a sublease agreement with the General Alumni Association, an affiliated organization, for the same time period for the use of the Alumni facilities.

Payments under the terms of the lease are a limited obligation of the University, payable solely from and secured by the annual rental income derived from the sublease of the Alumni facilities. The University has no other obligations for repayment of the certificates of participation; therefore, the certificates are not reported as a liability in the accompanying financial statements. As of June 30, 1998, the aggregate principal amount of the certificates was \$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 Fund generally insures fire losses up to \$1.1 million and extended coverage losses up to \$100,000 per building and \$500,000 per occurrence. All losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft that carries a \$1,000 per occurrence deductible. The Fund purchases excess insurance from a private insurer to cover losses over the amounts insured by the Fund. The 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. Wind coverage is provided by the Fund and its reinsurer but the University has a \$100,000 deductible per building or \$500,000 deductible per occurrence. However, for losses involving a named storm, such as a hurricane, the University's deductible is increased to 1% of the total value of a building and its contents up to a maximum of \$3 million per occurrence, but not less than \$100,000 per occurrence. 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, 1998 and 1997. 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 respon-

sible 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.

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 of July 1, 1997, the fund balances of the various funds as previously reported were restated as a result of the University implementing Governmental Accounting Standards Board Statement Number 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This statement requires that certain investments be reported at fair value for year-end financial reporting purposes. The resulting restatements were as follows:

	Unrestricted General	Proprietary	Loan Funds	Endowment	(in thousands) Debt Service
Fund Balance June 30, 1997					
As Previously Reported	\$60,437	\$154,264	\$39,057	\$376,052	\$26,454
Restatement Due to GASB					
Statement Number 31	(855)	734	324	74,202	1,808
Fund Balance July 1, 1997					
as Restated	\$59,582	\$154,998	\$39,381	\$450,254	\$28,262

Note 13: Subsequent Events

On August 13, 1998 The Board of Governors of the University of North Carolina issued The University of North Carolina at Chapel Hill Athletic Facilities Variable Rate Demand Revenue Bonds, Series 1998 in the amount of \$14,995,000. The bonds are limited obligations of the University payable solely from the net revenues of the Football Program after payment of current expenses and from funds that may be drawn under the Credit Facility. The bonds mature in varying amounts beginning in fiscal year 2001 and ending in fiscal year 2019. Proceeds from the bonds will be used to provide funds to finance the costs of further renovating and expanding Kenan Memorial Stadium and construction of new facilities serving the field hockey and soccer teams.

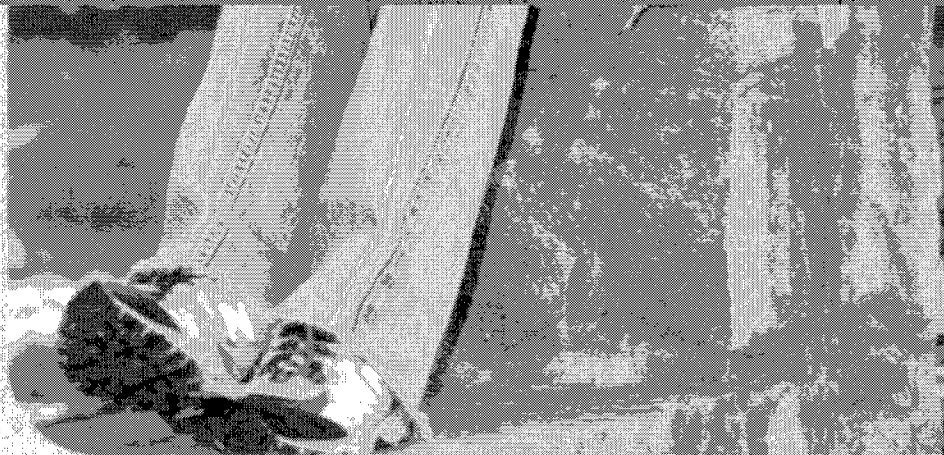
The North Carolina General Assembly enacted legislation effective November 1, 1998 which requires that the University of North Carolina Hospitals at Chapel Hill and the clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill be governed by the board of directors of the University of North Carolina Health Care System. This legislation creates the University of North Carolina Health Care System which is governed and administered as an affiliated enterprise of The University of North Carolina to provide patient care, facilitate the education of physicians and other health care providers, conduct research collaboratively with the health sciences schools of the University of North Carolina at Chapel Hill, and render other services designed to promote the health and well-being of the citizens of North Carolina.



STATISTICAL SECTION

TECHNOLOGY AT WORK:

In one of our boldest and most innovative moves, we announced a plan requiring all freshmen to own a laptop computer beginning in the year 2000. Personal computers are rapidly becoming part of our everyday lives — at work, at home



and in the classroom. Providing our students a competitive edge when they graduate is crucial to our mission, and to do so we must ensure that they master this new technology.

Ultimately, the Carolina Computing Initiative (CCI) will phase in computers for the entire undergraduate student body over four years. Owning a computer — specifically a laptop — will put a whole new world of information at our students' fingertips. They will be able to use the technology to interact with faculty and students in class and out. Computers will immensely enhance their educational experience.

—CHANCELLOR'S FYI NEWSLETTER

Current Funds Revenues by Source

(in thousands)

	For the Year Ended June 30				
	1998	1997	1996	1995	1994
Current Funds Revenues					
State Appropriations	\$352,283	\$331,650	\$308,245	\$302,337	\$283,826
Tuition and Fees	105,745	102,277	88,478	81,465	75,531
Federal Contracts and Grants	231,687	221,548	219,878	208,802	190,534
State Contracts and Grants	31,269	26,402	24,607	26,394	22,696
Private Gifts, Contracts and Grants	89,041	78,289	74,174	67,668	64,146
Sales and Services	268,455	255,593	233,888	224,600	210,767
Endowment Income	16,176	15,544	13,599	13,798	11,895
Investment and Interest Income (note)	17,045	21,748	15,274	12,726	13,748
Other Revenues	15,547	9,231	6,526	5,679	4,246
Total Current Funds Revenues	\$1,127,248	\$1,062,282	\$984,669	\$943,469	\$877,389

	For the Year Ended June 30				
	1998	1997	1996	1995	1994
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	31.3	31.2	31.3	32.1	32.3
Tuition and Fees	9.4	9.6	9.0	8.6	8.6
Federal Contracts and Grants	20.5	20.8	22.3	22.1	21.7
State Contracts and Grants	2.8	2.5	2.5	2.8	2.6
Private Gifts, Contracts and Grants	7.9	7.4	7.5	7.2	7.3
Sales and Services	23.8	24.1	23.8	23.8	24.0
Endowment Income	1.4	1.5	1.4	1.5	1.4
Investment and Interest Income (note)	1.5	2.0	1.5	1.3	1.6
Other Revenues	1.4	0.9	0.7	0.6	0.5
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

NOTE: As a result of the implementation of GASB Statement Number 31 (see Note 1F), Realized Gain on Sale of Investments, previously reported as a separate caption, is now included in Investment and Interest Income. Prior years have been adjusted to reflect the change.

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

(in thousands)

	For the Year Ended June 30				
	1993	1992	1991	1990	1989
Current Funds Revenues					
State Appropriations	\$270,700	\$255,003	\$257,219	\$252,585	\$239,732
Tuition and Fees	66,718	60,247	50,221	46,719	40,237
Federal Contracts and Grants	172,288	147,556	136,059	123,352	117,896
State Contracts and Grants	17,948	15,498	13,518	9,614	7,807
Private Gifts, Contracts and Grants	60,820	58,892	53,685	49,754	43,227
Sales and Services	187,390	176,297	166,182	152,114	142,211
Endowment Income	9,212	8,040	6,851	7,307	5,177
Investment and Interest Income (note)	14,534	15,828	12,361	11,700	9,138
Other Revenues	4,632	3,847	3,312	2,539	1,029
Total Current Funds Revenues	\$804,242	\$741,208	\$699,408	\$655,684	\$606,454

	For the Year Ended June 30				
	1993	1992	1991	1990	1989
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	33.7	34.4	36.8	38.5	39.5
Tuition and Fees	8.3	8.1	7.2	7.1	6.6
Federal Contracts and Grants	21.4	19.9	19.5	18.8	19.4
State Contracts and Grants	2.2	2.1	1.9	1.5	1.3
Private Gifts, Contracts and Grants	7.6	8.0	7.7	7.6	7.1
Sales and Services	23.3	23.8	23.8	23.2	23.5
Endowment Income	1.1	1.1	0.9	1.1	0.9
Investment and Interest Income (note)	1.8	2.1	1.7	1.8	1.5
Other Revenues	0.6	0.5	0.5	0.4	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 (1989 Dollars)

(in thousands)

	For the Year Ended June 30				
	1998	1997	1996	1995	1994
Current Funds Revenues					
State Appropriations	\$268,211	\$256,755	\$244,117	\$246,033	\$237,992
Tuition and Fees	80,509	79,180	70,071	66,294	63,334
Federal Contracts and Grants	176,395	171,517	174,134	169,917	159,765
State Contracts and Grants	23,807	20,440	19,488	21,479	19,031
Private Gifts, Contracts and Grants	67,791	60,609	58,743	55,066	53,787
Sales and Services	204,388	197,873	185,230	182,773	176,731
Endowment Income	12,316	12,034	10,770	11,228	9,974
Investment and Interest Income (note)	12,977	16,837	12,097	10,356	11,528
Other Revenues	11,837	7,146	5,168	4,621	3,560
Total Current Funds Revenues	\$858,231	\$822,391	\$779,818	\$767,767	\$735,702

	For the Year Ended June 30,				
	1998	1997	1996	1995	1994
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	31.2	31.2	31.3	32.1	32.3
Tuition and Fees	9.4	9.6	9.0	8.6	8.6
Federal Contracts and Grants	20.6	20.8	22.3	22.1	21.7
State Contracts and Grants	2.8	2.5	2.5	2.8	2.6
Private Gifts, Contracts and Grants	7.9	7.4	7.5	7.2	7.3
Sales and Services	23.8	24.1	23.8	23.8	24.0
Endowment Income	1.4	1.5	1.4	1.5	1.4
Investment and Interest Income (note)	1.5	2.0	1.5	1.3	1.6
Other Revenues	1.4	0.9	0.7	0.6	0.5
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

Consumer Price Index	163.0	160.3	156.7	152.5	148.0
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NOTE: As a result of the implementation of GASB Statement Number 31 (see Note 1F), Realized Gain on Sale of Investments, previously reported as a separate caption, is now included in Investment and Interest Income. Prior years have been adjusted to reflect the change.

The University of North Carolina at Chapel Hill

Last Ten Fiscal Years

(in thousands)

	For the Year Ended June 30				
	1993	1992	1991	1990	1989
Current Funds Revenues					
State Appropriations	\$232,645	\$225,719	\$234,712	\$241,307	\$239,732
Tuition and Fees	57,339	53,328	45,827	44,633	40,237
Federal Contracts and Grants	148,067	130,611	124,154	117,844	117,896
State Contracts and Grants	15,425	13,718	12,335	9,185	7,807
Private Gifts, Contracts and Grants	52,270	52,129	48,988	47,532	43,227
Sales and Services	161,046	156,052	151,641	145,322	142,211
Endowment Income	7,917	7,117	6,252	6,981	5,177
Investment and Interest Income (note)	12,490	14,011	11,280	11,178	9,138
Other Revenues	3,981	3,405	3,022	2,426	1,029
Total Current Funds Revenues	\$691,180	\$656,090	\$638,211	\$626,408	\$606,454

	For the Year Ended June 30,				
	1993	1992	1991	1990	1989
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	33.7	34.4	36.8	38.5	39.5
Tuition and Fees	8.3	8.1	7.2	7.1	6.6
Federal Contracts and Grants	21.4	19.9	19.4	18.8	19.5
State Contracts and Grants	2.2	2.1	1.9	1.5	1.3
Private Gifts, Contracts and Grants	7.6	8.0	7.7	7.6	7.1
Sales and Services	23.3	23.8	23.7	23.2	23.4
Endowment Income	1.1	1.1	1.0	1.1	0.9
Investment and Interest Income (note)	1.8	2.1	1.8	1.8	1.5
Other Revenues	0.6	0.5	0.5	0.4	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	144.4	140.2	136.0	129.9	124.1
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Current Funds *Expenditures and Mandatory Transfers by Function*

(in thousands)

	For the Year Ended June 30				
	1998	1997	1996	1995	1994
Current Funds Expenditures					
Instruction	\$383,759	\$352,711	\$326,546	\$301,323	\$278,587
Organized Research	161,128	152,478	156,034	154,817	140,586
Public Service	78,678	70,106	65,502	68,317	62,834
Academic Support	56,528	53,663	47,771	43,423	40,507
Student Services	12,661	11,763	10,986	9,998	9,191
Institutional Support	49,309	44,105	41,500	37,698	36,800
Physical Plant Operations	63,359	60,224	62,402	59,662	58,447
Student Financial Aid	41,674	38,625	31,479	29,595	28,030
Auxiliary Enterprises and Internal Services	112,844	101,556	89,946	89,532	80,587
Professional and Clinical Services	135,099	116,394	108,282	99,140	97,265
Other Expenditures and Deductions	5,974	5,669	1,027	1,391	4,125
Total Current Funds Expenditures	1,101,013	1,007,294	941,475	894,896	836,959
Current Funds Mandatory Transfers	22,852	29,007	24,084	20,758	21,158
Total Current Funds Expenditures and Mandatory Transfers	\$1,123,865	\$1,036,301	\$965,559	\$915,654	\$858,117

For the Year Ended June 30

	1998	1997	1996	1995	1994
	%	%	%	%	%
Current Funds Expenditures					
Instruction	34.1	34.0	33.8	32.9	32.5
Organized Research	14.3	14.7	16.2	16.9	16.4
Public Service	7.0	6.8	6.8	7.5	7.3
Academic Support	5.0	5.2	4.9	4.7	4.7
Student Services	1.1	1.1	1.1	1.1	1.1
Institutional Support	4.4	4.3	4.3	4.1	4.3
Physical Plant Operations	5.7	5.8	6.5	6.5	6.8
Student Financial Aid	3.7	3.8	3.3	3.2	3.3
Auxiliary Enterprises and Internal Services	10.1	9.8	9.3	9.8	9.4
Professional and Clinical Services	12.0	11.2	11.2	10.8	11.3
Other Expenditures and Deductions	0.6	0.5	0.1	0.2	0.4
Total Current Funds Expenditures	98.0	97.2	97.5	97.7	97.5
Current Funds Mandatory Transfers	2.0	2.8	2.5	2.3	2.5
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				
	1993	1992	1991	1990	1989
Current Funds Expenditures					
Instruction	\$253,662	\$241,956	\$241,058	\$233,975	\$213,214
Organized Research	130,570	115,014	103,139	94,499	88,618
Public Service	56,111	52,952	47,723	41,589	43,522
Academic Support	35,845	32,740	33,348	30,431	30,789
Student Services	8,585	7,624	7,345	7,288	6,643
Institutional Support	32,118	30,097	27,124	27,799	25,152
Physical Plant Operations	49,606	48,552	42,947	41,062	36,852
Student Financial Aid	26,997	23,715	20,123	19,390	18,192
Auxiliary Enterprises and Internal Services	85,774	73,199	75,882	72,033	69,200
Professional and Clinical Services	85,187	74,769	71,229	62,840	56,103
Other Expenditures and Deductions	1,197	345	401	143	0
Total Current Funds Expenditures	765,652	700,963	670,319	631,049	588,285
Current Funds Mandatory Transfers	18,140	9,066	16,046	15,251	5,110
Total Current Funds Expenditures and Mandatory Transfers	\$783,792	\$710,029	\$686,365	\$646,300	\$593,395

	For the Year Ended June 30				
	1993	1992	1991	1990	1989
	%	%	%	%	%
Current Funds Expenditures					
Instruction	32.4	34.1	35.1	36.2	35.9
Organized Research	16.7	16.2	15.0	14.6	14.9
Public Service	7.2	7.5	7.0	6.4	7.3
Academic Support	4.6	4.6	4.8	4.7	5.2
Student Services	1.1	1.1	1.1	1.1	1.1
Institutional Support	4.1	4.2	3.9	4.3	4.2
Physical Plant Operations	6.3	6.8	6.3	6.4	6.2
Student Financial Aid	3.4	3.3	2.9	3.0	3.1
Auxiliary Enterprises and Internal Services	10.9	10.3	11.1	11.1	11.7
Professional and Clinical Services	10.9	10.5	10.4	9.7	9.5
Other Expenditures and Deductions	0.1	0.1	0.1	0.1	0.0
Total Current Funds Expenditures	97.7	98.7	97.7	97.6	99.1
Current Funds Mandatory Transfers	2.3	1.3	2.3	2.4	0.9
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

	1998	1997	1996	1995	1994
	<i>(in thousands)</i>				
Total Current Revenues	\$1,127,248	\$1,062,282	\$984,669	\$943,469	\$877,389
Total Current Expenditures and Mandatory Transfers	1,123,865	1,036,301	965,559	915,654	858,117
Ratio	100.30%	102.51%	101.98%	103.04%	102.25%

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

	1998	1997	1996	1995	1994
Current Fund Balance – Educational and General	\$54,643	\$60,437	\$53,902	\$49,726	\$44,104
Current Fund Balance – Proprietary	157,697	154,264	149,134	140,429	127,098
Quasi Endowment Fund Balance - Unrestricted	85,787	48,704	35,640	34,988	36,656
Total Availability	298,127	263,405	238,676	225,143	207,858
Total Availability	298,127	263,405	238,676	225,143	207,858
Educational and General Expenditures and Mandatory Transfers	869,860	812,682	766,304	725,591	676,140
Ratio	34.27%	32.41%	31.15%	31.03%	30.74%

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

	1993	1992	1991	1990	1989
	<i>(in thousands)</i>				
Total Current Revenues	\$804,242	\$741,208	\$699,408	\$655,684	\$606,454
Total Current Expenditures and Mandatory Transfers	783,792	710,029	686,365	646,300	593,395
Ratio	102.61%	104.39%	101.90%	101.45%	102.20%

	1993	1992	1991	1990	1989
Current Fund Balance – Educational and General	\$37,536	\$29,681	\$25,784	\$18,906	\$19,298
Current Fund Balance – Proprietary	116,643	111,371	93,950	89,168	86,410
Quasi Endowment Fund Balance – Unrestricted	36,066	33,761	31,931	33,482	31,512
Total Availability	190,245	174,813	151,665	141,556	137,220
Total Availability	190,245	174,813	151,665	141,556	137,220
Educational and General Expenditures and Mandatory Transfers	611,634	561,716	538,853	511,284	468,092
Ratio	31.10%	31.12%	28.15%	27.69%	29.31%

Ten Year Summary of Ratios (continued)

Ratio of Expendable Fund Balance to Total Expenditures and Mandatory Transfers

(in thousands)

	1998	1997	1996	1995	1994
Current Fund Balance – Educational and General	\$54,643	\$60,437	\$53,902	\$49,726	\$44,104
Current Fund Balance – Proprietary	157,697	154,264	149,134	140,429	127,098
Current Fund Balance – Restricted	112,855	94,072	92,510	91,586	77,839
Quasi Endowment Fund Balance	143,043	92,180	71,023	64,935	66,525
Unexpended Plant Fund Balance	72,332	61,063	55,763	48,658	34,830
Debt Service Fund Balance	32,329	26,454	10,833	17,073	16,421
Total Expendable Fund Balance	572,899	488,470	433,165	412,407	366,817
Total Expendable Fund Balance	572,899	488,470	433,165	412,407	366,817
Total Current Expenditures and Mandatory Transfers	1,123,865	1,036,301	965,559	915,654	858,117
Ratio	50.98%	47.14%	44.86%	45.04%	42.75%

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

	1998	1997	1996	1995	1994
Instruction	\$383,759	\$352,711	\$326,546	\$301,323	\$278,587
Other Academic Support	56,528	53,663	47,771	43,423	40,507
Total Instruction and Academic Support	440,287	406,374	374,317	344,746	319,094
Educational and General Expenditures and Mandatory Transfers	847,139	784,364	742,277	705,323	656,305
Less: Restricted Scholarships	21,489	20,705	19,021	17,713	17,439
Total Educational and General Expenditures less Restricted Scholarships	825,650	763,659	723,256	687,610	638,866
Total Instruction and Academic Support	440,287	406,374	374,317	344,746	319,094
Total Educational and General Expenditures less Restricted Scholarships	825,650	763,659	723,256	687,610	638,866
Ratio	53.33%	53.21%	51.75%	50.14%	49.95%

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>				
	1993	1992	1991	1990	1989
Current Fund Balance - Educational and General	\$37,536	\$29,681	\$25,784	\$18,906	\$19,298
Current Fund Balance - Proprietary	116,643	111,371	93,950	89,168	86,410
Current Fund Balance - Restricted	66,205	53,318	51,863	51,085	43,120
Quasi Endowment Fund Balance	63,364	56,024	50,917	50,246	44,145
Unexpended Plant Fund Balance	20,573	9,657	25,909	20,354	29,074
Debt Service Fund Balance	16,244	18,300	9,297	9,802	10,414
Total Expendable Fund Balance	320,565	278,351	257,720	239,561	232,461
Total Expendable Fund Balance	320,565	278,351	257,720	239,561	232,461
Total Current Expenditures and Mandatory Transfers	783,792	710,029	686,365	646,300	593,395
Ratio	40.90%	39.20%	37.55%	37.07%	39.17%

	1993	1992	1991	1990	1989
Instruction	\$253,662	\$241,956	\$241,058	\$233,975	\$192,725
Other Academic Support	35,845	32,740	33,348	30,431	30,789
Total Instruction and Academic Support	289,507	274,696	274,406	264,406	223,514
Educational and General Expenditures and Mandatory Transfers	595,696	555,404	524,365	497,752	463,024
Less: Restricted Scholarships	17,116	14,940	13,126	12,156	11,947
Total Educational and General Expenditures less Restricted Scholarships	578,580	540,464	511,239	485,596	451,077
Total Instruction and Academic Support	289,507	274,696	274,406	264,406	223,514
Total Educational and General Expenditures less Restricted Scholarships	578,580	540,464	511,239	485,596	451,077
Ratio	50.04%	50.83%	53.67%	54.45%	49.55%

Ten Year Summary of Ratios (continued)

Ratio of Net Gain in Endowment Assets

	(in thousands)				
	1998	1997	1996	1995	1994
Year – End Endowment Assets (Market Value)	\$586,499	\$486,037	\$390,146	\$335,076	\$293,214
Year – Begin Endowment Assets (Market Value)	486,037	390,146	335,076	293,214	223,948
Yearly Change	100,462	95,891	55,070	41,862	69,266
Yearly Change	100,462	95,891	55,070	41,862	69,266
Year – Begin Endowment Assets (Market Value)	486,037	390,146	335,076	293,214	223,948
Ratio	20.67%	24.58%	16.44%	14.28%	30.93%

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

Revenue Bond Coverage

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

	(in thousands)						
Fiscal Year Ended June 30,	Gross Operating Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
1998	226,567	189,205	37,362	8,913	10,634	19,547	1.91
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

The University of North Carolina at Chapel Hill

Last Ten Fiscal Years

	<i>(in thousands)</i>				
	1993	1992	1991	1990	1989
Year – End Endowment Assets (Market Value)	\$223,948	\$209,547	\$181,413	\$171,139	\$152,334
Year – Begin Endowment Assets (Market Value)	209,547	181,413	171,139	152,334	132,154
Yearly Change	14,401	28,134	10,274	18,805	20,180
Yearly Change	14,401	28,134	10,274	18,805	20,180
Year – Begin Endowment Assets (Market Value)	209,547	181,413	171,139	152,334	132,154
Ratio	6.87%	15.51%	6.00%	12.34%	15.27%

Ratio of Debt Service to Current Funds Expenditures

The University of North Carolina at Chapel Hill

Last Ten Fiscal Years

	<i>(in thousands)</i>		
Fiscal Year Ended June 30,	Debt Service Requirements	Current Funds Expenditures	Ratio %
1998	19,547	1,101,792	1.77
1997	19,342	1,007,294	1.92
1996	20,154	941,475	2.14
1995	19,058	894,896	2.13
1994	15,642	836,959	1.87
1993	14,719	765,652	1.92
1992	11,229	700,963	1.60
1991	9,881	670,319	1.47
1990	8,876	631,049	1.41
1989	8,670	588,285	1.47

Admissions, Enrollment and Degree Statistics

	Fall Enrollment of Fiscal Year				
	1997-98	1996-97	1995-96	1994-95	1993-94
Admissions – Freshmen					
Applications	15,554	15,370	15,159	15,125	14,596
Accepted	6,050	5,826	5,571	6,145	5,985
Enrolled	3,417	3,278	3,239	3,498	3,331
Accepted as a Percentage of Applications	38.9%	37.9%	36.8%	40.6%	41.0%
Enrolled as a Percentage of Accepted	56.5%	56.3%	58.1%	56.9%	55.7%
Average SAT Scores – Total	1,220	1,222	1,142	1,128	1,126
Verbal	609	611	539	529	529
Math	611	611	603	599	597
Enrollment					
Undergraduate, Graduate and Professional FTE	21,794	21,709	21,961	21,918	21,758
Undergraduate, Graduate and Professional Headcount	24,189	24,141	24,439	24,463	24,299
Men (Headcount)	10,002	10,024	10,330	10,377	10,298
Percentage of Total	41.3%	41.5%	42.3%	42.4%	42.4%
Women (Headcount)	14,187	14,117	14,109	14,086	14,001
Percentage of Total	58.7%	58.5%	57.7%	57.6%	57.6%
African American (Headcount)	2,364	2,310	2,254	2,161	2,082
Percentage of Total	9.8%	9.6%	9.2%	8.8%	8.6%
White (Headcount)	19,348	19,376	19,808	20,042	20,007
Percentage of Total	80.0%	80.2%	81.1%	82.0%	82.3%
Other (Headcount)	2,477	2,455	2,377	2,260	2,210
Percentage of Total	10.2%	10.2%	9.7%	9.2%	9.1%
Degrees Granted					
Bachelor's	3,568	3,674	3,542	3,623	3,497
Master's	1,489	1,361	1,465	1,511	1,451
Doctoral	389	366	369	373	388
Professional	476	484	480	464	443

The University of North Carolina at Chapel Hill

Last Ten Fiscal Years

	Fall Enrollment of Fiscal Year				
	1992-93	1991-92	1990-91	1989-90	1988-89
Admissions – Freshmen					
Applications	16,136	14,860	14,737	16,441	17,569
Accepted	5,735	5,460	5,630	5,436	5,517
Enrolled	3,211	3,142	3,252	3,191	3,293
Accepted as a Percentage of Applications	35.5%	36.7%	38.2%	33.1%	31.4%
Enrolled as a Percentage of Accepted	56.0%	57.5%	57.8%	58.7%	59.7%
Average SAT Scores – Total	1,122	1,120	1,112	1,110	1,102
Verbal	530	530	527	527	522
Math	592	590	585	583	580
Enrollment					
Undergraduate, Graduate and Professional FTE	21,398	21,391	21,486	21,326	21,390
Undergraduate, Graduate and Professional Headcount	23,944	23,794	23,852	23,592	23,579
Men (Headcount)	10,211	10,161	10,340	10,282	10,202
Percentage of Total	42.6%	42.7%	43.4%	43.6%	43.3%
Women (Headcount)	13,733	13,633	13,512	13,310	13,377
Percentage of Total	57.4%	57.3%	56.6%	56.4%	56.7%
African American (Headcount)	2,078	2,023	2,060	1,921	1,840
Percentage of Total	8.7%	8.5%	8.6%	8.1%	7.8%
White (Headcount)	19,812	19,906	20,091	20,151	20,357
Percentage of Total	82.7%	83.7%	84.2%	85.4%	86.3%
Other (Headcount)	2,054	1,855	1,701	1,520	1,382
Percentage of Total	8.6%	7.8%	7.1%	6.4%	5.9%
Degrees Granted					
Bachelor's	3,655	3,538	3,591	3,529	3,195
Master's	1,478	1,375	1,391	1,269	1,157
Doctoral	388	336	337	299	301
Professional	443	456	463	457	447

Faculty and Staff Statistics

The University of North Carolina at Chapel Hill

Last Ten Fiscal Years

	Fall Employment of Fiscal Year				
	1997-98	1996-97	1995-96	1994-95	1993-94
Faculty					
Full-time	2,421	2,417	2,369	2,328	2,297
Part-time	239	223	216	210	204
Total Faculty	2,660	2,640	2,585	2,538	2,501
Percentage Tenured	56.2%	57.9%	58.3%	59.2%	59.6%
Staff and EPA Non-Faculty					
Full-time	674	653	648	627	596
Part-time	53	56	57	51	55
EPA Non-Faculty	727	709	705	678	651
Full-time	5,587	5,236	5,519	5,468	5,405
Part-time	314	298	322	328	360
SPA	5,901	5,534	5,841	5,796	5,765
Total Full-time	6,261	5,889	6,167	6,095	6,001
Total Part-time	367	354	379	379	415
Total Staff and EPA Non-Faculty	6,628	6,243	6,546	6,474	6,416

	Fall Employment of Fiscal Year				
	1992-93	1991-92	1990-91	1989-90	1988-89
Faculty					
Full-time	2,249	2,245	2,134	2,131	2,002
Part-time	186	185	161	165	221
Total Faculty	2,435	2,430	2,295	2,296	2,223
Percentage Tenured	60.7%	61.1%	63.2%	60.1%	65.0%
Staff and EPA Non-Faculty					
Full-time	570	572	646	640	648
Part-time	52	48	39	49	82
EPA Non-Faculty	622	620	685	689	730
Full-time	5,115	4,891	4,971	5,023	4,893
Part-time	334	314	298	285	278
SPA	5,449	5,205	5,269	5,308	5,171
Total Full-time	5,685	5,463	5,617	5,663	5,541
Total Part-time	386	362	337	334	360
Total Staff and EPA Non-Faculty	6,071	5,825	5,954	5,997	5,901

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

Priorities for The University of North Carolina at Chapel Hill

Intensify the intellectual climate for undergraduates, graduate and professional students, faculty, and staff.

- Provide multiple mechanisms to engage students actively in thinking and learning, especially at the beginning of their Chapel Hill experience (e.g., first-year seminars, living/learning opportunities, summer readings, service learning, co-curricular activities, improved TA training, etc.).
- Improve financial support for graduate students.
- Foster opportunities for undergraduate research in collaboration with faculty.
- Improve physical settings for teaching, research, and learning in classrooms, laboratories, and informal spaces.
- Improve academic advising and mentoring for undergraduate and graduate students.
- Sustain the quality of our libraries.
- Improve our communication of the University's intellectual life, both within and beyond the University.

Improve the University's capacity to recruit, develop, and retain a high quality and diverse faculty, student body, and staff.

- Provide salaries and benefits required and the administrative flexibility to attract an outstanding and diverse faculty and staff.
- Provide career development opportunities for faculty, staff, and graduate students (e.g., mentoring for junior faculty and graduate students, opportunities for staff to enhance job skills and career growth paths across units, and post-tenure review).
- Improve merit and need-based scholarships, together with graduate teaching and research assistant tuition relief.
- Provide appropriate spaces (e.g., faculty and staff workspaces, laboratories, graduate student domiciles, and master and regular classrooms).
- Provide an effective administrative infrastructure (e.g., staff and systems for successful grant seeking, as well as for teaching, research, and service activities).
- Increase the number and diversity of outstanding students who choose to enroll at Carolina.

Identify and build on selected areas of current or potential excellence.

- Strengthen the University's exceptional commitment to excellence in undergraduate liberal-arts education, to service to the citizens of North Carolina, and to comprehensive health-care education and research in this the "University of the people."
- Build on the University's research strengths, in a region rich in inter-institutional opportunities for collaboration.
- In collaboration with deans and unit heads, develop criteria for and identify areas of current and emerging excellence that should be chosen for emphasis. Develop strategies for implementation; and at the same time, also collaboratively, identify programs to de-emphasize.

Foster excellent interdisciplinary programs.

- Encourage entrepreneurial faculty efforts to identify and develop interdisciplinary research and teaching.
- Develop a systematic review process to assure the quality of existing and future interdisciplinary programs.
- Enhance access to and majors in interdisciplinary programs.

Enhance the use of innovative information technologies to strengthen core University activities.

- Improve access and availability of up-to-date information technologies to meet the needs of all campus constituencies — faculty, staff, and students. These technologies include both the local and wide area network, personal and central computers, and educational and applications software. Provide the resources to renew and support these.
- Provide campuswide support (e.g., training, consultation, evaluation, etc.) to both faculty and students for an online distributed learning environment.
- Provide integrated access to knowledge resources in support of teaching, research, and service (e.g., digital library resources available from the desktop).
- Standardize, automate, and redesign core processes (administrative, student service, and other) to take advantage of the efficiencies of automation.
- Develop and implement policies and procedures that permit central support of critical Universitywide networks and appropriate large-scale computing systems with decentralized and distributed support for the desktop environment.

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