

The University *of* North Carolina *at* Chapel Hill

2001 Comprehensive Annual Financial Report

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2001



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

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.



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Introductory Section

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2001

The University
of North Carolina
at Chapel Hill

MESSAGE *from the* CHANCELLOR



The University of North Carolina at Chapel Hill's long-term vision is bold. It is to do what Carolina, as the birthplace of American public higher education, has always done best: to lead. That is this University's history and the legacy we will build upon in the future. The first public university in America should be first among America's public universities.

It is fitting that the University has set such an ambitious goal. Since it was founded more than two centuries ago, never has Carolina experienced such an era of dramatic change, unprecedented growth and unparalleled opportunity.

During the 2000-2001 academic year, new leadership filled several key posts. We also mapped the physical growth of campus for the next 50 years with the completion of a visionary master plan. A statewide higher education bond referendum, approved in November 2000, is bringing approximately \$500 million to the campus to jump-start construction of new buildings as well as renovations and repairs to old ones. Research productivity – a vital ingredient for North Carolina's economic well-being — continued to flourish. And we took significant steps in moving forward with a major fund-raising campaign that will help ensure future excellence through the generosity of private donors.

The University now has one of the most talented group of senior administrators serving on any campus nationwide. Our newest arrivals were Dr. Robert Shelton, executive vice chancellor and provost, a physicist who most recently was vice provost for research at the University of California Office of the President, and Nancy Suttentfield, vice chancellor for finance and administration, who previously served with distinction in the same position at Case Western Reserve University. We also concluded a national search for vice chancellor for research and graduate studies with the hiring of Dr. Tony Waldrop, a former Morehead Scholar and track star at Carolina who returned to campus from the University of Illinois, where he was vice chancellor for research and a professor.

In March 2001, the University completed its master planning effort after three years of exhaustive study. The resulting document provides a compelling blueprint for campus growth over the next half-century. In particular, the plan will help unite the northern and southern portions of campus, extending the beauty and charm of the older campus into the more recently developed South Campus. It will foster interdisciplinary efforts by creating areas such as a science complex and arts corridor that geographically link related activities. And with state-of-the-art water management, a strong emphasis on green space and a greater reliance on public transportation and park-and-ride opportunities, the plan also is environmentally sensitive.

Completion of the master plan came on the heels of the approval of the North Carolina higher education bond referendum. The campus community worked hard to help ensure the bond passage. Nearly three out of four voters across the state

showed they valued public higher education by supporting the referendum, the largest by any state for higher education.

Against the backdrop of the master plan and bond package – and with a University commitment to raise additional private dollars as well as provide other funding sources — our Division of Finance and Administration began a \$1.1 billion capital improvement program, the biggest and most sweeping in Carolina's history. The program provides for renovation of existing buildings and construction of new academic, research and student life facilities and housing to address space shortages and accommodate anticipated enrollment growth. It also includes critical infrastructure to support necessary growth.

These important physical improvements will enable the University's people and programs to carry out teaching, research and public service far more effectively in the future. And that will ultimately benefit North Carolinians and the general public as the University educates tomorrow's leaders, discovers new cures for deadly and debilitating diseases, spins off new taxpaying, for-profit companies through technology developed in Carolina research laboratories, and helps improve people's lives and communities.

The University is working hard to do its part to tap outside resources in carrying out its mission at a time when the State of North Carolina has experienced significant budget difficulties resulting in painful recurring cuts in state appropriations for the University and other state agencies.

Such adversity has illustrated once again the importance of knowledge as a source of capital in the 21st Century economy. And our faculty's performance in the research arena continues to be stellar. Last year, research funding increased 9 percent overall, spurred largely by a 20 percent boost from the National Institutes of Health. Peer-reviewed external funding reached \$375 million, and we expect additional future gains.

Much of the research funding growth in the last year has resulted from the re-investment of our overhead receipts from federally funded grants to build new research facilities in the basic and health sciences. These dollars are our seed corn, our investment for the future.

Such a strategy also is partly responsible for making possible new initiatives like our announcement in February 2001 of at least a \$245 million campuswide commitment to genome sciences that will help interdisciplinary research advance to new levels. Over the next decade, the public-private

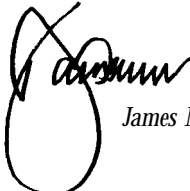
initiative will position Carolina as a force in the genomics revolution, with expertise in health and academic disciplines providing us a unique leadership opportunity. The genomics initiative includes construction of four new research buildings (Medical Biomolecular Research Building, science complex, Bioinformatics Building and the Research and Teaching Building), the hiring of 40 new faculty supported by more than \$50 million in recurring funds, and a \$25 million anonymous gift to create the Michael Hooker Center for Proteomics to study a specialized area of genetics.

Private support is also critical to Carolina's future success. Last year, I made a pledge to the people of North Carolina that we would triple the impact of the bond referendum on this campus with private fund raising. We intend to keep that pledge through the Carolina First Campaign, the largest in the University's history. The seven-year campaign, which began its quiet phase in 1999, will make Carolina more competitive in recruiting the best minds – students, faculty and staff. We will be seeking 200 new endowed professorships – a nearly 70 percent increase over our current complement – and 1,000 new scholarships and fellowships.

The University raised more than \$157 million in gifts and private grants in fiscal 2001 and saw a 3 percent increase in the number of donors, as well as a 10 percent rise in gifts from corporations, foundations and organizations. Our continued success in these efforts through the Carolina First campaign will help enrich the Carolina experience, creating a margin of excellence otherwise unachievable.

The 2000-2001 academic year was a time of transformation for Carolina. The University stood on the precipice of a renaissance, a new Golden Age. The campus community boldly took the step forward to initiate change, and I am confident that in the months and years to come, that courage and vision will pay off multi-fold as Carolina achieves its goal of becoming the best public university in the nation.

Sincerely,



James Moeser



THE UNIVERSITY OF NORTH CAROLINA
AT
CHAPEL HILL

Office of the
Vice Chancellor for Finance and Administration

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LETTER *of* TRANSMITTAL

OCTOBER 31, 2001

To Chancellor Moeser, 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, 2001, 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, 2001. 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 belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Although legally separate, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-CH Foundation), The Kenan-Flager Business School Foundation (Business School Foundation), The School of Social Work Foundation Inc. (Social Work Foundation), and U.N.C. Law Foundation Inc. (Law Foundation) are reported as if they are part of the University based on Governmental Accounting Standards Board Statement 14, The Financial Reporting Entity. 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 while the purpose of UNC-CH Foundation, Business School Foundation, Social Work Foundation and Law Foundation is to aid, support, and promote teaching, research and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. The financial statements of the

Investment Fund, UNC-CH Foundation, Business School Foundation, Social Work Foundation and UNC Law Foundation 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

The U.S. economy slowed dramatically during the 2000-2001 fiscal year from the pace of the previous five years. Real gross domestic product (GDP), the total value of all goods and services produced for final demand within the borders of the U.S. after eliminating the impact of price changes, grew by only 1.2 percent in the year ended June 30, 2001, down sharply from the 5.2 percent growth recorded in the year ending June 30, 2000.

While comparable data are not yet available for North Carolina or any other state, it seems quite likely that economic growth in North Carolina was only about half the national rate in the last fiscal year. We do know that total employment in the state fell by 23,500 people in the latest fiscal year or 0.6 percent versus an increase of 1.0 percent for the entire country. In the previous fiscal year employment in North Carolina grew by 87,292 people or 2.3 percent.

The impact of this on personal income in North Carolina was quite different because of Hurricane Floyd and the damage it caused in 1999. Personal income growth was only 4.5 percent in North Carolina in 1999, below the national average of 4.7 percent growth. In 2000, total personal income in North Carolina grew to \$217.0 billion, an increase of 7.8 percent over 1999, well above the national average increase of 7.0 percent.

For the 1992-2000 period, total personal income in North Carolina grew by 6.6 percent a year, well above the national average of 5.6 percent. Among all 50 states, North Carolina ranked seventh in the rate of growth of personal income for this period.

Per capita personal income in North Carolina was \$26,417 in 1999. This was 93 percent of the national average and 29th among all states and the District of Columbia. This is the highest relative level ever reached by North Carolina since the

start of the data series in 1929. In 1989, North Carolina ranked 34th in this measure.

The Raleigh-Durham-Chapel Hill metropolitan statistical area (MSA) far outperformed the rest of North Carolina and most of the other MSA's in the U.S. during the 1989-1999 period for income growth. In 1989, per capita personal income in this MSA was \$19,958 and ranked 52nd in the entire country. In 1999, it was \$32,054, which was 112 percent of the national average and ranked 36th in the U.S.

All of the eleven MSA's in the state have had sharp increases in their unemployment rates in the year ended in August 2001. The Raleigh-Durham-Chapel Hill MSA went from 1.8 to 3.3 percent in that period while the Hickory-Morganton-Lenoir MSA went from 3.0 to 6.8 percent. The Asheville MSA went from 2.6 to 3.2 percent, which gave it the lowest unemployment rate among all MSA's in North Carolina in August 2001.

The horrific events of September 11 have dramatically changed the economic environment in the current fiscal year. North Carolina has a severe budget problem and has been the only state to raise taxes in 2001.

The state bond issue passed in November 2000 is providing millions to modernize and expand the facilities of the University to serve the students better than ever before. The current fiscal year will be one of the most difficult for the University of any of the last fifty years, but as the economy rebounds, the situation will improve significantly.



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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 – the oldest and largest school within the University – oversaw a range of major initiatives, including the following:

INTERDISCIPLINARY SCIENCES

The College is in the process of hiring six new faculty in the emerging field of genomics. A new Science Complex is planned to provide state-of-the-art facilities for traditional sciences and emerging fields such as genomics, bioninformatics, and materials science. New undergraduate majors were added in computer sciences and in mathematical decision sciences.

INTERNATIONAL STUDIES

UNC ranks seventh among all major research universities when it comes to the number of students going abroad, but this still represents a relatively small percentage of students. The College continues to expand international opportunities for students and seeks to integrate study abroad experiences into the academic curriculum. During the past year, the College established a new program in Asia and a new major in International and Area Studies, which is already the tenth most popular major. A new Center for Global Education is planned to bring together all of the international and area studies at the University.

FIRST YEAR SEMINARS PROGRAM

The program expanded during its second year to make small, interdisciplinary class with top professors available to all freshmen.

ROBERTSON SCHOLARS

Despite the rivalry between Carolina and Duke, 15 students from each school will be spending plenty of time together on both campuses over the next four years as the first group of winners of an unprecedented joint scholarship program. They will take classes and special seminars at both schools and participate in study-abroad programs, internships, research projects, service - learning and even a semester in residence at the other school.

OFFICE OF UNDERGRADUATE RESEARCH

The office provided additional opportunities for undergraduates to work one-on-one with top university researchers on original research. Student researchers from Carolina and three other schools in the UNC system exhibited and discussed their research with members of the General Assembly in Raleigh.

ACADEMIC ADVISING

Enhancements that begun in 1999 began to pay off with vastly improved services and high rates of student satisfaction. The College has added 13 new full-time advisors – more than doubling the number of advising hours since July 1999.

INSTITUTE *for* ARTS AND HUMANITIES

The Institute broke ground for a new \$6 million facility to support faculty fellows, collaborative research and teaching projects. It will be a hub for special programs reaching out to the rest of the University and the community.

RESEARCH, TEACHING AND SERVICE

A team of chemists discovered the world's first liquid DNA and biologists identified genes for fighting disease. An historian unveiled the most comprehensive atlas of the ancient world and a sociologist won a top book award for research on entrepreneurship. Two faculty members were elected to the prestigious National Academy of Sciences and eleven faculty won university teaching awards. A political science team helped the new White House administration's transition process.

SCHOOL OF EDUCATION

The School of Education greeted this new century with innovative programs designed to provide advanced study to practicing teachers in North Carolina and with increased enrollments in our Elementary Education, Master of Arts in Teaching (MAT) for Secondary School Teaching, Early Childhood, and Lateral Entry programs.

THE CAROLINA TEACHING NETWORK

The teaching shortage facing North Carolina and the nation challenges us to find new ways to recruit and retain educators for our schools. We have worked with architects and the new administration of the Smith Middle School in Chapel Hill to plan the School of Education wing, planned to open in 2002, which will provide an accessible and hospitable professional

development center for pre-service and experienced teachers who are working with us in the programs described below:

NEW OFF CAMPUS PROGRAMS

Teachers in Durham, Orange County and Chatham County started our new Master’s Degree Program for Experienced Teachers during this academic year. By providing thematic programs for cohorts of teachers who work together, we hope to support extended school based study and research that will generate new curriculum and instruction suited to the teaching situations of our students. In addition, a new off-campus cohort of educators in Durham started our Masters in School Administration Program.

The initiation and development of this program has been aided by funding from the Jesse Ball DuPont Fund, eager to support programs that encourage teacher development and retention during this era of teacher shortages. With their funding we are able to provide teaching assistantships to doctoral students to work with the cohorts, to provide released time for participants, and to sustain ongoing evaluation of our efforts.

RESEARCH TRIANGLE PROFESSIONAL DEVELOPMENT SCHOOL PARTNERSHIP

The Partnership was expanded to embrace some of the schools who are participants in the off-campus Master’s programs. Coordinating this continued study with curriculum and instruction projects and research promises extended collaboration across school sites, and intensified work with School of Education faculty and students.

DISTANCE EDUCATION

In addition to face-to-face meetings the off-campus cohorts will work with their instructors and with each other over the internet. Over twenty faculty were trained to use Learning Space, a distance-education software, and we expanded the staff of Learn NC with specialists in instructional technology to assist faculty members in designing the web-based portions of their courses. As distance education extends access and flexibility, it also challenges many of the conventions and traditions of instruction. With support from the AT&T Foundation, three professors are studying our new programs and ways that students experience on-line learning. During the new academic year, this funding will also support faculty work with visiting distance education consultants.

RESEARCH AGENDA

During this year faculty collaborated on developing research proposals that coordinated their diverse expertise and researched curriculum and instruction while also considering the context of high stakes testing and accountability practices in the schools, a critical educational issue addressed by our Gordon Lecturer, Professor Melissa Roderick, from the Chicago Consortium on School Reform. Significant funding is expected in the forthcoming year to study mathematics instruction in this context, arts integration curriculum, guidance and counseling, and distance education.

RESEARCH AND EVALUATION STUDIES

Significant funding was received by faculty to study nanotechnology in science education; the impact of desegregation on African-American students in the South; influences of fragile X syndrome and otitis media on cognitive development; environmental factors and intervention services affecting children and youth with disabilities. Evaluation studies of reform in reading instruction, of Charter and Comer schools, of Drug Prevention and Residential Substance Abuse programs were funded.

INSTITUTE OF GOVERNMENT

Institute of Government faculty members published 133 books, book chapters, bulletins, issues of journals, and articles. More than 13,000 public officials attended more than 220 courses, seminars and professional conferences presented by Institute across North Carolina.



> Despite the rivalry between Carolina and Duke, 15 students from each school will be spending plenty of time together on both campuses over the next four years as the first group of winners of an unprecedented joint scholarship program. They will take classes and special seminars at both schools and participate in study-abroad programs, internships, research projects, service-learning and even a semester in residence at the other school.

CAPITAL RENOVATION AND EXPANSION

The \$24 million renovation and expansion of the Institute of Government's 40-year-old building progressed. In spring, 2001, the Institute received a \$1,000,000 challenge grant, the largest gift in its history, from The Knapp Foundation of St. Michaels, MD, to help fund the expansion.

EDUCATION

The Institute's 150-hour Municipal and County Administration Course graduated ninety students. These graduates join nearly 3,400 municipal and county officials that have completed this course since 1954.

Lecturer Gregory S. Allison helped North Carolina officials prepare for the single biggest change in governmental accounting and financial reporting principles in decades. Known as Governmental Accounting Standards Board Statement No. 34, the new standard requires extensive changes to the format and content of annual financial statements for state and local governments nationwide. More than 400 state and local government finance officials in North Carolina attended two original IOG courses specifically developed to address the changes: Implementing the New Financial Reporting Model and Accounting and Financial Reporting for Capital Assets.

Associate Professor Mark F. Botts planned and presented the state's first annual continuing legal education program for public mental health attorneys. Conducted in partnership with the NC Council of Community Mental Health, Developmental Disabilities, and Substance Abuse Programs, the conference targeted attorneys who provide legal services to area mental health authorities.

The Carolina Master of Public Administration program graduated nineteen students in May and enrolled a total of forty-three students. For the second year running, MPA students used grant funds from the Carolina Center for Public Service to conduct research and analysis projects for North Carolina local governments and nonprofits. This year's projects included: Onslow County: Planning a Public Information Campaign on Land-Use Ordinances; City of Hillsborough: Performance Measurement System for Water and Sewer; Women's Center of Chapel Hill: Information for a Strategic Planning Process.

COMMUNITY AND ECONOMIC DEVELOPMENT

Associate Professor Anita R. Brown-Graham completed a six-month special assignment assisting the Governor's Office on issues of rural economic development, particularly the

recovery of eastern North Carolina communities devastated by Hurricane Floyd.

COURTS AND JUDICIAL EDUCATION

Professor Janet Mason worked with the Administrative Office of the Courts to redesign juvenile certification training for district court judges and also completed the planning necessary to offer that training in fall 2001.

LOCAL GOVERNMENT

Professor David M. Lawrence began work on a major set of new books on North Carolina annexation law. These will be the Institute's first publications on annexation and the first in the state to provide an extended legal analysis of the issue.

CENTER FOR PUBLIC TECHNOLOGY

The Center for Public Technology is helping North Carolina governments and their partners understand and use information technology to improve public services and to strengthen their communities. Projects already are underway with the Roanoke Economic Development Corporation/Roanoke-Chowan Partners for Progress, the NC Rural Internet Access Authority, and the NC Association of County Commissioners. The center offers courses on technology management and procurement for local officials and has launched a Web site (www.cpt.unc.edu). It collaborates with the Kenan-Flagler Business School and the School of Information and Library Science, among others.

SCHOOL OF SOCIAL WORK

The School of Social Work has realized numerous goals and launched several new initiatives.

The School has received permission to relocate the Triangle part-time Masters Degree in Social Work (MSW) program, effective Fall 2001, to North Carolina Central University (NCCU). This will facilitate a unique partnership, with opportunities for shared faculty and resources, and bridges to the NCCU baccalaureate in social work program. The School's new Fayetteville/Pembroke part-time program will admit its second cohort of students this fall.

The School of Social Work students continue to distinguish themselves in their classes, internships and within the profession, presenting papers at national conferences and generating articles for scholarly publication. Through largely unpaid field placements, students in the MSW program contribute more than 130,000 hours per year to human service agencies, schools and other public and nonprofit organizations

across North Carolina. The economic impact of this service totals nearly one million dollars per year.

During the fiscal year, our faculty and staff published 10 books, 42 chapters, 76 refereed journal articles, 10 technical reports and articles, and over 50 reports, news columns, work books and training manuals. Faculty and staff are also actively involved in various forms of community and professional service, including volunteer leadership, training, technical assistance, program evaluation and research activities for over 127 public and private organizations.

Through training grants and contracts, social work faculty delivered training to over 10,000 individuals from all 100 North Carolina counties and 26 states. The Continuing Education department sponsored over 14 conferences and workshops aimed at alumni and other audiences across the state. An exceptional lecture series entitled Race, Ethnicity & Culture welcomed distinguished scholars from around the country. The series encouraged informed debate and interactions among the community, practitioners, students and faculty about issues in research and services with children of color.

Through the Jordan Institute for Families, the School continues to be successful in the generation of research and training grants, often focused on ways to strengthen and support families across the lifespan. This year faculty received an \$872,167 grant from the National Institutes of Health (NIH) for the "Making Choices" project, as part of an intense national effort to develop programs to prevent youth violence. In August, faculty submitted a proposal to establish a National Institute on Drug Abuse (NIDA) family and drug abuse social work research program. The primary aim is to prepare social work faculty to conduct research on the role of families in drug abuse prevention and treatment.

KENAN – FLAGLER BUSINESS SCHOOL

CENTER OF EXCELLENCE

Kenan-Flagler has invested in four strategic centers of research excellence with the potential to have a major impact on businesses both in the United States and abroad. The new centers have been incorporated into the school's Kenan Institute to strengthen them through affiliation with Kenan-Flagler's dynamic outreach arm. The Center for Sustainable Enterprise, the Center for Entrepreneurship and Technology Venturing, the Center for Technology and Advanced Commerce and the Center for Real Estate Development will draw on the Kenan Institute's historic wealth of experience in taking research and leading-edge business ideas from the university's campus into the public and private sectors.

ENTREPRENEURSHIP EFFORTS

It was a banner year for Kenan-Flagler's entrepreneurship efforts. The School's Center for Entrepreneurship and Technology Venturing was awarded the Council for Entrepreneurial Development's 2001 Outstanding Service Award for its service to the entrepreneurial community. A Kenan-Flagler MBA team won the 18th annual MOOT CORP (the "Super Bowl of World Business-Plan Competition") held at the University of Texas at Austin. Through a "Launching the Company" class taught by Dean Robert Sullivan and through the School's own incubator, "Launcher," Kenan-Flagler is helping budding entrepreneurs from departments across the university campus.

FINANCIAL SERVICES EXCHANGE

Kenan-Flagler is a lead partner in an international center for sophisticated financial research, training and discussion that was launched in Charlotte. The Financial Services Exchange (FSE) is a non-profit organization that supports financial services companies as they compete in rapidly evolving markets. FSE participants and contributors are financial industry executives, professionals, government officials and academic leaders including Kenan-Flagler, the Belk College of Business at The University of North Carolina at Charlotte and the McColl School of Business at Queens College of Charlotte, North Carolina.

MONTERREY TECH PARTNERSHIP

Kenan-Flagler Dean Robert Sullivan and Chancellor James Moeser visited Monterrey Tech University in Mexico in March 2001 to explore new strategic alliances with Mexico's top technology university. Monterrey Tech is a worldwide leader in distance learning and one of Kenan-Flagler's educa-



> The Center for Sustainable Enterprise, the Center for Entrepreneurship and Technology Venturing, the Center for Technology and Advanced Commerce and the Center for Real Estate Development will draw on the Kenan Institute's historic wealth of experience in taking research and leading-edge business ideas from the university's campus into the public and private sectors.

tional partners. In January 1999, Kenan-Flagler and Monterrey Tech launched a strategic, pioneering partnership called the Center for Innovation in Learning, a living laboratory where faculty have been developing innovative new courses using the latest technologies.

RESEARCH RANKING

Kenan-Flagler was ranked among the top business schools in the nation for research productivity, according to a study published in the December 2000 *Academy of Management Journal*. The rankings, which are based upon a study of national MBA accredited programs, place Kenan-Flagler faculty 15th in the country for the quantity of research published in prestigious scholarly journals from 1994-98.

LOGTECH

In an innovative partnership between the military, industry and academia, Kenan-Flagler was awarded \$1.08 million from the U.S. Department of Defense to develop a Center for Excellence in Logistics and Technology (LOGTECH). LOGTECH is addressing the needs of the military and civilian logistics communities to share information about the rapid changes in logistics practices through a variety of forums, including executive education programs.

SCHOOL OF JOURNALISM AND MASS COMMUNICATION

This year the School continued its development efforts on Carroll Hall, its magnificent home of two years, and to add to its endowment. The School secured two \$1 million professorships. John T. Kerr III made a gift of property to establish a professorship in honor of his father, John T. Kerr Jr. The James Howard and Hallie McLean Parker Distinguished Professorship is being established by their daughter, Stewart Parker, and her family as a tribute to their parents.

The School was the first school in the United States to receive full, unit accreditation. The School has been nationally accredited since 1958. In our latest accreditation report, in May 1997, the national Accrediting Council on Education in Journalism and Mass Communications (ACEJMC) said the School is arguably the best in the nation.

We have more than 1,000 undergraduate and graduate students and are the third-largest major at Carolina. In undergraduate enrollment, the School has had the largest growth of any major at Carolina in the last three decades. The School has hired five faculty members, effective July 1, 2001, and is conducting searches for three more.

International efforts continue to be strong and reflect our commitment to partnerships. A professor from the Mexico City campus of Monterrey Tech University is working on a Ph.D. in the School, and School faculty members have participated in videolink classes with Monterrey Tech. Ten students from the School spent five days studying at the Moscow State Institute for International Relations, or MGIMO, in the spring. The School was home to six international scholars this year, ranging from Kosovo to Korea.

The School has added a fourth lecture series, and CNN talk show host Larry King was the first Earl Wynn Lecturer. His talk coincided with an alumni reunion for the former Department of Radio, Television and Motion Pictures.

In January students in the medical journalism program won their second regional Emmy in two years for a report on "Surviving Childhood Cancer." Ten students were selected to participate in the Dow Jones Internship Program in summer 2001.

The Park Foundation continued its large annual grants to fund 60 Park Fellows in the School's graduate program. The School's first Park Visiting Professor taught in spring 2001. Doug Marlette, Pulitzer prize-winning cartoonist, was the Park Lecturer in fall 2000 and will join the faculty as a distinguished visiting professor in 2001-02.

Nineteen graduate students presented 25 papers—more than any other school—at the AEJMC annual convention in August 2000. Twenty-two of our graduate students presented 30 papers—again more than any other school—at the Southeast Regional Colloquium of AEJMC and won nine top paper awards.

The John S. and James L. Knight Foundation awarded the School an \$84,000 grant to create an editing institute, a two-week program for 18 mid-career copy editors.

SCHOOL OF INFORMATION AND LIBRARY SCIENCE

The School of Information and Library Science (SILS) is the top-ranking program of its kind in the United States. Through its leading edge research, education and service, the school and its graduates link people with global information and knowledge by harnessing the power of information technology. This is the information age and SILS is poised for major innovation and growth in the 21st century. The school houses 300 students, primarily in the master's in library science and information science programs, as well as an undergraduate minor in information systems and a Ph.D. program.

MAJOR INITIATIVES FOR 2000-2001 INCLUDED:

New Educational Programs

During 2000-2001, a dual masters program with the Business School was approved. Other dual degree programs public health and law are in the planning stage. SILS currently has a joint master's program for archives students with the public history department at North Carolina State University. Work continues on a proposal for a new undergraduate major in information science.

Research Collaborations

SILS faculty collaborated in several new initiatives including the Carolina Center for Genomic Sciences; the bioinformatics training program proposal submitted to the National Library of Medicine; the health communication center of excellence proposal submitted to the National Cancer Institute by the Lineberger Cancer Center. Ongoing SILS research on scientific collaboration was cited in the Economist, June 23, 2001.

Service Learning Opportunities

In cooperation with UNC Libraries, SILS provides professional work experience for 22 students in the Carolina Academic Library Associates (CALA) program. This program is funded jointly by UNC libraries and the SILS endowment. The content of the program was enriched in 2000-2001 to include mentorship, travel and other special educational opportunities. Another 12 to 14 students a year participate in the internship program at the Environmental Protection Agency and National Institute for Environmental Health Sciences libraries in Research Triangle Park.

Increasing Diversity

During the past year, an African American faculty member received promotion and tenure. During 2000-2001, a new recruitment program involving participation in career fairs at historically minority campuses was organized by two of our current minority students. Arrangements have also been made for students from North Carolina Central University to participate in the internship program at the Environmental Protection Agency libraries.

Development

In the last year, SILS has received major grants from CISCO to support a fellowship in applied networking; the Smallwood Foundation for a teaching networking lab; and the Bill and Melinda Gates Foundation for student internships. SILS is also home to ibiblio, the people's library funded by Red Hat. Ibiblio is a donor-run electronic library that pro-

vides a place on the Internet where the public can deposit and use multimedia electronic content.

SCHOOL OF LAW

The School of Law hired four new faculty members, successfully competing with, literally, the most prestigious law schools in the nation to land highly accomplished and ethnically diverse new colleagues. The Law School also initiated the Banking and Financial Services Law Center (Banking Center). The Banking Center, directed by Lissa Broome, held major conferences in Charlotte and New York City. Its publication, the Banking Law Journal, is very highly regarded—and already reaches a national audience. The Center has also taken on a heavy set of law-reform assignments at the request of state government. I have little doubt that the Banking Center will increase the national and international visibility of the Carolina Law School while helping us to better serve the state.

The Law School was also recognized last fall by the Public Interest Law Network as having the best pro bono program in America.

FRANK PORTER GRAHAM CHILD DEVELOPMENT CENTER (FPG)

For the past two years, the Frank Porter Graham Child Development Center has been involved in an important process of strategic planning, focused on a single overarching question: What are the most important issues of state and national concern over the next 10-20 years that should be addressed by the center and how can we best position ourselves to address those issues? Numerous retreats allowed us to talk with many individuals within and outside the center about this question. Their input helped formulate several key outcomes:



SILS faculty collaborated in several new initiatives including the Carolina Center for Genomic Sciences; the bioinformatics training program proposal submitted to the National Library of Medicine; the health communication center of excellence proposal submitted to the National Cancer Institute by the Lineberger Cancer Center. Ongoing SILS research on scientific collaboration was cited in the Economist, June 23, 2001.

A prominent Executive Leadership Board was formed consisting of representatives from the nation's corporate, foundation, and public sectors. The board will work with the center's leadership to create a vision for the center's future and to generate resources to achieve that vision.

Two new offices were established at the center, an Outreach Office to coordinate collaborative partnerships with constituents, connections between research and practice, and other outreach efforts, and a Development Office to coordinate fund-raising.

Six national needs were identified to form the basis for center-wide efforts over the next decade.

SELECTED EXAMPLES OF MAJOR NEW RESEARCH FUNDING

Head Start Quality Research Center on Socio-Emotional Interventions

The U.S. Department of Health and Human Services awarded a five-year, \$1.2 million grant to Donna Bryant. The project will determine supports necessary to implement an intervention program to promote social and emotional development in young children in Head Start classrooms.

Measuring Environments of Children and Youth with Disabilities

Rune Simeonsson received a three-year, \$937,215 grant from the Centers for Disease Control and Prevention to develop and disseminate measurement instruments to assess the environmental factors, which affect children and youth with disabilities in community settings.

Variations in Child Care and School Success: Longitudinal Follow – Up of the Cost, Quality and Outcomes Study

A plan to follow 800 children through the end of elementary school, gathering information about their school success and academic achievement in relation to the quality of their child care experiences garnered Ellen Peisner-Feinberg a three-year, \$699,576 grant from the U.S. Child Care Bureau.

SELECTED EXAMPLES OF MAJOR NEW OUTREACH FUNDING

Early Interventions Training Center for Infants and Toddlers Who Have Visual Impairments and Blindness

A four-year, \$2.4 million grant from the U.S. Department of Education to Deborah Hatton will develop resources for use in personnel preparation programs for students who plan

to work with very young children who have visual impairments or blindness and their families.

Walking the Walk

A three-year, \$449,880 grant from the U.S. Department of Education will allow Pam Winton and Camille Catlett to replicate, evaluate, and disseminate strategies for assisting communities in improving the recruitment, preparation, and support of culturally and linguistically diverse individuals through campus community partnerships.

OUTREACH HIGHLIGHTS

FPG Child Care Center Gets Fives-Star Rating

A five-star license (the highest rating awarded by the state) has been awarded to the Frank Porter Graham Child Development Center by the NC Division of Child Development. The FPG Child Care Center is also nationally accredited by the National Association for the Education of Young Children.

SCHOOL OF DENTISTRY

The School of Dentistry introduced several new and significant initiatives within the School's mission areas of teaching and learning, research, patient care and service.

TEACHING AND LEARNING

During the past year, development of the Electronic Syllabus project and the online database, which contain teaching and lecture materials for our DDS and allied dental education students, continued. Our recently established Curriculum Enhancement Fellowship Program, which provides stipend support to DDS and allied dental students for assisting Course Directors with the development of novel digital teaching materials and products, was continued. One lecture hall was equipped to allow real-time videoconferencing and curriculum material is continuing to be developed that will support our distance education and delivery initiatives in the area of oral health sciences. New online course evaluation software was developed that will permit standardized course evaluations of all dental student and allied dental education classes. In addition, evaluation software was developed that will permit the evaluation of courses, instructors, and clinical attending faculty members associated with our advanced education programs.

RESEARCH

This year was highlighted by the expansion of the Comprehensive Center for Inflammatory Disorders (CCID),

by new initiatives in the areas of dental implants, molecular epidemiology and treatment of oral diseases, and by the continued leadership by School of Dentistry researchers in national and international organizations. The UNC P60 grant award (CCID) funds sixteen individual research projects, with a total of 33 investigators from the UNC Schools of Dentistry, Medicine, Public Health, and Pharmacy, and Duke University. The School of Dentistry continues to rank near the top in NIH-funded research, ranking 3rd among US dental schools in National Institute of Dental and Craniofacial Research (NIDCR) funding for the 2000 federal fiscal year. Awards and acquisitions totaled \$10.1 million in the 2000 federal fiscal year.

PATIENT CARE

More clinical and financial functions were converted to our new computer system. Development of digital imaging systems continued with school wide implementation anticipated in 2001-02. Service in our urgent care clinic has been greatly improved and attention is being directed towards improving service in other clinics. Although our DDS students have been providing implant services on a limited basis, a dedicated clinic has been implemented for that purpose. Work has begun on the development of a financial system for tracking the cost of providing care in the various clinics.

PUBLIC SERVICE

The School of Dentistry embarked on a major Web site redesign project to better serve our communities of interest—patients, practitioners, parents, students, faculty and staff. The new site is designed to be user friendly and provide easy access to information and services. The School remains committed to lifelong learning for all dental professionals. The continuing dental education program offered more programs and served more dental professionals than any program in the United States, Canada or Puerto Rico. Working with the Immigrant Health Initiative and using a grant from the University, faculty in the dental hygiene program have established a formal preventive dentistry program for Hispanic immigrants in Siler City. Preventive care will be provided in the School of Dentistry.

NORTH CAROLINA AHEC PROGRAM

The North Carolina Area Health Education Centers (AHEC) Program continues to meet the state’s health and health workforce needs by providing educational programs in partnership with other academic institutions, healthcare agen-

cies, and other organizations committed to improving the health of the people of North Carolina.

HEALTH SCIENCE STUDENT TRAINING

Community practitioners across North Carolina teach UNC students in medicine, allied health, dentistry, nursing, pharmacy, and public health. The nine regional AHECs helped coordinate 5,118 student months (1 student month = 20 days) of community based education for UNC students. In addition to providing support for community preceptors, the AHEC Program provides travel reimbursement and housing for many students in community settings.

LIBRARY AND INFORMATION SERVICES

Under the leadership of the UNC Health Sciences Library, AHEC continues its development of the AHEC Digital Library, a World Wide Web portal that provides access to high-quality electronic health resources for physicians and clinical educators. The Digital Library (<http://library.ncahec.net/>) provides health information to AHEC staff, faculty, medical residents and over 2,000 preceptors located across the state. It offers desktop access to primary medical databases, electronic full-text medical journals and textbooks, clinical practice guidelines and patient education information. Funded in part by a grant from the Duke Endowment, the Digital Library is now extending its resources to all health practitioners in the state.

HEALTH CAREERS AND WORKFORCE DIVERSITY

Last year 18,630 NC school students participated in AHEC activities in health careers and workforce diversity. Students in kindergarten through twelfth grade are tracked through a pipeline of activities including shadowing and men-



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toring experiences, summer experiential activities, health career fairs and forums, and cultural sensitivity training. Pipeline programs are designed to expose students of all ethnic and socio-economic backgrounds to opportunities in health professions, help students prepare for challenging careers, and address healthcare workforce shortages that exist in North Carolina.

OFF CAMPUS DEGREE PROGRAMS

AHEC supports off-campus degree programs that improve educational mobility for students in nursing, public health, and social work. The AHEC Program allocates funds for these programs, and provides the schools and students with logistical support, classroom space, computer support, and library support. In addition, the AHEC Staff help identify appropriate clinical sites and develop preceptors. There are currently more than 400 students enrolled in AHEC-supported off-campus degree programs: 107 students in public health; 14 Masters Degree in Social Work (MSW) students; and 317 students are working toward off-campus nursing degrees.

SCHOOL OF MEDICINE

The School of Medicine continued to attract and recruit students into its medical education and basic science graduate programs from among the nation's strongest applicants. Recommendations to strengthen diversity through increased efforts to recruit and retain under-represented medical students and housestaff were implemented this year, including increased funding and enhancements to several pre-medical pipeline programs. A committee has been appointed to develop recommendations on priorities for medical curricular outcomes and governance structure. Support for medical students continued to be enhanced through the electronic syllabus, courseware, and classroom technological upgrades. The UNC Board of Governors gave final authorization to establish two new doctoral programs: a Ph.D. in Speech and Hearing Sciences and a professional doctorate in Audiology (Au.D.).

The School also recruited a strong contingent of faculty this year, competing successfully with many of the top medical schools in the country. These successes have been made possible in part by the prospect of new facilities and the renovation of existing facilities. The Neuroscience Research Building was completed this year and occupancy began in August 2001. The Biomolecular Research Building and Bioinformatics Building currently are under construction and, with their completion in 2002-03 will result ultimately - together with the Neuroscience Research Building, in

500,000 square feet of new research and academic support space for the School. Also planned are major renovations of three existing structures to afford fully up-to-date space for educational, academic support, and research programs.

Research activities in the School of Medicine continued their substantial growth, with total sponsored project awards up by 25% from last year. As partners in a campus-wide initiative, the School of Medicine, the College of Arts and Sciences, the Office of the Provost and the other health affairs schools collectively have committed approximately \$245 million over the next ten years to a major genomics initiative and as an initial step, the Carolina Center for Genome Sciences has been established. New funding in the School of Medicine in genomics includes an anonymous gift of \$25 million for proteomics, representing the single largest gift by a living donor ever given to UNC Chapel Hill; \$2.4 million from the Howard Hughes Medical Institute for genetics program support; and \$3.5 million from the National Institutes of Health for a Mutant Mouse Regional Resource Center. Among other new funding awarded to the School is a grant from the Bill and Melinda Gates Foundation in the amount of \$15 million over five years for an international consortium to develop new drugs to fight African sleeping sickness and leishmaniasis, diseases that are infecting and killing millions of people in developing nations. This consortium is an example of the value of collaboration between academia, government and private industry. The National Cancer Institute awarded more than \$25 million for a Digital Mammographic Imaging Screening Trial to be coordinated by a leading UNC Chapel Hill radiology investigator that will enroll 49,500 women over three years at medical centers in the U.S. and Canada.

School of Medicine faculty have been involved in numerous public service activities, among them the Hemochromatosis Education and Screening Project that will screen 2000 low-income residents in western North Carolina with the goal of increasing professional and public awareness of this disorder; the TelAbility project to establish a statewide interdisciplinary telehealth program to improve accessibility to health care services for young children with disabilities; a women's health program in partnership with the Lumbee Native American Indian community and other tribes in North Carolina; and patient education programs to help North Carolinians with deep vein thrombosis and pulmonary embolism learn about risks and treatments for these life-threatening health conditions.

SCHOOL OF NURSING

The School of Nursing (SON) marked its golden anniversary by continuing to provide outstanding nursing leadership

in the state. The tradition of being “first” in North Carolina (first baccalaureate, first master’s, first doctoral, and first continuing education programs) continued when the SON received NC Board of Nursing approval to offer the first accelerated BSN program in the state to students who already possess a college degree. In May, we admitted our first class of 31 students from fields as diverse as biology, music, and anthropology. These students will receive the same program of study offered in our traditional two-year program; however, we will provide year round coursework, utilizing a variety of onsite clinical and classroom strategies, and distance formats to enable students to graduate in 42% less time. We are proud to have expanded our baccalaureate enrollment from 144 to 160 during a time when enrollment of younger, first-degree students in nursing is declining nationwide.

In addition to the need for more nurses, the School responded to the unique health care needs of rural North Carolina by accepting our first students in a new program option within our family nurse practitioner master’s program: the Community-Oriented Primary Care for Rural Populations Option. Nurse practitioner students who choose this option gain greater expertise in rural health care and additional education to better prepare them to recognize the specific cultural and geographic challenges of rural locations.

The School’s pride and excitement focused on our research effects when it was learned that among 77 nursing schools receiving funding for research from the National Institutes of Health, the School of Nursing now ranks third. Our faculty received \$5.3 million in grants to support research at the School, representing an increase of over \$1 million compared with 1999, when we were fourth in the country. To help house the increasing amount of research taking place in the School, the renovation and expansion of the Biobehavioral Laboratory, originally established in 1989, was completed in fall 2000. The addition allows our research faculty to expand their studies of stress, pain, and immunity; cardiovascular fitness; and sleep, biorhythms, and neurocognitive responses.

An effort to recruit new researchers was highlighted when the Center for Research on Chronic Illness (CRCI) received \$150,000 in supplemental funding from the National Institute of Nursing Research to begin a collaborative partnership with the North Carolina Central University (NCCU) School of Nursing. This funding will provide an enriched research experience for a select group of students who have an interest in eliminating health disparities for the minority groups of which they are members, and will expose all NCCU and UNC undergraduate nursing students to nursing research on

health disparities. Long term, this partnership aims to increase the number of racial and ethnic minority nursing researchers.

Finally, the SON moved a step closer toward achieving its goal to become a major force in global nursing research by hosting the first Nursing International Doctoral Symposium in June 2001. Nursing faculty and doctoral students from Carolina, the University of Ulster in Northern Ireland, the University of Toronto in Canada, and Lund University in Sweden gathered in Chapel Hill to learn about health care and doctoral education in various countries and to develop international collaborations that will allow investigations of important scientific questions across health care systems and countries.

The School, its faculty, staff, and students, has completed the transition to a new organizational structure initiated in June 2000, and has been successful in recruiting two new Associate Deans: Dr. Richard Redman, for Academic Affairs, and Dr. Sonda Oppewal, for Clinical Affairs. In addition, two new faculty members have joint appointments in the Carolina Center for Genomic Sciences beginning July 1. Finally, the School began the transition toward meeting our longterm space needs when we received approval for the design of our new building from the University Board of Trustees. We look forward to breaking ground on this 69,350 square foot addition in spring 2002.

SCHOOL OF PHARMACY

The year was an exceptionally productive one for the School of Pharmacy. The School reached a point where initiatives put into place in 1997 began to demonstrate their exciting potential. The “re-invention” process put into place in 1997 created a new vision and mission for the School, developed a new organizational structure to take advantage of our unique opportunities, and developed benchmarks to



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measure success in achieving excellence in sponsored research and excellence in developing progressive pharmaceutical care practice. Some examples of our progress are presented in the following highlights.

QUALITY INSTRUCTION

Quality instruction is our highest priority, and we were pleased to see one of our faculty, Dr. Boka W. Hadzija, honored as recipient of the *University Award for Lifetime Achievement in Teaching and Mentoring*. In addition Dr. Ralph Raasch received a Distinguished Teaching Award from the University for excellence in professional education. Dr. Robert Shrewsbury's Pharmaceutics Laboratory Website was selected by the American Association of Colleges of Pharmacy as a Basic Resource in Pharmaceutical Education. This is the second year the website has been recognized by AACP and can be accessed at:

http://www.aacp.org/Resources/Reference/Basic_Resources/alpha_a-m.html.

A special program was conducted at the annual School of Pharmacy Retreat describing "Innovations in Teaching" where faculty described innovative applications of technology and problem based learning (PBL) in the curriculum. At the graduate and research level, a special course for scientists in the pharmaceutical industry was conducted using recently acquired VideoLink Technology. This course allowed simultaneous transmission of coursework from Chapel Hill to scientists in Research Triangle Park, as well as distant locations such as Bristol-Myers Squibb in New Jersey. At the professional and graduate level the School of Pharmacy continues to seek new approaches for delivering quality instruction to traditional as well as nontraditional students.

RESEARCH ACCOMPLISHMENTS

Research accomplishments reached new levels, as measured by grant and contract funding, faculty publications, intellectual property disclosures, and new programs. A new PhD track in Experimental Therapeutics was offered for the first time, as a collaboration between the Divisions of Pharmacotherapy and Drug Delivery and Disposition. This track addresses a serious shortage of clinical scientists in academia and industry and we believe UNC School of Pharmacy can uniquely address this need. Some objective measures of progress in research and graduate education include a 40% increase in grant and contract funding for the past year, a 50% increase in submitted proposal budgets, and a particular success in the award of \$15 million by the Gates Foundation to Dr. Richard Tidwell, a faculty member who holds appointments in the Schools of Medicine and Pharmacy.

The nationally acclaimed Drug Development Fellowship Program that is a partnership between Carolina School of Pharmacy and the pharmaceutical industry added another partner, Pozen Pharmaceuticals, with a unique fellowship emphasizing entrepreneurship in drug development. The Scholarly Program initiative, which identifies a small number of cross-cutting problems to be addressed by interdisciplinary effort, continued to demonstrate success with the "*In-Vitro-In-Vivo Correlates of Drug Disposition Program*," and added a new "*Infectious Disease Program*." Discussions are underway to consider a program in innovative teaching methodologies.

At some point in the future when we look back to 2001 it will be seen as the time when the University of North Carolina made a bold commitment to Genomics and Informatics at an institutional level. The new Genomics Science Center has already provided opportunities for pharmacy faculty to participate from the unique perspective of pharmaceutical discovery, development, therapy and education, and these opportunities will expand exponentially. We are on the beginning of a new era of science and application with regard to drug therapy, and the School of Pharmacy is ideally positioned to participate in this journey.

Finally, the support of our alumni has translated into another record-breaking year in fundraising. Two new endowed chairs (Cocolas Professorship and Eshelman Professorship) have been funded, and a \$1 million discretionary Fund for Excellence has been made available through the generosity of Nancy and Vaughn Bryson '60. Approximately \$4 million in total gifts were received this year. With the new Kerr Hall facility scheduled for completion in 12 months and continued success in our academic programs, the future of pharmacy education at Carolina has never been brighter.

SCHOOL OF PUBLIC HEALTH

This past year, Carolina's School of Public Health launched an assortment of new initiatives and enjoyed a variety of national accolades, building on the School's reputation for excellence.

MAJOR INITIATIVES AND HIGHLIGHTS OF THE SCHOOL OF PUBLIC HEALTH INCLUDE:

Successful completion of a year's self-study and the highest praise from a visiting team from the Council on Education in Public Health (CEPH), the accrediting agency for schools of public health. The School fully met 23 of 24 requirements and met one with commentary, thus ensuring re-accreditation. In their report, CEPH officials noted that the self-study

report was one of the most comprehensive, inclusive and well-organized reports they had ever seen.

The School continued to excel in securing research funding. Last year, new research by the School accounted for 22 percent of the University's external funding. A sampling of that research is detailed here:

The National Institute of Environmental Health Sciences of the National Institutes for Health selected the School as the home of a new Center for Environmental Health and Susceptibility. One of 22 NIEHS-funded centers nationally, the new center provides an opportunity to bring together basic scientists and epidemiologists to develop unique research approaches with a focus on genetic, developmental and toxicokinetic susceptibility. NIEHS funding of \$3.78 million over four years will be matched by at least \$2 million from the School of Public Health aimed at helping the center to recruit new faculty to fill critical gaps in important research areas.

A grant of more than \$34 million by the National Heart, Lung and Blood Institute for the Trial of Activity for Adolescent Girls (TAAG) program was awarded to Carolina and six other universities in an effort to promote fitness among adolescent girls and reduce obesity. Carolina will coordinate the national effort, with \$9 million of the total grant earmarked for the Collaborative Studies Coordinating Center, housed in the School of Public Health.

Launch of the national Public Health Leadership Institute (PHLI) in its new Carolina home. From its inception in 1991, this program had been sponsored by the Centers for Disease Control and Prevention and run by a consortium of University of California public health schools. A five-year, \$2.5 million grant from the CDC supports PHLI as a partnership of Carolina's Kenan-Flagler Business School, the Center for Creative Leadership in Greensboro, and the School of Public Health. The institute develops leadership skills of state and local public health officials. Fifty-six scholars, representing 20 teams from across the United States and one team from Ireland, were selected for PHLI in 2001.

US News and World Report rankings of #2 and #10 in the nation for the School's specialty programs in health services administration and environmental health engineering, respectively. These annual program rankings complement the School's standing as the nation's top school of public health at a public university. Public health schools are a ranking US News does every three years, most recently in 2000.

Addresses by national public health leaders who brought their insights and perspective to students, faculty, staff and members of the general public. These included Pulitzer Prize-win-

ning author and journalist Laurie Garrett; newly appointed NC secretary of health and human services, Carmen Hooker Buell; and US Surgeon General David Satcher.

Establishment of the Southeast Public Health Training Center through a four-year, \$2 million grant awarded to the School of Public Health by the Health Resources and Services Administration (HRSA). The center assesses public health workforce needs, develops plans for its six-state area, and delivers programs and services to meet those needs. Ultimately, the center will strengthen public health workforce capacity for Kentucky, North Carolina, South Carolina, Tennessee, Virginia and West Virginia.

UNIVERSITY LIBRARIES

HEALTH SCIENCES LIBRARY

The Health Sciences Library (HSL) supports the University's mission by providing the highest quality information and knowledge management services to advance health and health care, thus contributing to the University's leadership in education, research and service.

RENOVATION PLANNING

Planning for the total renovation of the Health Sciences Library has been underway since the latter part of 1997. The goal is to create a state-of-the-art facility to support the information needs of Library users well into the 21st century. The pace of change in information technology is so rapid that it is difficult to predict all that will be needed in a library in the next decade or so. Therefore plans will achieve as much flexibility as possible in order to provide "rapid reaction" technology. Through an extremely efficient design the Library will be able to house its physical collections for some years while



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still providing the learning, research and study spaces that users will need.

NORTH CAROLINA HEALTH INFORMATION ONLINE

A grant from the National Library of Medicine (NLM) launched a cooperative project between the HSL, the School of Information and Library Science, and the National Library of Medicine to create a local database of consumer health information resources accessible over the web, and linked to the NLM national consumer health database called MedlinePlus. The hope is that a citizen in Hickory (or anywhere) who needs to find a local diabetes support group, information about local clinical trials, the name of an in-patient drug treatment facility, or other local health information can search this database and find that information, while at the same time having access to the full range of information on topics of national interest that are part of MedlinePlus.

NEW AND EMERGING USER NEEDS

HSL strives to stay abreast of new and emerging user information needs. One of these is the field of bioinformatics, which is a high profile priority for the university. The key players in this new field are multi-disciplinary, covering life and physical sciences and information science. The campus commitment to developing strength in genomics, proteomics and bioinformatics is extraordinary. The HSL is keenly interested in assuring that information competencies are developed by faculty and students in this area, and in providing the best possible knowledge management services to support innovation, discovery and learning. The HSL is participating in a federally funded project to develop a bioinformatics training program, including support for librarians to develop specialized bioinformatics skills. A Bioinformatics Library Fellow is currently being recruited, funded by the National Library of Medicine (NLM), in cooperation with the School of Medicine Medical Informatics Training Program and the School of Information and Library Science.

EXPANDING ACCESS TO PRINT AND ELECTRONIC RESOURCES

During the past year significant growth occurred in electronic access to journals and books. This growth is due primarily to HSL's ability to take part in multi-library licenses with Academic Affairs Library, TRLN, and other research libraries in the area. Some of the significant titles added include: Alt-Health Watch; AMED (alternative medicine data-

base); Journal Citation Reports; and journals from Springer, Kluwer, and Wiley Interscience. HSL also "took the plunge" by converting 39 titles from print to "online only" format, and adding 23 new online titles. A total of 47 new journal titles were added this year in all formats.

ACADEMIC AFFAIRS LIBRARY

The Academic Affairs Library remained committed to providing strong research collections and the excellent, responsive service that encourages use of these collections. At the same time, the Library expanded both its online collections and services and its instructional programs to reflect and to help shape the emerging information environment.

INCREASING ACCESS TO LIBRARY COLLECTIONS

New technologies have enabled the Library to make powerful research tools available to users and to make the historic collections more widely accessible. Among the electronic research tools added this year were: Net Library and Literature Online electronic books, The Oxford English Dictionary, The New Grove Dictionary of Music and Musicians, and a wide range of geographic information systems data. By January 2002, all Davis Library network connections will have been upgraded and new ones added, for a total of 2,300. A new server was installed in order to support the searching being done in the online catalog. Davis Library's highly successful laptop loan program was expanded to include wireless network cards. This summer, librarians are being trained in the use of real-time reference chat software. A new electronic reserves system with improved copyright permissions processes will be implemented this fall.

The purchase of a custom-built archeophone, one of only eight in existence, is allowing the Library to play and preserve its extensive collection of historic wax cylinder recordings. Documenting the American South, the Library's award-winning digitization project for materials relating to the history, literature, and culture of the South (<http://docsouth.unc.edu>) completed three major grant projects totaling \$324,451 and received a new grant of \$160,507 from the Institute of Museum and Library Services. The 1000th DAS volume will be added in 2001-02.

DEVELOPING THE LIBRARY'S INSTRUCTIONAL MISSION

The Library realized major advances in the area of user instruction as we prepare students to meet the information challenges of the 21st century. Renovation of the thirty-year-old Robert B. House Undergraduate Library began this year

following passage of the Higher Education Bond Referendum in November. Thanks to an extensive planning project, the collections, personnel, and services of House Library were successfully transferred to temporary locations in Davis and Wilson Libraries without any interruption in service. House will re-open in fall, 2002, as a state-of-the-art teaching library serving the special needs of undergraduates, and as the site of an ambitious program of cross-campus collaborative instructional initiatives. Also in support of the Library's expanding instructional mission, the position of Coordinator for Instructional Services was filled in September. The Coordinator has implemented a number of improvements to the Library's instructional programs and is actively developing partnerships with faculty members and with other campus support units.

DEVELOPING THE PROFESSION

The Library, in conjunction with the School of Information and Library Science (SILS) instituted the Carolina Academic Library Associates (CALA) program to provide an enhanced experience for qualified students who wish to prepare for careers in academic librarianship. Twenty-two long-standing Library assistantships are now awarded to students with an interest in academic library careers. In addition to professional work experience, enrichment events are scheduled for CALAs and their supervisors. By building a desirable program with clear benefits, UNC Chapel Hill expects to gain a competitive edge in attracting students interested in academic library careers.

RESEARCH AND GRADUATE STUDIES

As a unit, the mission of the Office of the Vice Chancellor for Research and Graduate Studies is to promote the overall research strength of Carolina and the individual scholarly activities of its faculty and students. In this context, a recent report of leading research universities issued just this year (Lombardi et al., 2000) designated Carolina as one of only four public universities that met all the criteria the authors used to evaluate the quality of research institutions. Recent fiscal year 2001 figures for sponsored programs indicate that Carolina received approximately \$440 million in external funding for research, training and public service, an increase of approximately 17% over fiscal year 2000. In addition, faculty and student research efforts in the last year were responsible for the initiation of 11 new start-up companies and research visibility was increased with the university commitment of \$245 million in the area of genomics.

IN SUPPORT OF NEW RESEARCH INITIATIVES

In the last year, overhead funds provided matching support for at least 40 initiatives across campus, including initiatives that resulted in successful proposals to the National Science Foundation, Department of Education, Office of Naval Research, National Endowment for the Arts, National Endowment for the Humanities, Keck Foundation, US Department of State, and various Institutes within the National Institutes of Health.

FEDERAL RESEARCH PRIORITIES

A process was developed in cooperation with the Office of Government Relations and the outside consultants to advocate for support related to specific federal initiatives. As the result of these activities, the university received \$2.9 million direct awards from selected agencies, including NASA, the Center for Disease Control and Health Research Services Administration.

SUPPORT FOR POSTDOCTORAL FELLOWS

A postdoctoral support initiative was established that involved appointment of a faculty director, assistance with the organization of a postdoctoral association, support for a career fair on June 6, 2001 and establishment of a supporting office for this initiative.

In addition, individual units moved forward with several initiatives. Noteworthy accomplishments within these units include:

The Office of Technology Development worked in collaboration to launch the Carolina Venture Fund, a \$20 million seed stage venture capital fund focusing on investments in technology-based start-up companies affiliated with Carolina.



> **T**he Academic Affairs Library remained committed to providing strong research collections and the excellent, responsive service that encourages use of these collections. At the same time, the Library expanded both its online collections and services and its instructional programs to reflect and to help shape the emerging information environment.

The Office of Information and Communications expanded communication capability by developing online editions of our research publication, *Endeavors*, and developing an image database for use throughout campus.

The Office of Research Services went live with the new COEUS Electronic Research Administration System. This Office also introduced a system for assuring that every faculty, student and staff member involved in human subject research received training in the ethical use of human subjects.

The Odum Institute for Research in Social Science expanded research capability in social sciences by gaining direct access to the world's largest social data archive and cosponsoring a summer workshop in quantitative methods in the social sciences.

One of the most important aspects of the Graduate School's mission is to enhance the quality and visibility of graduate education at Carolina as well as serve our students from admissions through graduation. In order to carry this mission forward, we strive to recruit students of the highest quality; prepare them to become leaders in their respective fields; enhance their scholarly opportunities and encourage their quest for new knowledge.

STUDENT RECRUITMENT

Carolina's ability to attract the most promising graduate students has been enhanced by recent increases in funding from private giving. In the last year, fellowship support to the Graduate School from private sources increased by \$2.7 million. This success is reflected by a 128% increase in donors to the Graduate School since 1998. Within this context, the Royster Society of Fellows has supported 109 students and attracted \$7 million in private funds, bringing it well within reach of its goal of being fully endowed at \$10 million. In addition, through a combination of funds from both state and private sources, the Graduate School was able to provide 225 recruitment fellowships and 28 dissertation fellowships.

FOCUS ON FELLOWSHIPS

In order to expand interdisciplinary opportunities for our students, The Scholars for Tomorrow program was launched through the private gifts of several Graduate School donors. The areas targeted for support were Computational Sciences and Aesthetics in Society. These two targeted areas of fellowship support complement two, previously established, fellowship programs that provide support for students with interest in interdisciplinary learning experiences in the human sciences and in issues related to urban livability.

A total of 135 graduate students were awarded prestigious, externally funded fellowships such as those from the National Science Foundation, the Howard Hughes Biomedical Sciences Foundation, Ford Foundation and the Social Science Research Council. These individual fellowships, along with a strong history of success in obtaining training grants from federal sources, were responsible for Carolina being ranked 9th nationwide in federal funding for fellowships, traineeships and training grants, providing clear evidence of the overall strength of its numerous graduate and postdoctoral programs.

DIVERSITY AND PROGRAM QUALITY

The Graduate School continues to obtain a diverse student body. Approximately 24% of the graduate and professional students at Carolina come from ethnically diverse backgrounds, including African-American, Native-American, Hispanic, and a broad range of international designations. Forty-two of Carolina's graduate programs were either newly ranked or continued to be ranked in the top 25 nationwide. In order to expand training opportunities for our students even further, the Graduate School introduced an extensive set of programs to assist students in their professional and leadership development. These include seminars in leadership, communication (e.g., teaching, grant writing) and related skill building as well as workshops that assist students in applying for national fellowships.

TECHNOLOGICAL INNOVATIONS

The Graduate School's introduction of an online application process has been so successful in the last few years that the printing and distribution of paper application booklets can be discontinued. In addition, all student reports have been replaced with web-based rosters and reports.

OFFICE OF SCHOLARSHIPS AND STUDENT AID

The Office of Scholarships and Student Aid is responsible for implementing the University's commitment to ensure that no admitted student would be barred from attendance for lack of financial resources. It does this by advising students and families about college affordability, and by providing financial resources to eligible students with need and/or high academic distinction.

The Office of Scholarships and Student Aid processed over 21,000 applications for scholarships and need-based financial aid and awarded a total of \$119 million to 10,600 undergraduate and graduate/professional school students. Need-based aid comprised approximately ninety-five percent of all funds

disbursed. The Office also leverages funds by assisting students in their search for “outside” (private, not institutionally administered) scholarships. Last year students brought nearly \$8 million with them in outside scholarship funds.

TUITION INCREASES AND FINANCING STRATEGIES

Considerable time and effort was spent during the academic year working with other offices to ensure that sufficient financial aid was secured and available to cover the needs of all financial-aid-eligible students impacted by recent tuition increases. The Board of Trustees and the University’s Board of Governors approved a plan whereby all increased tuition charges would be covered dollar-for-dollar for all undergraduate, graduate, and professional students with documented need. The purpose of providing these tuition enhancement grants to students was to “hold harmless” (from tuition increase) all students who qualified for need-based financial aid. The effort was most successful. Once again, the University demonstrated its commitment to ensure that qualified students from all income levels have the opportunity to attend the University.

The Office was also successful in working with five professional schools (Law, Business, Dentistry, Medicine and Pharmacy) in their efforts to secure tuition increases, while protecting access to these programs for qualified students with financial need. This was accomplished by informing each professional school about the aid and borrowing patterns of their enrolled students, and by assisting in the design of new student aid initiatives funded by a share of new tuition revenues. These efforts continue.

IMPROVEMENTS IN SCHOLARSHIP ADMINISTRATION

The Office of Scholarships and Student Aid concentrated its effort during the academic year on improving systems and operations, streamlining delivery of aid and strengthening client service. As a result of revisions in the need-based “packaging” policies, the Office was able to significantly increase the amount of gift aid (scholarships and grants) awarded to students, reducing students’ need to borrow. This was achieved by raising the gift maximum limits (from \$3,000 to \$4,000 for in-state students, and from \$7,000 to \$8,500 for out-of-state students). By raising the gift limits, the Office was able to meet 100 percent of the demonstrated need for all students who applied on time. This achievement is attributable, in large part, to revenues provided through the tuition enhancement fund, generous private gifts, and income which

are beginning to pay from large endowed gifts. Few public universities in this country do as well in meeting the needs of undergraduate students. Efforts will be focused during the 2001-2002 academic year on strengthening aid for graduate and professional students.

MERIT SCHOLARSHIPS

Carolina is doing very well in serving students who evidence financial need. However, despite recent significant gains (both in the number of Carolina Scholars awards and also National Merit Scholar awards), Carolina is not competitive with its peer institutions in recognizing of academic excellence and awarding of merit-based academic scholarships. These findings were established in a study concluded last year by consultants Scannell and Kurz, Inc., commissioned jointly by the Office of Scholarships and Student Aid and the Office of Undergraduate Admissions. Significant increases in the number of academic scholarships are needed if the University is to succeed in the recruitment of highest achieving students. This is especially true given the projected growth in enrollment and the increasingly competitive national higher education operating environment. Therefore, the Office of Scholarships and Student Aid will focus its future development efforts on increasing the number of academic scholarships it can offer to entering freshmen to ensure that the University can compete successfully for highest achieving students.

LAPTOP GRANT PROGRAM

As part of the Campus Computing Initiative, staff of the Office of Scholarships and Student Aid notified over 3,000 financial aid eligible freshmen that they are eligible to receive a laptop grant, ranging from a minimum of \$500 to a maximum of \$2,300. The University provided the funds for the



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laptop grants, ensuring that needy students would not be harmed by the CCI requirement. All enrolled students are eligible to borrow funds to purchase a laptop computer at an interest rate of 5.39%, the same rate afforded under subsidized federal need-based student loans. The computer loans are made available through Student Stores and financed by the College Foundation, Inc. of North Carolina.

INFORMATION TECHNOLOGY SERVICES

As it has for several years now, the Carolina Computing Initiative (CCI) stands as perhaps the most public example of the ITS program on campus. Recognizing the importance of technology in education, the University has backed up its belief with the commitment that every incoming freshman have access to a computer at the most affordable possible price. As of June 30, 2001, CCI had delivered over 19,000 IBM laptops to University departments and students. With Ethernet connections in every dorm room on campus and wireless networks in libraries and many classrooms, the University has truly adapted its teaching and research methods to take full advantage of a new world of possibilities. Students are no longer tied to the physical boundaries of classrooms and libraries in the same ways as they were in the past. Much background work goes on outside the classroom, with materials, reading lists, and research information being posted to the World Wide Web; while classroom time is more efficiently used for student/instructor interaction.

Leading the way in its support for faculty adapting to these new methods of teaching, the Center for Instructional Technology (CIT) completed its second year of support for Blackboard, a system that helps instructors create websites for individual classes. In the 2000-2001 academic year, over 800 courses with more than 17,000 enrolled students had sites created with the help of Blackboard. CIT, in conjunction with the Academic Computing Policy office, has also played a major role in pushing for full accessibility of University websites to students with sensory and cognitive challenges. In the future, CIT will merge with the Center for Teaching and Learning to form a new, as yet unnamed, group within ITS.

Keeping computers on campus in good working order is the responsibility of Response Service, primarily the IT Response Center (ITRC), which handles an average of 195 service requests a day from its offices in Wilson Library and the Health Sciences Library. Future plans for the ITRC include opening a satellite office in the South Campus dormitory area to better provide service to students, particularly after normal working hours.

ResNet has taken upon itself the role of technology advocacy for students on campus, and as such, has begun leading the charge for technology-themed housing on campus. Just two-and-a-half years after the last residence hall on campus was brought on-line, the department has reached 100 percent utilization.

Through the Telecommunications Office, ITS is responsible for phone service on campus and cable TV to residence halls. In 2000-2001, the office completed over 8,000,000 minutes of long distance usage just for students. The office also offers discounted travel card and cellular service to students, faculty, and staff. In addition, Telecommunications installs and maintains the campus fiber-optic backbone to improve its data network architecture.

In cooperation with the Center for Bioinformatics, the Bioscience Computing service provides courses and assistances to researchers. ITS and the Center collaborated to support the Cystic Fibrosis Foundation's High Throughput genetic sequencing project. ITS hosts the GenoMax software used in this venture on a Sun Enterprise 4500 with eight processors, ten gigabytes of memory, and over 100 gigabytes of storage. The GenoMax server works in conjunction with an Oracle server from ITS. As an outgrowth of this effort, ITS, the Center for Bioinformatics, and UNC Office of the President now provide GenoMax to all sixteen campuses of the UNC system on a separate Sun Enterprise 5500 with eight processors, ten gigabytes of memory, and over 100 gigabytes of storage.

Finally, there is perhaps no technology work on campus that holds the potential to capture imaginations, both academic and in the wider world, like Internet2; and ITS is at the forefront of a consortium of more than 180 universities around the country now testing equipment and applications for this faster, higher-capacity, higher-quality Internet. In the academic and medical community alone, the new fiber-optic network is expected to offer greatly improved opportunity for collaboration and shared-equipment resourcing among scientists; remote surgery from one hospital to another halfway around the world; even Tele-immersion, a virtual reality system that, using hologram-like technology, allows colleagues working together to be virtually in two places at once.

UNIVERSITY ADVANCEMENT

In fiscal year 2001 donors gave the University \$157 million in gifts and private grants. Carolina has now topped \$100 million in private giving for five consecutive years and 2001 was the second-highest fund-raising year ever. The number of donors rose 3 percent; gifts from corporations,

foundations and organizations increased 10 percent; and membership in the Chancellors' Club is at an all-time high.

The impact of private giving resonates throughout the campus, enhancing the University's intellectual climate by providing an advantage in recruiting and retaining the best faculty and brightest students. Private gifts support ground-breaking research in medicine and the sciences, help fund construction of new learning spaces on campus and enriches the Carolina educational experience, creating a margin of excellence otherwise unachievable.

FUND – RAISING HIGHLIGHTS

GENOMICS

In February Chancellor Moeser announced a public-private investment in a campus-wide genome sciences initiative representing at least \$245 million over the next decade. Knowledge of genes and their role in human disease may ultimately prove instrumental in curing a wide variety of diseases. One of many highlights from fiscal year 2001 is an anonymous gift of \$25 million for proteomics, an area of specialization in genetics that catalogs the proteins expressed in cells.

NANOSCIENCE

Science at Carolina got yet another boost this year from a \$1 million commitment by the W.M. Keck Foundation to support nanoscience at Carolina. The grant supports ground-breaking research at the University that explores and manipulates objects at the atomic and molecular levels. Carolina physicists and computer scientists have drawn international recognition for development of the nanoManipulator, which uses virtual reality technology to provide a visual, three-dimensional image of microscopic particles. Nanotechnology is the science behind building increasingly fast devices in dramatically smaller packages. It affects everything from sensors and computer chips to medical implants.

WOLFE SCHOLARSHIP

With the help of Frank Hanes Sr. '42, young writers will have the opportunity to pursue their life's passion at Carolina. In fiscal year 2001, Hanes established the Thomas Wolfe Scholarship in Creative Writing, one of the largest scholarships in the College of Arts and Sciences.

STUDY ABROAD AND INTERNATIONAL STUDIES

The Institute of Latin American Studies received its largest private pledge ever in fiscal year 2001. The grant will fund

student travel to Latin America and bring distinguished visiting professors to campus from the region. The New York-based Andrew W. Mellon Foundation gave the \$800,000 challenge endowment to the institute. The University will seek private gifts to double the endowment in five years to \$1.6 million, as required by the foundation's one-to-one match.

MEDICAL RESEARCH

The Bill & Melinda Gates Foundation awarded more than \$15 million to an international consortium of researchers led by a Carolina scientist to develop new drugs to fight African sleeping sickness and leishmaniasis - two diseases that are killing and infecting millions of people in developing nations.

MORE FISCAL YEAR HIGHLIGHTS

In fiscal year 2001, 42,304 Carolina alumni gave back to the University. Carolina is currently ranked among the top five public universities for alumni giving (at 25 percent) in a recent U.S. News & World Report study.

YOUNG ALUMNI

Young alumni are Tar Heels who have graduated within the last 15 years (classes of 1987 through 2001). As potential fund-raising leaders and donors, they are vital to Carolina's future and are encouraged to give annually. Young alumni can join the Chancellors' Club at special gift levels, beginning with a \$250 gift for alumni within five years of graduation and rising to \$1,000 for alumni 10 to 15 years out of school. Fiscal year 2001 was the sixth full year of operation for the young Alumni giving program. This year more than 8,000 young alumni gave more than \$1 million.

CHANCELLOR'S CLUB

A record number of individual annual donors – 2,998 – made gifts of \$2,000 or more to Carolina. Out of that number 415 donors were young alumni.

CORPORATIONS, FOUNDATIONS AND ORGANIZATIONS

These groups made gifts and grants to the University totaling more than \$94 million for academic purposes in fiscal year 2001. This marks a 10 percent increase over fiscal year 2000.

PHONE AND MAIL PROGRAMS

In fiscal year 2001 the phonathon's student callers contacted 68,819 people, receiving 33,425 pledges totaling \$2.3 mil-

lion. This is an 18 percent increase over fiscal year 2000. More than 250 student callers worked for the phonathon in 2001, making it one of the largest student employers on campus. The combined phone and mail program generated nearly \$3.9 million for Carolina in fiscal year 2001.

PARENTS

More than 4,500 alumni and non-alumni parents gave \$5.1 million in fiscal year 2001. Of this total, non-alumni parents doubled their giving rate over last year and gave more than \$3.1 million to Carolina.

UNIVERSITY EMPLOYEES

Active and retired faculty and staff are generous donors to the University. In fiscal year 2001 more than 1,600 employees gave more than \$2 million to benefit a wide range of departments, schools and units. This figure includes a \$1 million gift from Dorothy Eliason, the widow of Norman Eliason, a Kenan professor of English.

SENIOR CLASS

The class of 2001 senior gift campaign generated \$30,071 from 757 class members and parents. Seniors chose to support a variety of schools and units with their gifts, but the majority of these contributions went to the designated class gift, a wall-sized aquarium in the Frank Porter Graham Student Union, which is currently under renovation.

SCHOLARSHIPS, FELLOWSHIPS AND PROFESSORSHIPS

Gifts for undergraduate scholarships totaled more than \$9.9 million in fiscal year 2001, while gifts for graduate fellowships totaled \$8.3 million, an increase of more than 50 percent over fiscal year 2000. In 2001 gifts to professorships totaled \$9.3 million.

BEQUESTS AND LIFE – INCOME GIFTS

The University received \$4.2 million from 64 estates in fiscal year 2001, and booked life-income gifts with a fair market value of \$3.4 million. Life-income gifts include gift annuities and charitable remainder trusts, arrangements by which donors give an asset now but receive income, based on the asset's value, for the rest of their lives. Upon the income beneficiary's death, Carolina uses the gift for the purpose the donor specified.

REGIONAL GIVING

Tar Heels across the nation were generous in fiscal year 2001, and many regions posted increases in giving. Twenty regional committees are working to solicit leadership gifts for the Carolina First campaign and to increase contact with alumni and friends. The regional gift program has 10 major gift officers covering the nation. Eight of these regional development officers are based in Chapel Hill, one is in Charlotte and one is in Los Angeles.

STOCK GIFTS

In fiscal year 2001, 528 Carolina alumni and friends made gifts of stock to the University totaling \$12.7 million. The last decade has fostered a rising trend in stock gifts to Carolina. Many Chancellors' Club members make their annual gifts via stock, and many donors also use stock to make major gifts or installments on major gift pledges.

CAMPUS BUILDINGS

Capital gifts – gifts for buildings and equipment – totaled \$8.9 million in fiscal year 2001. Highlights of the year include the Sonja Haynes Stone Black Cultural Center project. The \$9 million building was funded entirely with private gifts. Atlanta technology executive Tim Cobb '86 made a special gift of \$500,000 to support the center's programs and name the new building's 400-seat theater after his father, Dr. Harold J. Cobb Sr.

WEB GIFTS

Carolina's development web site (<http://www.dev.unc.edu/development>) is an emerging vehicle for giving to Carolina, with web gifts increasing steadily over the last few years. In fiscal year 2001, 208 alumni, students and friends made credit card gifts through the secure website. Gifts made over the web in fiscal year 2001 totaled \$57,900 – an increase of more than 66 percent over fiscal year 2000.

STUDENT AFFAIRS

Student life continued to improve through services and educational opportunities provided by the Division of Student Affairs. An aggressive construction plan and upgrade of campus facilities, a high-tech and high-touch approach to student services and encouragement of participation in public service were among efforts to make the university better for students.

To address the needs of the growing student population, Student Affairs began a dynamic program of renovations on

existing housing and construction of four new residence hall communities. Construction of the new halls – which will cost \$46.5 million – began in November 2000. They will house 946 students when they open in fall 2002. A major renovation plan for existing residence halls includes upgrading fire safety systems. The University is working toward equipping all housing with contemporary fire safety systems.

The Carolina Union also is undergoing a major renovation and expansion, and planning is under way for renovation of Memorial Hall, the main campus performance facility. A \$5 million fund-raising effort is under way to supplement \$9 million in bond dollars earmarked for the Memorial project. Work on this aging building is expected to begin in early 2002.

Technology has had a tremendous impact on the delivery of student services. New students signed up for orientation with instant confirmation online, while the transition to university life was eased through timely e-mail information sent to students and their parents. A redesigned Student Health Services' Web site has become a model for other student health programs and its new management of patient data has improved service. Also, Counseling and Psychological Services is increasingly reaching students through its Web site.

Promoting leadership and community service is an important Student Affairs mission. Carolina Leadership Development added a community service component to its programming. The more than 700 Campus Y members contributed some 17,000 hours of public service, while sorority and fraternity members provided 52,285 hours of service. Nearly half the members of the Greek community also were involved in campus leadership activities.

The campus community continued to benefit from the efforts of the Sonja Haynes Stone Black Cultural Center to educate about diversity issues. The center broke ground for its new building following the successful completion of a \$9 million private fund-raising effort.

The University Career Services continued to work to assure our students' employment success. Staff made 16,357 career counseling contacts with students and 756 with employer visitors; conducted more than 4,750 campus interviews with 230 organizations; and hosted 227 career preparation workshops. Those kinds of efforts are making a difference: nearly 71 percent of the Class of 2000 found employment within six

months of graduation, while 23.8 percent enrolled in graduate or professional schools.

FINANCE AND ADMINISTRATION

After three years of exhaustive study, the University completed its master planning effort. The resulting document provides a blueprint for campus growth over the next 50 years. In particular, the plan will help unite the northern and southern portions of campus, extending the beauty and charm of the older campus into the more recently developed South Campus. It will foster interdisciplinary efforts by creating areas such as the proposed science complex and arts corridor that geographically link related activities. With state-of-the-art water management, the return of 10 acres to green space, and a greater reliance on public transportation and park-and-ride opportunities, the plan also is environmentally sensitive.

The master plan completion came on the heels of the approval of the N.C. higher education bond referendum, which provides about \$500 million to Carolina for construction and renovation over the next six years. The campus community worked hard to help ensure the bond passage. Nearly three out of four voters showed they valued public higher education by supporting the referendum, the largest by any state for higher education. The University moved to a general revenue pledge concept for the issuance of debt, and its bond rating was upgraded to AA+/Aa1.

Two linchpin projects in the master plan are under way: construction of additional student housing communities and design work for a more than \$60 million mixed-use project located on the Rams Head Parking Lot. The project will include a parking deck topped by a new grass quad, dining and recreation facilities, grocery store and police substation,



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and will provide a pedestrian-friendly link between north and south campuses.

The year included other highlights. The University made major strides in improving campus access to the Chapel Hill Transit system by agreeing with Chapel Hill and Carrboro to work toward a fare-free bus system. Besides funding a significant portion of that cost, Carolina also is paying for a major expansion of the on-campus transit system. Human Resources completed the first phase of its new client-based Human Resources Information System, providing distributed access to personnel data. All staff personnel transactions were processed through the system and, by year's end, 205 departments were using the system in a decentralized environment. Over 600 users have been trained during the course of the year. In addition, regular HRIS User meetings were held to hear concerns, distribute system updates and discuss planned enhancements.

The Office of Human Resources partnered with the North Carolina State University Office of Human Resources to conduct a salary study for benchmark staff positions. The results of this study supported the need for geographic pay to compete in the very difficult Research Triangle labor market.

The University also received a clean audit opinion and for the sixth consecutive year earned a Government Finance Officers Association certificate of achievement for excellence in financial reporting.

Open forums were held across campus to receive input from the research community (both faculty and administrators) on "what hinders research at Carolina." In the fall, a total of 13 sessions were held across campus. A report summarizing the process and all the input was presented to the COEUS Sponsors and upper level administration. An action plan was recommended with an emphasis on turning the suggestions into improvements for the research process at Carolina.

The implementation of a new On-line Budget Revision System has eliminated most of the paper budget revision forms and has drastically reduced the processing time. Campus departments have expressed satisfaction with the ease and convenience of submitting budget revisions on-line.

Programming was completed to electronically calculate the year-end carry forward of state funds and overhead receipts. In the future, campus departments will receive their carry forward funds much faster after year-end closing. This electronic process will also enable the University to meet Office of the President reporting requirements for the use of carry forward funds.

The University's first two e-commerce initiatives, for office supplies and scientific supplies, were launched. Purchases from these two vendors now approach 10,000 per month, generating significant cost and time savings. The University also launched a system providing electronic billing of business airfare to University accounts, significantly reducing paper processing.

Work began on the remediation of the University's Mason Farm Low Level Radioactive Waste Disposal Site. This work is slated to be completed within 2 years.

ATHLETICS

The Department of Athletics saw several new faces, beginning with the July 2000 hiring of alumnus Matt Doherty as head coach for the men's basketball team. A member of the 1982 NCAA Championship team, he succeeded Coach Bill Guthridge, who announced his retirement last summer. Doherty, who had spent a successful year as head coach at the University of Notre Dame, led the Tar Heels to a 28-7 record in his first year.

John Bunting, another alumnus, was hired as head football coach, succeeding Carl Torbush. Bunting, who played on Carolina's 1971 ACC Championship team, had previously served as co-defensive coordinator for the St. Louis Rams.

Carolina garnered four ACC first place finishes: men's basketball (tied for first in regular season play), men's soccer, field hockey (in regular season play), and volleyball (in regular season play). The women's soccer team tied for second in the regular season and won the NCAA championship.

Student-athletes scored off the field, too. Two hundred and thirty-four were on the ACC Honor Roll for academic achievement, while the graduation rate for Chapel Hill student-athletes stands at 71 percent, about 10 percent higher than the NCAA average. The university also is proud that students who have turned pro before earning their academic degrees tend to finish their coursework. NBA superstar Vince Carter, for example, left Carolina early to play for the Toronto Raptors and returned to pick up his degree during our May 2001 commencement.

Carolina shared its commitment to integrity in athletics with more than 500 middle and high school coaches, athletic directors, community recreation professionals and others by co-hosting "Pursuing Victory with Honor: A Summit on Sportsmanship, Ethics and Character Building." The first-of-its kind conference on the East Coast was offered along with the Josephson Institute of Ethics and the N.C. High School Athletic Association.

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. As an integral part of the State of North Carolina's Single Audit, the University undergoes an annual examination by the Office of the State Auditor 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 pro-

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

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

CURRENT FUNDS REVENUES AND EXPENDITURES

In fiscal 2001, the University expended \$1.37 billion fulfilling its mission of instruction, research, and public service. Approximately 58.1% 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 12.2% of the total.

Other uses of operating resources were for public service (6.5%); institutional support (3.7%); plant maintenance and operations (5.3%); student financial aid (4.0%); and self-supporting auxiliary and related operations (10.1%). Mandatory and other transfers, and refunds to grantors accounted for the remainder (0.2%).

Total expenditures of \$1.37 billion represent an increase of 8.7% over the prior year. Instruction, academic support, and student services increased 13.3% and organized research increased 14.6% over the prior year. Other increases included institutional support (6.1% increase over prior year), student financial aid (9.7% increase over prior year), professional clinical services (7.1% increase over prior year), auxiliary enterprises / internal service (6.5% increase), and plant maintenance and operations (4.6% increase from the prior year), while public service expenditures decreased by 0.3%.

Resources of more than \$1.45 billion supporting these expenditures increased 12.1% over the prior year, which resulted in a \$86.4 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 2000 (27.6% of total, 5% increase over prior year). Remaining revenue sources were tuition and fees (9.6% of total, 14.7% increase), governmental contracts and grants (25% of total, 13.4% increase), sales and

services and other sources (24.9% of total, 12.2% increase), nongovernmental contracts and grants (4.8% of total, 23.9% increase), gifts and bequests (5.5% of total, 33.2% increase), and investment and endowment earnings (2.6% of total, 5.8% decrease).

CURRENT FUNDS for the Year Ended June 30, 2001 (in thousands)

Sources \$1,456,672

\$402,205	27.6%	State Appropriations
\$139,319	9.6%	Tuition and Fees
\$364,340	25.0%	Governmental Contracts and Grants
\$70,343	4.8%	Nongovernmental Contracts and Grants
\$80,007	5.5%	Gifts and Bequests
\$363,052	24.9%	Sales and Services & Other Sources
\$37,406	2.6%	Investment and Endowment Income

Uses \$1,370,248

Instruction, Academic Support, and Student Services	42.5%	\$582,352
Organized Research	15.6%	\$213,833
Public Service	6.5%	\$89,663
Institutional Support	3.7%	\$51,122
Plant Maintenance and Operations	5.3%	\$72,745
Student Financial Aid	4.0%	\$54,670
Auxiliary Enterprises and Internal Service	10.0%	\$135,706
Professional Clinical Services	12.2%	\$167,703
Transfers & Other Deductions	0.2%	\$2,454

Resources of proprietary funds, which include auxiliary enterprise, internal service, and professional clinical service activities, totaled \$353.7 million. The remaining current funds resources of \$1.1 billion support the educational and general activities of the University and are summarized as follows:

(in thousands)

Educational and General	Amount	% of Total
State Appropriations	\$402,205	36.5 %
Tuition and Fees	139,319	12.6 %
Governmental Contracts and Grants	364,340	33.0 %
Nongovernmental Contracts and Grants	70,343	6.4 %
Gifts and Bequests	77,447	7.0 %
Sales and Services and Other Sources	23,347	2.1 %
Investment and Endowment Income	25,935	2.4 %
Total	\$1,102,936	100.0%

The student headcount of the University was 24,872 for the Fall semester of fiscal 2001. Student enrollment has remained stable over the last five years, increasing 1.8%. Student enrollment for fiscal 2001 was composed of the following categories:

Women	59.4%
Men	40.6%
White	78.5%
African American	9.6%
Other	11.9%
Undergraduate	62.7%
Graduate	28.2%
Professional	9.1%
Resident	74.9%
Nonresident	25.1%

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 that 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

To ensure the appropriate mix of funding sources is used, the University is implementing a debt policy, which is continuously used by management as a tool to evaluate the University's organizational and capital funding structure, the appropriate use of leverage, and internal lending mechanisms.

To fulfill its mission, the University of North Carolina will need to make capital investments, driving capital decisions that impact the University's credit. Appropriate financial leverage serves a useful role and should be considered a long-term component of the University's balance sheet. Just as investments represent an integral component of the University's assets, debt is viewed to be a continuing compo-

ment of the University's liabilities. Debt, especially tax-exempt debt, provides a low cost source of capital for the University to fund capital investments in order to achieve its mission and strategic objectives.

The debt strategies, combined with management judgment, provide the framework by which decisions will be made regarding the use and management of debt. The objectives of the debt policy are:

Identify projects eligible for debt financing. Using debt to fund mission critical projects will ensure that debt capacity is optimally used to fulfill Carolina's mission. Projects that relate to the core mission will be given priority for debt financing; projects with associated revenues will receive priority consideration as well.

Maintain Carolina's favorable access to capital. Management determination of the timing of capital projects will not be compromised by the University's access to capital sources, including debt. Management will use and issue debt in order to ensure timely access to capital.

Limit risk of University debt portfolio. The University's will manage debt on a portfolio basis. The University's continuing objective to achieve the lowest cost of capital will be balanced with the goal of limiting exposure to market shifts.

Manage the University's credit to maintain the highest acceptable credit, which will permit the University to continue to issue debt and finance capital projects at favorable interest rates while meeting its strategic objectives. The University will limit its overall debt to a level that will maintain an acceptable credit with the bond rating agencies.

For Carolina to achieve the above objectives, it will adopt strategies and procedures relating to both the external and the internal management of debt and interest. The strategies will:

Provide framework with link to mission to evaluate and prioritize debt eligible projects.

Adopt set of core ratios to guide capital planning and ensure central oversight of University-wide leverage levels.

Provide management with appropriate debt vehicles based on borrowing needs.

De-link external and internal debt repayment, including adoption of internal lending policies.

The University of North Carolina at Chapel Hill has \$397 million of revenue bonds outstanding at June 30, 2001. 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, medical research 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 general revenue and 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.

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 13 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, 2000. In order to be awarded a Certificate of Achievement a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report 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 comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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.



Nancy D. Sattenfield
Vice Chancellor for Finance and Administration



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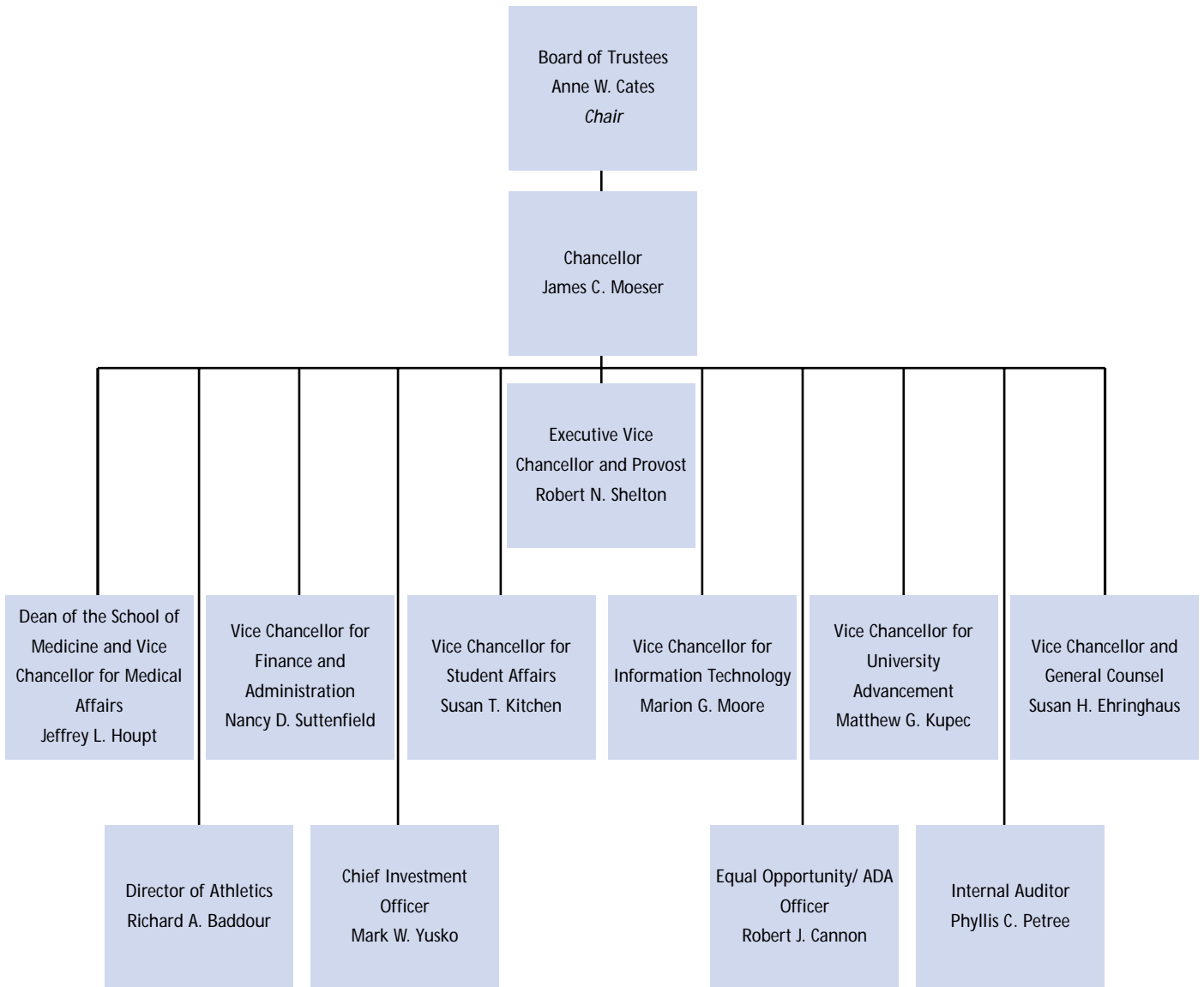
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June 30, 2000

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Anne Spray Kinsey
President

Jeffrey L. Esler
Executive Director

Financial Section

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2001

The University
of North Carolina
at Chapel Hill





Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 2001, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Chapel Hill as of June 30, 2001, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the University changed its accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001. As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standard Board, Statement #33 "Accounting and Reporting of Non-Exchange Transactions" during the year ended June 30, 2001.

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

October 31, 2001

BALANCE SHEET

JUNE 30, 2001 (in thousands)

	Current Funds		
	General	Unrestricted Proprietary	Restricted
Assets			
Cash and Cash Equivalents (Note 1E and 2)	\$78,195	\$68,020	\$115,679
Investments (Note 1F and 2)	19,795	114,210	34,234
Accounts Receivable (Net) (Note 1G)	3,837	29,527	8,604
Intergovernmental Receivables	85		29,796
Interest Receivable	2,529	664	324
Other Receivables	1,802		45,546
Due from Other Funds	54,051		33,525
Due from Other UNC Entities		2,934	257
Due from Primary Government	1,777	274	5,405
Notes Receivable (Net)			
Inventories (Note 1H)	1,661	14,304	121
Prepaid Items	25	74	6
Fixed Assets			
Total Assets	\$163,757	\$230,007	\$273,497
Liabilities and Fund Equity			
Liabilities			
Accounts Payable	\$3,438	\$10,247	\$8,439
Accrued Payroll	10,392	5,516	4,939
Other Payables	101	464	
Due to Other Funds		23,832	39,525
Due to Other UNC Entities		374	763
Due to Primary Government	6	98	2
Bonds Payable (Note 8)			
Interest Payable			
Deposits Payable	7,483	1,154	
Obligations Under Capital Leases			
Accrued Vacation Leave	21,840	12,436	12,774
Deferred Revenue	5,234	5,218	15
Obligations Under Reverse Repurchase Agreements			
Funds Held in Trust for Pool Participants			
Funds Held for Others			
Total Liabilities	48,494	59,339	66,457
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			207,040
Unrestricted	115,263	170,668	
Total Fund Equity	115,263	170,668	207,040
Total Liabilities & Fund Equity	\$163,757	\$230,007	\$273,497

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

Loan	Fiduciary Funds		Plant Funds		
	Endowment & Similar Funds	Agency	Unexpended	Debt Service	Investment in Plant
\$10,032	\$3,931	\$106	\$139,678	\$4,446	
2,043	768,816	300,644	209	21,157	
	122				
31	53		424	5	
	22,040	5,966	3,266		
				23,246	
			24,508		
30,119					
				1,706	
					\$1,630,896
\$42,225	\$794,962	\$306,716	\$168,085	\$50,560	\$1,630,896
	\$4,429		\$15,830		
	11,632				
\$71	38,704		8,690		
			80,406	\$22,342	\$294,330
				3,457	
					335
	9,027	\$3,193			
		303,417			
		106			
71	63,792	306,716	104,926	25,799	294,665
					1,336,231
29,008	225,475				
	106,682				
	382,444				
	16,569				
				5,219	
				12,301	
12,678			61,726	1,349	
468			1,433	5,892	
42,154	731,170	0	63,159	24,761	1,336,231
\$42,225	\$794,962	\$306,716	\$168,085	\$50,560	\$1,630,896

STATEMENT OF CHANGES IN FUND EQUITY

YEAR ENDED JUNE 30, 2001 (in thousands)

	Current Funds		
	General	Proprietary	Restricted
Revenues and Other Additions			
State Appropriations	\$402,205		
Tuition and Fees	139,319		
Federal Contracts and Grants	67,608		\$311,822
State Contracts and Grants	3,807		51,354
Nongovernmental Contracts and Grants	4,890		70,342
Gifts and Bequests	3,578	\$2,560	73,869
Investment Income	11,400	11,471	5,808
Endowment Income	6,685		2,042
Sales and Services	6,257	327,005	
Expended for Plant Facilities			
Retirement of Indebtedness			
Proceeds from Debt Refunding			
Other Revenues and Additions	9,868	12,700	7,222
Total Revenues and Other Additions	655,617	353,736	522,459
Expenditures and Other Deductions			
Educational and General	638,537		425,848
Auxiliary Enterprises		127,425	
Internal Service Funds		8,281	
Professional Clinical Services		167,703	
Indirect Costs Recovered			75,140
Refunded to Grantors			1,750
Administrative and Collection Costs, Loan Cancellations and Bad Debts			
Payment to Escrow Agent			
Expended for Plant Facilities			
Retirement of Indebtedness			
Interest on Indebtedness			
Disposal of Plant Facilities			
Other Expenditures and Deductions			
Total Expenditures and Other Deductions	638,537	303,409	502,738
Excess of Revenues Over (Under) Expenditures	17,080	50,327	19,721
Transfers - Additions (Deductions)			
Mandatory Transfers	(1,270)	(26,135)	(76)
Non-Mandatory Transfers	13,392	(15,717)	29,102
Net Transfers In (Out)	12,122	(41,852)	29,026
Net Increase (Decrease) in Fund Equity	29,202	8,475	48,747
Fund Equity July 1, 2000	86,061	162,193	158,293
Fund Equity June 30, 2001	\$115,263	\$170,668	\$207,040

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

Fiduciary Funds		Plant Funds		
Loan	Endowment & Similar Funds	Unexpended	Debt Service	Investment in Plant
		\$14,759		
		24,989		
\$3	\$17,478	10,198		\$8,739
985	(41,718)	4,185	\$1,761	
63	821	17		
				103,959
				13,129
			13,453	
484	3,112	112		
1,535	(20,307)	54,260	15,214	125,827
1,229			\$13,453	
		52,924		
			13,069	
			18,206	
				16,190
	11,162	58		1,350
1,229	11,162	52,982	44,728	17,540
306	(31,469)	1,278	(29,514)	108,287
		125	27,356	
186	(31,571)	6,175	(1,566)	
186	(31,571)	6,300	25,790	0
492	(63,040)	7,578	(3,724)	108,287
41,662	794,210	55,581	28,485	1,227,944
\$42,154	\$731,170	\$63,159	\$24,761	\$1,336,231

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

YEAR ENDED JUNE 30, 2001

(in thousands)

	Unrestricted			Restricted	Total Current Funds
	General	Proprietary	Total		
Revenues					
State Appropriations	\$402,205		\$402,205		\$402,205
Tuition and Fees	139,319		139,319		139,319
Federal Contracts and Grants	67,608		67,608	\$244,213	311,821
State Contracts and Grants	3,807		3,807	48,712	52,519
Nongovernmental Contracts and Grants	4,890		4,890	65,453	70,343
Gifts and Bequests	3,578	\$2,560	6,138	73,869	80,007
Investment Income	11,400	11,471	22,871	5,808	28,679
Endowment Income	6,685		6,685	2,042	8,727
Sales and Services	6,257	327,005	333,262		333,262
Other Revenues	9,868	12,700	22,568	7,222	29,790
Total Current Revenues	655,617	353,736	1,009,353	447,319	1,456,672
Expenditures					
Educational and General					
Instruction	323,689		323,689	166,758	490,447
Organized Research	31,291		31,291	182,542	213,833
Public Service	51,454		51,454	38,209	89,663
Academic Support	66,172		66,172	9,054	75,226
Student Services	15,948		15,948	731	16,679
Institutional Support	49,256		49,256	1,866	51,122
Plant Maintenance and Operations	71,910		71,910	835	72,745
Student Financial Aid	28,817		28,817	25,853	54,670
Total Educational and General	638,537	0	638,537	425,848	1,064,385
Auxiliary Enterprises		127,425	127,425		127,425
Internal Service Funds		8,281	8,281		8,281
Professional Clinical Services		167,703	167,703		167,703
Total Expenditures	638,537	303,409	941,946	425,848	1,367,794
Transfers and Additions (Deductions)					
Refunded to Grantors				(1,750)	(1,750)
Mandatory Transfers	(1,270)	(26,135)	(27,405)	(76)	(27,481)
Non-Mandatory Transfers	13,392	(15,717)	(2,325)	29,102	26,777
Net Increase (Decrease) in Fund Equity	\$29,202	\$8,475	\$37,677	\$48,747	\$86,424

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



NOTES *to the* FINANCIAL STATEMENTS

JUNE 30, 2001

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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 accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have both delegated and statutory responsibilities for financial accountability of the University's funds. Although legally separate, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-CH Foundation), The Kenan-Flager Business School Foundation (Business School Foundation), The School of Social Work Foundation Inc. (Social Work Foundation), and U.N.C. Law Foundation Inc. (Law Foundation), are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of nine ex officio directors and one or two elected directors. Ex officio directors include all of the members of the Board of Trustees of the Endowment Fund of the University of North Carolina at Chapel Hill, the Vice Chancellor for Finance and Administration, and the Vice Chancellor for University Advancement. The UNC-CH Foundation Board may, in its discretion, elect one or two of its at-large members to the Investment Fund Board. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, non-profit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. Because the members of the Board of Directors of the Investment Fund are officials or appointed by officials of the University and the Investment Fund's primary purpose is to benefit the University of North Carolina at Chapel Hill and other organizations operated primarily to

support the University, its financial statements have been blended with those of the University.

The UNC-CH Foundation is governed by a 17-member board consisting of nine ex officio directors and eight elected directors. Ex officio directors include the Chairman of the Board of Trustees of the University of North Carolina at Chapel Hill, the Chancellor, the Vice Chancellor for Finance and Administration, 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 UNC-CH Foundation Board of Directors by action of the ex officio directors. The UNC-CH 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. Because the members of the Board of Directors of the UNC-CH Foundation are officials or appointed by officials of the University and the UNC-CH Foundation's sole purpose is to benefit the University of North Carolina at Chapel Hill, its financial statements have been blended with those of the University.

The Business School Foundation is governed by a board consisting of four ex officio directors and four or more elected directors. Ex officio directors include the Dean of the Kenan-Flager Business School (Business School), the Chief Financial Officer of the Business School, the Assistant Dean of Academic Affairs, and the Associate Dean for MBA Programs of the Business School. The directors are elected to membership on the Business School Foundation Board of Directors by action of the ex officio directors. The Business School Foundation's purpose is to aid, promote and support the Business School at the University of North Carolina at Chapel Hill. Because the members of the Board of Directors of the Business School Foundation are officials or appointed by officials of the University, the financial statements of the Business School Foundation have been blended with those of the University.

The Social Work Foundation is governed by a board consisting of three ex officio directors and six elected directors. Ex officio directors include the Dean of the School of Social Work, the Chairman of the Board of Advisors to the School of Social Work, and the Vice Chancellor for University Advancement of the University of North Carolina at Chapel Hill. The six board of directors are elected to membership on the Social Work Foundation by action of the ex officio direc-

tors. The Social Work Foundation's purpose is to foster and promote the growth, progress and general welfare of social work practice and research at the School of Social Work of the University of North Carolina at Chapel Hill. Because the members of the Board of Directors of the Social Work Foundation are officials or appointed by officials of the University, the financial statements of the Social Work Foundation have been blended with those of the University.

The Law Foundation is governed by a board consisting of one ex officio director, six appointed directors and six elected directors. The ex officio director is the Dean of the School of Law of the University of North Carolina at Chapel Hill. The ex officio director appoints six directors, while the Board of Directors of the Law Alumni Association of the UNC, Inc. elects the other six directors. The Law Foundation's purpose is to provide support, foster, and encourage the study and teaching of law at the Law School of the University of North Carolina at Chapel Hill. Because a majority of the members of the Board of Directors of the Law Foundation are officials or appointed by officials of the University, the financial statements of the Law Foundation have been blended with those of the University.

Separate financial statements for the Investment Fund and blended foundations 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 except for their participation in the Investment Fund.

The University's financial statements include the financial activities of the clinical patient care programs as part of the Proprietary Funds. These clinical patient care programs established or maintained by the School of Medicine of The University of North Carolina at Chapel Hill are a component unit of the University of North Carolina Health Care System, which is a component unit of the University of North Carolina System.

B. BASIS OF PRESENTATION

The accompanying financial statements are presented in accordance with generally accepted accounting principles applicable to the governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement #15 *Governmental College and University Accounting and Financial Reporting Models*, the University has elected to follow the fund accounting and reporting guidelines set forth by the

American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.

C. FUND STRUCTURE

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

Current Funds are used to account for the revenues and expenditures resulting from operations, with the Unrestricted and Restricted funds shown separately. The Restricted Fund represents resources that are restricted to use by either an outside donor or grantor. Current funds that are internally designated for specific purposes by the governing board or management having delegated authority are reported as Unrestricted Funds. The Unrestricted Proprietary Fund, reflecting the operations of the student supply store, dormitories, other auxiliary enterprises, internal service funds, student activity funds, and intercollegiate athletics is shown separately from the Unrestricted General Fund.

Fiduciary Funds are used to account for additions and deductions from fund equity of the Student Loan Fund and Endowment Fund. The Annuity and Life Income Fund is reported as part of the Endowment Fund. In addition, the Fiduciary Funds are used to account for funds of students and organizations held by the University as custodian in the Agency Fund. The transactions of the Agency Fund increase and decrease assets and liabilities but do not effect fund equity. As a result, the Agency Fund is not reflected in the Statement of Changes in Fund Equity.

Plant Funds are used to account for additions and deductions from fund equity of the Unexpended Plant Fund, Debt Service Fund, and Investment in Plant Fund. The Debt Service Fund includes the Repair and Replacement reserves as well as the reserves for Retirement of Indebtedness.

D. BASIS OF ACCOUNTING

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by public educational institutions, no provision is made for depreciation of fixed assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are recorded when earned and expenditures are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the University receives value without directly giving equal value in exchange, include grants, state appropriations, and

private donations. On an accrual basis, revenues from these transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

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 private bank accounts, petty cash, and undeposited receipts, this classification includes savings accounts, cash on deposit with fiscal agents, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). All other short-term investments are reported as investments.

F. INVESTMENTS

This classification includes long-term fixed income investments, repurchase agreements, equity investments, mutual funds, money market funds, certificates of deposit, limited partnerships, real estate investment trusts, and other asset holdings by the University. Except for money market funds, certificates of deposit, real estate not held by a governmental external investment pool, and other asset holdings, these investments are 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. The net increase (decrease) in the fair value of investments is recognized as a part of investment income.

Money market funds, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair market value or appraised value at date of gift, if donated.

G. RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The receivables for the UNC Physicians & Associates, the Dental Faculty Practice (both included in the current proprietary fund group) and the Loan Funds are shown in the accompanying financial statements net of the allowance for doubtful accounts of \$56,760,000, \$385,000, and \$3,244,000 respectively. The accounts and notes receivable for other funds are shown at book value with no provision for doubtful accounts considered necessary.

H. INVENTORIES

Inventories held by the University are priced at cost or average cost except for the Student Stores inventory, which is valued at the lower of cost or market. The inventories for the Unrestricted General Fund consist of expendable supplies, postage, and fuel held for consumption. Inventories for the Unrestricted Proprietary Fund consist of textbooks and other merchandise for resale.

I. FIXED ASSETS AND DEPRECIATION

Fixed assets 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 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.

Fixed assets financed with debt proceeds are reported in the Investment in Plant fund subgroup when expenditures are incurred. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

Fixed assets such as utilities distribution systems, power plant systems, fiber optic network, and resident hall video network are capitalized as infrastructure.

J. VACATION AND SICK LEAVE

The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days 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. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

The University has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of

sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

K. REVENUE RECOGNITION

Current Funds revenues include all exchange and non-exchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

Certain Unrestricted Proprietary Fund auxiliary operations provide goods and services to activities reported in the Unrestricted General Fund. These auxiliary operations include activities such as utilities, telecommunications, materials management, service and repairs, laboratory services, and other interdepartmental activities. For purposes of financial statement presentation, the University eliminates the associated Proprietary Fund revenue and expenditures for these activities.

Tuition remission and waivers are recorded as "Tuition and Fees" revenue and as "Student Financial Aid" expenditures on the accompanying financial statements.

Student fees pledged under bond indentures are reported as unrestricted revenues when received unless such fees are not legally available for other purposes, in which case they are reported as an addition to Debt Service Fund equity.

L. ENDOWMENT INVESTMENT RETURN

Substantially all of the investments of the University's endowment funds are pooled in the Investment Fund. Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the University's pooled endowment funds have generally ranged between 4% and 7% of market value. To the extent that the total return for the current year exceeds the distribution, the excess is added to principal. If current year earnings do not cover the distribution, the University uses available accumulated gains to make up the difference.

Endowments are classified as either "true" or "quasi." True endowments are funds that the donor has specified, as a condition of the gift, that the principal be maintained indefinitely. Quasi endowments are funds on which there is no such restriction placed by the donor. For classification purposes, the net change in fair value of investments is classified as quasi endowment, unless the donor has stipulated otherwise.

M. FUNDS HELD IN TRUST BY OTHER

Funds held in trust by others are resources neither in the possession nor the control of the University, but held and administered by an outside organization, with the University deriving income from such funds. Such funds established under irrevocable trusts where the University has legally enforceable rights or claims have not been recorded on the accompanying financial statements. The value of these assets at June 30, 2001 is approximately \$30,040,000.

NOTE 2 DEPOSITS AND INVESTMENTS:

A. DEPOSITS

The University is required by General Statute 147-77 to deposit its budget code cash and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, in the State Treasurer's Cash and Investment Pool. In addition, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer's Cash and Investment Pool. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents totaling \$420,087,000. At year-end, cash on hand was \$158,000. The University's portion of the State Treasurer's Cash and Investment Pool was \$419,900,000. 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 name of the State and for investments to be held by the State'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 \$187,000. The bank balance of these deposits was \$9,471,000 of which \$3,580,000 was covered by federal depository insurance or by collateral held by the University's agent in the University's name, and \$5,891,000 was uninsured and uncollateralized.

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; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of

deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities; corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/OSC> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. INVESTMENTS

The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 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, as previously discussed.

Bond proceeds and debt service funds are invested in accordance with the bond resolutions in obligations which will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

General Statute 116-36(e) provides 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 University's component units, the UNC-CH Foundation, the Investment Fund, the Business School Foundation, the Social Work Foundation, and the Law Foundation are subject to and restricted by General Statute Chapter 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income. The University utilizes the following investment pools:

TEMPORARY INVESTMENT POOL (TEMPORARY POOL)

This is a fixed income portfolio managed by the University's Investment Office and Wachovia Bank, N.A. It operates in conjunction with the University's Bank of America disbursing account for all special funds, funds received for services rendered by health care professionals and endowment revenue funds (internal portion), and funds of affiliated foundations (external portion). Because of the participation in the Temporary Pool by affiliated foundations, it is considered a governmental external investment pool. The external portion of the Temporary Pool is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants in the University's Agency Funds. The Temporary Pool is not registered with the SEC and the University has not provided legally binding guarantees during the period to support the value of the pool's investments. There are no involuntary participants in the Temporary Pool.

The Northern Trust Company is the custodian for the Temporary Pool and provides the University's Director of Accounting Services with monthly statements defining income and market value information. Through written request to Accounting Services, participants may purchase and sell shares in the Temporary Pool at a fixed value of \$1 per share. Investments of the Temporary Pool are highly liquid and generally include U.S. government securities, collateralized mortgage obligations, corporate bonds, mutual funds and money market funds. Generally, the purchase and sale of participation shares occur only at the beginning of the month. Income distribution is determined each quarter by multiplying the distribution rate by the average of the invested fund balance. Statements are sent to each participating account or group of accounts on a quarterly basis reflecting the participants' balance and income distribution. The rate earned by an account is dependent upon its account classification and investable fund balance. The rates are set in coordination between the University Investment Office and the Vice Chancellor for Finance and Administration.

UNC-CH FOUNDATION INVESTMENT FUND INC. (INVESTMENT FUND)

This is a North Carolina non-profit corporation exempt from income tax pursuant to Section 501(c)3 established in January, 1997 by the University and is classified as a governmental external investment pool. The pool is utilized to manage the investments for charitable, non-profit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. Funds from

the University's Endowment, the UNC-CH Foundation, the Business School Foundation, the Social Work Foundation, and the Law Foundation are included in the University's reporting entity (internal portion). Other affiliated organizations (external portion) in the Investment Fund are not included in the University's reporting entity. Fund ownership of the University's Investment Fund is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The external portion of the Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants in the University's Agency Funds.

The Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Investment Fund Board of Directors (See Note 1 A). The Investment Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has generally chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the Investment Fund Portfolio among asset classes, investment vehicles, and investment managers. The Board continually reviews, monitors, and adjusts its allocation decisions based on a variety of factors.

The Northern Trust Company is the custodian for the Investment Fund and provides the University with monthly statements defining income and market value information which is then allocated among the fund's participants. The Investment Fund uses a unit basis to determine each partici-

part's market value and to distribute the Fund's spending policy. There are no involuntary participants in the Investment Fund pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The audited financial statements for the Investment Fund pool may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

CREDIT RISK CATEGORIES

The University's investments (pooled and non-pooled) 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 a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 2001 is presented below.

TEMPORARY POOL INVESTMENTS (in thousands)

	Fair Value			Total
	1	Risk Category 2	3	
Categorized Investments:				
U. S. Government Securities	\$ 65,524	\$ 0	\$ 0	\$ 65,524
Collateralized Mortgage Obligations	43,724			43,724
State and Municipal Securities	4,562			4,562
Corporate Bonds	70,399			70,399
Corporate Stocks	30			30
Total Categorized Investments	\$184,239	\$ 0	\$ 0	\$ 184,239
Investments Not Categorized:				
Money Market Funds				7,969
Mutual Funds				14,982
Other Investments				3,428
Total Investments Not Categorized				26,379
Total Temporary Pool Investments				\$ 210,618

INVESTMENT FUND POOL INVESTMENTS *(in thousands)*

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$12,467	\$0	\$0	\$12,467
Collateralized Mortgage Obligations	10,829			10,829
State and Municipal Securities	524			524
Corporate Bonds	17,005			17,005
Corporate Stocks	134,051			134,051
Total Categorized Investments	\$174,876	\$0	\$0	\$174,876
Investments Not Categorized:				
Investments Held by Broker-Dealers				
Under Reverse Repurchase Agreements				
U. S. Government Securities				11,447
Money Market Funds				33,414
Mutual Funds				389,719
Limited Partnerships				294,058
Real Estate Investment Trusts				29,098
Other Investments				14,498
Total Investments Not Categorized				772,234
Total Investment Fund Pool Investments				\$947,110

NON POOLED INVESTMENTS *(in thousands)*

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$6,036	\$981	\$0	\$7,017
State and Municipal Securities	796			796
Corporate Bonds	5,015			5,015
Corporate Stocks	23,343	1,381		24,724
International Stocks				
Total Categorized Investments	\$35,190	\$2,362	\$0	\$37,552
Investments Not Categorized:				
Money Market Funds				34,569
Mutual Funds				18,540
Real Estate				9,026
Other Investments				3,693
Total Investments Not Categorized				65,828
Total Non Pooled Investments				\$103,380

TOTAL INVESTMENTS *(in thousands)*

	Fair Value			Total
	1	2	3	
Total Categorized Investments	\$394,305	\$2,362	\$0	\$396,667
Total Investments Not Categorized				864,441
Total Investments				\$1,261,108

Since a separate annual financial report of the Temporary Investment Pool, a governmental external investment pool, has not and is not planned to be issued, the following additional disclosures are being provided in the University's financial statements.

The Temporary Investment Pool's Statement of Net Assets and Statement of Operations and Changes in Net Assets as of and for the period ended June 30, 2001 are as follows:

TEMPORARY POOL *(in thousands)*

Statement of Net Assets June 30, 2001

Assets:

Accrued Investment Income	\$2,125
Investments	210,618

Total Assets \$212,743

Liabilities:

Deferred Income	\$2,388
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Total Liabilities 2,388

Net Assets:

Internal	133,050
External	77,305

Total Net Assets Available to Participants 210,355

Total Liabilities and Net Assets \$212,743

TEMPORARY POOL *(in thousands)*

Statement of Operations and Changes in Net Assets For the Fiscal Year Ended June 30, 2001

Increase in Net Assets From Operations:

Revenues:

Investment Income	\$14,699
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Expenditures:

Investment Management	313
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Net Increase in Net Assets Resulting from Operations 14,386

Distributions to Participants:

Distributions Paid and Payable	14,386
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Share Transactions:

Net Share Purchases (Liquidations)	14,578
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Total Increase (Decrease) in Net Assets 14,578

Net Assets:

Beginning of Year	195,777
End of Year	\$210,355





The major investment classifications of the Temporary Pool had the following attributes as of June 30, 2001:

(in thousands)

Investment Classification	Fair Value	Principal Amount	Range of Interest Rates	Range of Maturities
U.S. Government Securities	\$65,523	\$67,099	4.0% – 11.5%	2002 – 2029
Collateralized Mortgage Obligations	43,724	44,650	4.1% – 7.5%	2002 – 2028
State and Municipal Securities	4,562	4,397	5.4%	2009
Corporate Bonds	70,399	69,954	4.3% – 7.0%	2001 – 2006
Money Market	7,969	7,969	4.0%	1 day
Mutual Funds	14,983	13,670	N/A	N/A
Corporate Stocks	30	30	N/A	N/A
Other Investments	3,428	3,428	N/A	N/A
Total Temporary Pool Investments	\$210,618	\$211,197		

C. NON-CURRENT FUNDS GAINS AND LOSSES ON INVESTMENTS

The net change in fair value of investments is recorded as part of "Investment Income" on the accompanying financial statements. The additions and deductions to the non-current fund's fund equity resulting from the net change in fair value of investments follow:

(in thousands)

	Net Unrealized Gains / (Losses)	Realized Gains	Realized (Losses)	Net Change in Fair Value
Loan Fund	\$(221)	\$65	\$0	\$(156)
Endowment Fund	(109,331)	67,716	(218)	(41,833)
Debt Service Fund	215	377	0	592

D. ENDOWMENT FUND INVESTMENTS

The Board of Trustees of the Endowment Fund of The University of North Carolina at Chapel Hill and the boards of directors of the affiliated foundations (included in the University's reporting entity) have established a policy that emphasizes growth orientation in the investment of endowment funds. The fair value of the Endowment Fund Investments pooled and non-pooled as of June 30, 2001 as compared to the prior year was as follows:

(in thousands)

	Balance June 30, 2001	Balance June 30, 2000
Investments by Fund:		
Endowment	\$226,232	\$262,396
Quasi Endowment Unrestricted	110,088	137,070
Quasi Endowment Restricted	400,486	390,365
Annuity and Life Income Funds	32,010	33,126
Total	\$768,816	\$822,957
Investment by Type:		
Debt Securities	\$28,727	\$33,909
Equity Securities	121,636	179,960
Collateralized Mortgage Obligations	7,999	11,000
Money Market Funds	27,669	16,294
Mutual Funds	307,219	328,593
Real Estate	9,021	9,056
Limited Partnerships	217,228	186,901
Real Estate Investment Trusts	21,495	24,282
Investments Held by Broker-Dealers Under		
Reverse Repurchase Agreements	8,456	18,508
Other Investments	19,366	14,454
Total	\$768,816	\$822,957

E. REVERSE REPURCHASE 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. As of June 30, 2001 the University had no credit exposure.

All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the University's policy is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. Such matching existed at year-end. The University's investments in the underlying securities and those purchased with proceeds from the reverse repurchase agreements are in accordance with the statutory requirements as



noted. The interest earnings and interest cost arising from reverse repurchase agreement transactions are reported at gross amounts on the accompanying financial statements.

F. DERIVATIVE AND SIMILAR TRANSACTIONS

A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets, reference rates, or indexes of asset values. These instruments may include forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters and caps/floors/collars. Investment transactions similar to a derivative may include securitized assets, such as mortgage-backed securities and other asset backed securities. As required by generally accepted accounting principles, the nature of the derivative or similar transactions entered into by the University, and the reasons for entering into those transactions follow:

MORTGAGE-BACKED SECURITIES

The University invests in mortgage-backed securities issued by the Government National Mortgage Association (GNMA), an agency of the United States government, government sponsored enterprises including the Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA), and private trusts or corporations. 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. These securities may include mortgage pass-through securities and collateralized mortgage obligations (CMOs). 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 CMO security thus chooses the class of security that best meets its 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 issued by GNMA, FNMA, FHLMC are classified by the University as U.S. government securities. The mortgage pools underlying the GNMA pass-through securities are backed by the full faith and credit of the U.S. government by the Federal Housing Administration (FHA), Veterans Administration (VA), and the Farmers Home Administration (FHA). The FNMA and FHLMC securities are collateralized by underlying pools of mortgages primarily issued by GNMA, FNMA or FHLMC which guarantee full and timely payment of principal and interest.

The CMOs held by the University include mortgage-backed securities issued by FNMA, FHLMC, certain trusts and private corporations (including REMIC issuers). In addition, non-traditional mortgage pass-through securities, such as "interest-only strips" and "principal-only strips", if held by the University, are classified as CMOs. The University held non-traditional pass-through securities during the year.

As of June 30, 2001 the University was holding \$114,966,000 in mortgage-backed securities valued at fair (market) value representing approximately 9.1% of its total investments. Of this amount \$54,553,000 represent investments in CMOs.

OTHER ASSET-BACKED SECURITIES

The University invests in various asset backed securities. As of June 30, 2001 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 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.

As of June 30, 2001 the University is holding \$16,960,000 in asset-backed securities valued at fair (market) value representing approximately 1.3% of its total investments.

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).

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, 2001 the futures contracts held by the University had expiration dates not exceeding September 2001.

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.

During the year ending June 30, 2001, the option contracts held by the University vary with changes in the market price of their underlying futures contracts and accordingly also fluctuate with changes in their respective foreign currency rates or security values. The University's option contracts are traded on organized exchanges which mitigates its credit risk of default by a counterparty.

As of June 30, 2001 the options contracts held by the University had expiration dates not exceeding August 2001.

INDIRECT DERIVATIVE HOLDINGS

The University identifies various external investment funds (mutual funds, external investment pools, 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 investment funds and partnerships expose the University to significant amounts of market risk by trading or holding derivative securities and by leveraging the securities in the fund.

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 investment managers/ funds which utilize derivative securities for the fiscal year ending June 30, 2001 are summarized in the chart below. The amounts shown in the chart represent the market value of the University's (including affiliated external foundations participating in the Investment Fund) investment in a fund, group of funds or limited partnership, and are not the market values of the derivatives each fund or partnership is holding. The chart also defines the market value and percent of holdings held in derivatives. The University's reporting entity comprises 73.87% of these totals.



The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.
 Indirect Derivative Analysis For Fiscal Year Ending 6/30/01 (in thousands)

Investment Manager/Fund	Total Market Value	% Invested Derivatives	Amount
DOMESTIC EQUITY			
Feirstein Cap. Management Co. CI A	\$14,968	0.00%	\$ -
Raptor Global Fund	32,621	13.59%	4,433
Blue Ridge Capital	19,451	1.06%	206
Midtown Research Group (CI A,Ser. 4)	10,561	1.30%	137
Portable Alpha Program	497	100.00%	497
INTERNATIONAL EQUITY			
Nicholas-Applegate Capital Mgmt.	16,621	0.00%	-
Oechsle International Advisors	21,984	0.00%	-
Marathon Asset Management	42,391	0.00%	-
City of London Investment Mgmt. Co.	26,854	0.00%	-
SR Global Fund – Emerging Mkts. CI G	8,573	0.00%	-
Boyer Allan Pacific Fund Inc.	17,808	66.20%	11,789
OPPORTUNISTIC EQUITY			
Maverick Fund	30,253	0.00%	-
SR Global Fund – International CI C	16,489	0.00%	-
Reservoir Capital Partners	8,277	0.50%	41
Cliffwood Equity Partners	10,166	0.00%	-
OCM Emerging Markets II	12,439	0.50%	62
Lansdowne European Equity Fund	10,188	22.73%	2,316
Bessent Capital Management	18,777	0.26%	49
ABSOLUTE RETURN			
Highfields Capital, Ltd.	19,737	12.60%	2,487
OZ Overseas Fund, Ltd.	14,409	9.33%	1,345
Satellite Asset Management CI A	11,686	3.15%	368
AQR Capital Management, LLC	9,740	90.34%	8,800
Citadel Investment Group, LLC	18,713	64.00%	11,976
Regiment Capital – Series 1	11,153	1.42%	158
HBK Offshore	11,264	0.00%	-
Symphony Asset Mgt - Rhapsody LP	2,366	8.50%	201
Cerberus Asia Partners, L.P. Fund	5,617	8.50%	478
GS Opport. (Asia) Offshore Fund, Ltd.	4,255	11.87%	505
Contrarian Capital Management	7,367	0.00%	-
OCM Opportunities Fund III, L.P.	20,917	0.25%	52
UBS Global Equity Arbitrage	10,793	13.13%	1,417
FIXED INCOME			
Domestic Fixed Income			
Wachovia Asset Management	61,709	5.41%	3,339
Enhanced Fixed Income			
GMO - Global Fixed Income	17,749	39.63%	7,034
GMO- Emerging Country Debt	10,507	100.00%	10,507
OCM Expanded High Yield Fund, LP	9,713	4.60%	447
Venture Lending & Leasing III	2,000	0.21%	4
ENERGY AND NATURAL RESOURCES			
Goldman Sachs Asset Management	9,809	100.00%	9,809
TOTAL	\$578,422		\$78,457
TOTAL MARKET VALUE OF INVESTMENT FUND			
	\$947,110		
TOTAL % OF MARKET VALUE OF INVESTMENT FUND FOR INDIRECT DERIVATIVE EXPOSURE			
			8.28%

The market values reported for each manager do not include accrued income, reverse repo liabilities, or investments in the State Treasurer's Investment Fund.

The market risk associated with these indirect derivative holdings by fund type follows:

DOMESTIC EQUITY

From time-to-time domestic equity managers will utilize equity index futures, options on equity index futures, and specific stock options. These are used mainly to hedge their portfolio or to take advantage of an options mispricing on a security they own.

INTERNATIONAL EQUITY

International equity managers will utilize foreign equity index futures and options to hedge their exposure to their respective markets.

OPPORTUNISTIC EQUITY

Opportunistic equity managers will utilize a wide range of currency, equity, and fixed income futures and options. These are used to gain exposure to specific markets in the most cost-effective and liquid manner possible.

ABSOLUTE RETURN

Absolute Return managers utilize fixed income and equity futures both as a hedging tool and to gain exposure to specific markets.

FIXED INCOME

Fixed Income Funds utilize futures and options on global fixed income and currency markets. These vehicles are used purely to hedge exposure to a given market or to gain exposure to an illiquid market.

ENERGY AND NATURAL RESOURCES

Principally included as a hedge against unanticipated inflation. These strategies include direct energy investments, energy security investments, commodity-linked notes and direct investments in commodity indices or the future markets.

The Fund's holdings in indirect derivatives (i.e., derivatives held by external investment managers) are primarily used to decrease risk. This is because the indirect derivatives are used by the fund's hedge fund managers primarily to hedge underlying positions, or to gain exposure to specific markets in an efficient, inexpensive, liquid, and diversified manner. In the former case, risk is actually reduced by the use of derivatives because the derivative is directly offsetting market exposure. In the latter case, the derivatives are merely substituting for what would otherwise be a more traditional (individual security) array. Hence there would be no greater risk and often less risk than the traditional array that would exist in place of such derivatives. In limited cases, select managers are allowed to use derivatives to lever specific holdings or market positions. In aggregate, the Fund's 8.28% exposure to indirect derivative holdings reflects a smaller degree of risk than there





would be without such derivatives in the portfolio. The University considers the risk associated with these holdings to be prudent and within acceptable bounds.

NOTE 3 INTERFUND RECEIVABLES AND PAYABLES:

Due From/To Other Funds as of June 30, 2001 are summarized below:

(in thousands)

Due From	Due To			Total Due From
	Unrestricted General	Restricted Funds	Debt Service Funds	
Proprietary Funds	\$586		\$23,246	\$23,832
Restricted Funds	39,525			39,525
Loan Funds	71			71
Endowment & Similar Funds	5,179	\$33,525		38,704
Unexpended Plant Funds	8,690			8,690
Total Due To	\$54,051	\$33,525	\$23,246	\$110,822

The amount due to Debt Service Funds from Proprietary Funds represents current and non-current accrued bond interest payable of \$2,750,000 and \$20,496,000, respectively. The amount due to Unrestricted General and Restricted Funds from Endowment and Similar Funds represents pending income distribution.

The amount of \$8,690,000 due to Unrestricted General Funds from Unexpended Plant Funds represents internal borrowings from the Temporary Investment Pool to fund capital projects. A variable interest rate, generally at 6.5% is charged on the borrowings. The period of the borrowings does not exceed 5 years, and the latest due date is December 31, 2005.

NOTE 4 PENSION PLANS:

A. RETIREMENT PLANS

Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. The Teachers' and State Employees' Retirement System is a multiple-employer, cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System 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 1.81% 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).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2001, these rates were set at 5.33% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2001, the University had a total payroll of \$687,772,000 of which \$302,276,000 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for the year were \$18,137,000 and \$16,111,000, respectively. The University made one hundred percent of its required contributions for the years ended June 30, 2001, 2000, and 1999, which were \$16,111,000, \$24,505,000, and \$21,537,000, respectively.

In accordance with constitutional provisions requiring a balanced budget for the State of North Carolina, the Governor issued an executive order requiring the employers' share of retirement contributions for the months February 2001 through June 2001 to be transferred to a reserve account rather than paid to the Teachers' and State Employees' Retirement System. A portion of those funds was ultimately used by the State of North Carolina for general fund purposes and not released to the retirement system. The total amount of employer contributions paid by the University has been recognized as pension costs in the financial statements. The contributions which were not released to the Teachers' and State Employees' Retirement System are considered immaterial to the University's financial statements taken as whole. The University has no liability for pension costs beyond the contributions already made.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/OSC> and clicking on "Financial

Reports", or by calling the State Controller's Financial Reporting Section at (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, the Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. 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, Fidelity Investment or combinations of the aforementioned. Employees may elect to have their contributions deposited by one provider and the matching benefit deposited by another, or they may elect to have both deposited by the same provider.

For the year ended June 30, 2001, the University had a total payroll of \$687,772,000 of which \$247,283,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$14,837,000 and \$16,914,000, 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 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a

part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$207,000 for the year ended June 30, 2001.

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 are mandated under General Statute 143-163.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2001 were \$72,000. The voluntary contributions by employees amounted to \$1,917,000 for the year ended June 30, 2001.

IRC SECTION 403(B) PLANS

University employees may participate in tax sheltered annuity plans created under Internal Revenue Code (IRC) Section 403(b). The employees' eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the accumulated balances are received or the contributions are withdrawn. These plans are exclusively for employees of public educational organizations and certain charitable and other non-profit institutions as defined by the IRC. 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 \$17,031,000 for the year ended June 30, 2001.

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS

A. HEALTH CARE

The University participates in State administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina, and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. 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 1.28% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2001, the University's total contribution for postemployment health care benefits was \$7,034,000. 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. DISABILITY INCOME

The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Plan. For the fiscal year ended June 30, 2001, the University's total contribution to the Plan was \$2,858,000. 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:

(in thousands)

	Balance June 30, 2000	Infrastructure Reclassification (Adjusted for Construction in Progress)	Additions	Deletions	Balance June 30, 2001
Land and Improvements	\$8,402	\$13,431	\$261		\$22,094
Furniture and Equipment	175,746		25,317	\$11,514	189,549
Buildings and Fixed Equipment	900,884	(179,882)	27,875	2,154	746,723
Infrastructure	0	194,727	20,221		214,948
Other Structures and Improvements	70,352	(28,276)	25,548		67,624
Artworks and Literature	228,024		12,852	2,557	238,319
Construction In Progress	113,778		86,762	48,901	151,639
Total Fixed Assets	\$1,497,186	\$0	\$198,836	\$65,126	\$1,630,896

NOTE 7 COMMITMENTS AND CONTINGENCIES

A. COMMITMENTS

The University had commitments of \$121,704,000 for various capital improvement projects that include construction and completion of new buildings, and renovations of existing buildings.

B. PENDING LITIGATION AND OTHER CONTINGENCIES

A claim related to the construction of the Alumni Center, which was completed in January 1993, had been submitted for extra costs allegedly associated with numerous changes throughout the life of the project. The initial judgement, awarded in May of 2000 and currently under appeal, is for \$1,400,000 plus yet to be determined costs and attorney fees.

The University is undertaking environmental remediation efforts at three sites on University property. These sites are the Airport Road Disposal Site, the Old Sanitary Landfill, and the Mason Farm Low Radioactive Waste Site. The amount of the liability associated with any of the three sites cannot reasonably be estimated at this time.

The University is a party to other litigation and claims in the ordinary course of its operations. 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 of these matters will not have a material adverse effect on the financial position of the University.

C. UNIVERSITY IMPROVEMENT GENERAL OBLIGATION BONDS

The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for the capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The

The schedule below shows the annual requirements to pay principal and interest on the long-term obligations at June 30, 2001.

(in thousands)

Annual Requirements (Principal and Interest)	
Fiscal Year	Revenue Bonds
2002	\$31,065
2003	32,389
2004	32,407
2005	32,421
2006	32,472
2007-2011	158,567
2012-2016	140,474
2017-2021	113,133
2022-2026	68,446
2027-2031	840
Total Requirements	\$642,214

C. DEMAND BONDS

Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice given to the University’s remarketing or paying agents. With regards to the following demand bonds, the University has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

GENERAL REVENUE, SERIES 2001B AND 2001C

On February 7, 2001 the University issued two series of University of North Carolina at Chapel Hill Variable Rate General Revenue Bonds in the amounts of \$54,970,000 (2001B) and \$54,970,000 (2001C) that each have a final maturity date of December 1, 2025. The bonds are subject to annual mandatory sinking fund redemption that begins on the interest payment date on or immediately preceding December 1, 2001. The proceeds of these issuances were used to call the following demand bonds: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Housing System, Series 2000; Kenan Stadium, Series 1996; and Parking System, Series 1997C. 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 agents, Lehman Brothers, Inc (2001B) and Paine Webber Incorporated (2001C).

Under an irrevocable letter of credit issued by Toronto-Dominion Bank and Chase Manhattan Bank, the trustee is entitled to draw amounts sufficient to pay the principal, and, while the bonds are bearing interest at the daily or weekly rate, accrued interest on bonds delivered for purchase. The University is required to pay a quarterly commitment fee for the letters of credit of .08% per annum of the amount of bonds then currently outstanding.

Under the letter of credit agreement, the University has promised to repay loans that represent purchase drawings in equal semi-annual payments after termination of the letter of credit. Interest at the rate of prime plus 1.0% (prime plus 2.0% after 60 days) is payable quarterly and upon draw repayment. At June 30, 2001, no purchase drawings had been made under the letter of credit.

The letter of credit terminates on February 6, 2002, subject to extension by the agreement of both parties.

Effective October 3, 2000 the University entered into an interest rate swap contractual agreement with Lehman Brothers Special Financing, Inc. (Lehman Brothers) on \$22,000,000 of University of North Carolina at Chapel Hill Variable Rate Housing System Revenue Bonds, Series 2000. This series of bonds was refunded in its entirety by the issuance of the University’s Variable Rate General Revenue Bonds, Series 2001B and 2001C, and the interest swap agreement was amended to reflect the refunding. Under this amended agreement, Lehman Brothers pays the University interest on the notational amount based on the Bond Market Association (BMA) Municipal Bond Index on a quarterly basis. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of 5.24%. For the fiscal year ended June 30, 2001, the University paid Lehman Brothers \$188,000 under this agreement.

D. 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 \$36,959,000 and \$9,355,000, respectively, which is the accreted value at June 30, 2001. These bonds mature in the years from 2010 to 2021.

E. CURRENT REFUNDINGS

AMBULATORY CARE CLINIC, ATHLETIC FACILITIES, CAROLINA INN, SCHOOL OF DENTISTRY, HOUSING SYSTEM, KENAN STADIUM, AND PARKING SYSTEM

On February 7, 2001, the University issued \$89,930,000 of University of North Carolina at Chapel Hill General Revenue Bonds, Series 2001A, and two series of University of North Carolina at Chapel Hill Variable Rate General Revenue Bonds in the amounts of \$54,970,000 (2001B) and \$54,970,000 (2001C). The refunding component of these bond issues was used for current refunding of the following University of North Carolina at Chapel Hill revenue bond issues: Ambulatory Care Clinic, Series 1990 (\$14,700,000); Athletic Facilities, Series 1998 (\$14,430,000); Carolina Inn, Series 1994 (\$12,400,000); School of Dentistry, Series 1995 (\$3,700,000); Housing System, Series 2000 (\$44,710,000); Kenan Stadium, Series 1996 (\$12,200,000); and Parking System, Series 1997C (\$10,565,000). The primary reason for the refunding was to restructure the source from which certain bond principal and interest payments will be paid, and to release certain funds held under bond sinking fund and maintenance reserve requirements. As the refunding was primarily variable rate for variable rate bond issues, no new interest rate fluctuation risk was acquired, and the effect on the University's debt service requirements is considered to be negligible.

F. BOND DEFEASANCE

DINING SYSTEM

On February 7, 2001, the University issued \$89,930,000 of University of North Carolina at Chapel Hill General Revenue Bonds, Series 2001A, with an average interest rate of 4.6%. The refunding component of this bond issue was used to defease \$13,205,000 of outstanding Dining System Revenue Bonds, Series 1997 with a combined average interest rate of 5.28%. Of the net proceeds amount, \$13,453,000 combined with Bond Trustee funds of \$351,000 was used to purchase U.S. Government securities. The purchased securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. The University's debt service requirements for early redemption of the Dining System Revenue Bonds, Series 1997, was not affected by this defeasance, and there was no economic gain on the transaction. At June 30, 2001, the out-

standing balance was \$12,690,000 for the defeased outstanding Dining System Revenue Bonds, Series 1997.

DORMITORY SYSTEM

On December 1, 1999, the University defeased \$1,225,000 of outstanding Dormitory System Revenue Bonds, Series E, F & G (1963). Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. At June 30, 2001, the outstanding balance was \$899,000 for the defeased outstanding Dormitory System Revenue Bonds, Series E, F & G (1963).

STUDENT APARTMENT

On December 1, 1999, the University defeased \$128,000 of outstanding Student Apartment Revenue Bonds, Series A (1961). Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. At June 30, 2001, the outstanding balance was \$85,000 for the defeased outstanding Student Apartment Revenue Bonds, Series A (1961).

STUDENT UNION

On December 1, 1999, the University defeased \$620,000 of outstanding Student Union Revenue Bonds, Series 1967. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. For financial reporting purposes, the trust account assets and the liability for the defeased bonds are not included in the balance sheet. At June 30, 2001, the outstanding balance was \$550,000 for the defeased outstanding Student Union Revenue Bonds, Series 1967.

HOUSING SYSTEM

On October 30, 1997, the University defeased \$6,630,000 of outstanding Housing System Revenue Bonds, Series 1991. 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, 2001, the outstanding balance of the defeased Housing System bonds was \$6,630,000.

UTILITY SYSTEM

On October 30, 1997, the University defeased \$19,337,000 of outstanding Utility System Revenue Bonds, Series 1992. 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, 2000, the outstanding balance of the defeased Utility System bonds was \$19,337,000.

**NOTE 9
CONSTRUCTION COSTS PAID
FROM DEBT PROCEEDS**

Construction costs paid from debt proceeds are not reflected as additions to fund equity in the Investment In Plant Fund but rather as an increase to Investment In Plant assets (such as Buildings and Fixed Equipment) and liabilities (Bonds Payable). During the year, \$35,732,000 was added to Investment In Plant assets and liabilities for assets purchased from debt proceeds.

**NOTE 10
CAPITAL LEASES**

Capital lease obligations relating to medical and research equipment are recorded at the present value of the minimum lease payments. The University had future minimum lease payments under capital lease obligations consisting of the following at June 30, 2001:

(in thousands)

Fiscal Year	Capital Leases
2002	\$164
2003	124
2004	67
2005	49
2006	10
Total Minimum Lease Payments	414
Amount Representing Interest	79
Present Value of Future Lease Payments	\$335

Leased assets included in Plant Funds amounted to \$488,000 at June 30, 2001.

**NOTE 11
OPERATING AND OTHER LEASE
AGREEMENTS**

A. OPERATING LEASES

The University had future minimum lease payments under non-cancelable operating leases consisting of the following at June 30, 2001:

(in thousands)

Fiscal Year	Operating Leases
2002	\$4,210
2003	1,969
2004	1,104
2005	976
2006	256
Total Minimum Lease Payments	\$8,515

Rental expense for all operating leases during the year was \$9,211,000.

B. OTHER LEASE AGREEMENTS

The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-CH Foundation) issued certificates of participation to provide for construction of Alumni Facilities. The University constructed the facilities as an agent for the UNC-CH Foundation. In October 1989, the University entered into a 20-year lease agreement with the UNC-CH 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, 2001, 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 12 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. The State budgetary control is maintained on a cash basis of accounting.

NOTE 13 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.

PUBLIC OFFICERS' AND EMPLOYEES' LIABILITY INSURANCE

Tort claims of up to \$500,000 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 University pays the premium, based on a composite rate, directly to the insurer.

FIRE AND OTHER PROPERTY LOSS

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the fund. Coverage for fire losses for all operations supported by the State's General Fund is provided at no cost to the University. Other operations not supported by the State's General Fund are charged for fire coverage. The University also purchased through the Fund extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft and "all risks" for buildings and contents. Wind coverage is provided by the Fund and its reinsurer. For losses involving a named storm, such as a hurricane, the University's deductible is 1% of the total value of a building and contents replacement value for each building, including contents, with a minimum of \$100,000 per building and \$2,500,000 per occurrence.

AUTOMOBILE LIABILITY INSURANCE

All State-owned vehicles are covered by liability insurance handled by the State Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses incurring in-state are \$500,000 per claimant and \$5,000,000 per occurrence. The University is charged premiums to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

EMPLOYEE AND COMPUTER FRAUD

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 with a

private insurance company and is handled by the State Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible.

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

COMPREHENSIVE MAJOR MEDICAL PLAN

Employees and retirees are provided health coverage by the Comprehensive Major Medical Plan, a component unit 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 two HMO plans. The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units 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 the work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University is self-insured for workers' compensation.

LIABILITY INSURANCE TRUST FUND

The University participates in the Liability Insurance Trust Fund (the Fund), a claims-servicing public entity risk pool for professional liability protection. The Fund acts as a servicer of professional liability claims, managing separate accounts for each participant from which the losses of that participant are paid. Although participant assessments are determined on an actuarial basis, ultimate liability for claims remains with the participants and, accordingly, the insurance risks are not transferred to the Fund.

The 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 professional liability 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 (the Hospitals) and The University of North Carolina at Chapel Hill Physicians and Associates (University Physicians and Associates). The Fund is exempt from federal and state income taxes, and is not subject to regulation by the North Carolina Department of Insurance.

Participation in the Fund is open to the University of North Carolina, any constituent institution of the University

of North Carolina, the Hospitals, and any health care institution, agency or entity that has an affiliation agreement with the University of North Carolina, with a constituent institution of the University of North Carolina, or with the Hospitals. Only the University Physicians and Associates and the Hospitals have participated in the Fund to date. Participants provide management and administrative services to the Fund at no cost.

The Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of thirteen members as follows: one member each appointed by the State Attorney General, the State Auditor, the State Insurance Commissioner, the Director of the Office of State Budget and Management, the State Treasurer, (each serving at the pleasure of the appointer); and eight members appointed to three year terms (with no limit on the number of terms) by the Board of Governors of the University of North Carolina.

The 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. Claim liabilities are recomputed annually based on 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 claim 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.

The Fund provides occurrence coverage for participants as a corporate entity, as well as for the employees and professional staff of the participants. The Fund provides coverage of \$3,000,000 per occurrence and \$8,000,000 annual aggregate for the negligence of individual employees of the participants within the course and scope of their employment. Commercial excess insurance of \$25,000,000 per occurrence and \$50,000,000 annual aggregate is provided above the self-insurance retention limits. The Fund provides coverage of \$500,000 per occurrence, in accordance with the limited waiver of sovereign immunity afforded by the State Tort Claims Act, for any recovery against the participants for the negligence of its employees. To assure that both existing and future claims will be paid, the Board of Governors of the University of North Carolina is authorized by law to borrow up to \$30 million to replenish the Trust Fund. No borrowings have been made under this line of credit to date. The Council believes adequate funds are on deposit in the Fund

to meet estimated losses based upon the results of the independent actuary's report.

The Fund has purchased annuity contracts to settle claims for which the claimant has signed an agreement releasing the Fund from further obligation. The related claim liabilities have been removed from estimated malpractice costs. The likelihood that the Fund will be required to make future payments on these claims is considered remote.

The Council may choose to terminate the Fund, or the respective participants may choose to terminate their participation. In the event of such termination by either the Council or a participant, an updated actuarial study will be performed to determine amounts due to or from the participants based on loss experience up to the date of termination.

At June 30, 2001, University assets in the Fund totaled \$20,136,000 while University liabilities totaled \$18,491,000, resulting in net assets of \$1,645,000.

Additional 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, 2001 and 2000. 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.

TERM LIFE INSURANCE

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 14 RELATED PARTIES

FOUNDATIONS

There are 17 separately incorporated non-profit organizations associated with the University. These organizations are The Botanical Garden Foundation, Inc., The Dental Alumni Association, Inc., The Dental Foundation of North Carolina, Inc., The Educational Foundation, Inc., The General Alumni

Association, The Golden Fleece Foundation, Inc., The Institute of Government Foundation, Inc., The Law Alumni Association of N.C., Inc., The Medical Foundation of North Carolina, Inc., The North Caroliniana Society, Inc., The Order of the Grail Valkyries, The Pharmacy Foundation of North Carolina, Inc., The School of Education Foundation, Inc., The School of Journalism and Mass Communication Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc., The University of North Carolina at Chapel Hill Public Health Foundation, Inc., and The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc.

These organizations were established to assist and provide support to University programs by funding scholarships, fellowships, professorships, and other needs of specific schools as well as the University's overall academic endeavors. The University's financial statements do not include the assets, liabilities, net assets or operational transactions of these organizations, except for support from each organization to the University. This support approximated \$15,710,000 for the year ended June 30, 2001.

CAROLINA STUDENT LEGAL SERVICES, INC.

Carolina Student Legal Services, Inc. is an incorporated entity created as a function of the Student Government at the University of North Carolina at Chapel Hill. Its purpose is to provide legal consultation and workshops for student groups and students enrolled at the University. Carolina Student Legal Services is funded from student fees from University of North Carolina Student Government that are a predetermined amount per student as established by a student referendum.

NOTE 15 PLEDGES RECEIVABLE

The University, including the blended affiliated foundations, has pledges receivable in the amount of \$35,171,000. Pledges that are expected to be collectible and available for expenditure, that are both verifiable and measurable, are reported as part of other receivables, and allowances are provided for the amounts estimated to be uncollectible. Pledges receivable for the University, UNC-CH Foundation, Business School Foundation and Law Foundation at June 30, 2001 are in the amounts of \$27,216,000, \$2,212,000, \$4,101,000 and \$1,642,000 respectively. Pledges are receivable over varying time periods ranging from one to ten years, and have been discounted based on a projected interest rate of 6% for the outstanding periods.

Scheduled receipts, the discounted amount under these pledge commitments, and allowances for uncollectible pledges are as follows:

(in thousands)

Fiscal Year	Amount
2002	\$ 14,034
2003	8,198
2004	7,105
2005	6,288
2006	3,490
2007-2010	729
Total Pledge Receipts Expected	39,844
Discount Amount Representing Interest (6% Rate of Interest)	4,235
Present Value of Pledge Receipts Expected	35,609
Less Allowance for Uncollectible	438
Pledges Receivable	\$ 35,171

Pledges, not available for expenditure, such as additions to permanent endowments, are not recorded until received because the donor condition not to expend cannot start to be satisfied until received.

NOTE 16 ACCOUNTING CHANGE

SECURITY LENDING TRANSACTIONS

The University deposits certain funds with the State Treasurer's Cash and Investment Pool, which participates in security lending activities. In prior years it was the State's policy to allocate the risk associated with these transactions to each component unit. For the year ending June 30, 2001, the State changed its policy, as a result of discussion with the GASB technical staff, to report the associated risk as part of the State of North Carolina's Fiduciary funds rather than to allocate the risk to component units. The effect of this change removes from the University issued financial statements the assets and liabilities associated with the State Treasurer's security lending program. This change does not affect the University's beginning fund equities.

GOVERNMENTAL ACCOUNTING STANDARD BOARD, STATEMENT #33 -ACCOUNTING AND REPORTING OF NON-EXCHANGE TRANSACTIONS

Effective July 1, 2000, the University implemented the new accounting and reporting standards required in GASB #33. This standard provides accounting rules over non-

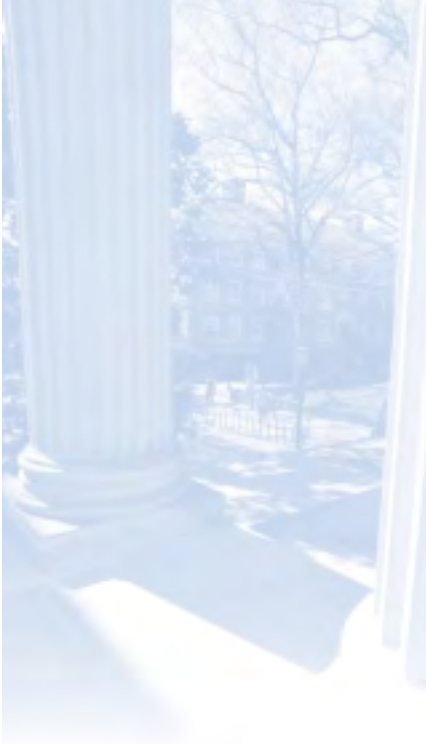
exchange transactions and changes the University's standards for the recognition of revenues and the reporting of funds received but not earned in the University's restricted fund. In prior years, the University reported funds received but not expended in its restricted fund as an addition to fund equity. Based on this new standard, revenues are recognized when earned and when the resource provider's conditions have been satisfied. Amounts received not meeting the recognition requirements are now reported as deferred revenue. In addition, the new standard requires promises to give (pledges) that are expected to be collected and available for expenditure, and that are verifiable and measurable, be recorded as a receivable and revenue, upon satisfying the resource provider's conditions. Prior to this year, pledges were not recorded as a receivable unless there was a legally enforceable right.

NOTE 17 PRIOR PERIOD ADJUSTMENTS

As of July 1, 2000, the fund balances of the various funds as previously reported were restated as a result of the blending of three affiliated foundations' financial statements with those of the University, and for the correction of errors in the reported balances of the fiscal year ended June 30, 2000.

(in thousands)

	Restricted	Endowment
June 30, 2000 Fund Balance as Previously Reported	\$147,942	\$727,798
Restatement Due to Blending of Three Affiliated Foundations	10,351	73,878
Restatement Due to Corrections		(7,466)
Total Restatements	<u>10,351</u>	<u>66,412</u>
July 1, 2000 Fund Balance As Restated	<u>\$158,293</u>	<u>\$794,210</u>



Statistical Section

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2001

The University
of North Carolina
at Chapel Hill

UNRESTRICTED GENERAL AND RESTRICTED CURRENT FUNDS REVENUES BY SOURCE

LAST TEN FISCAL YEARS

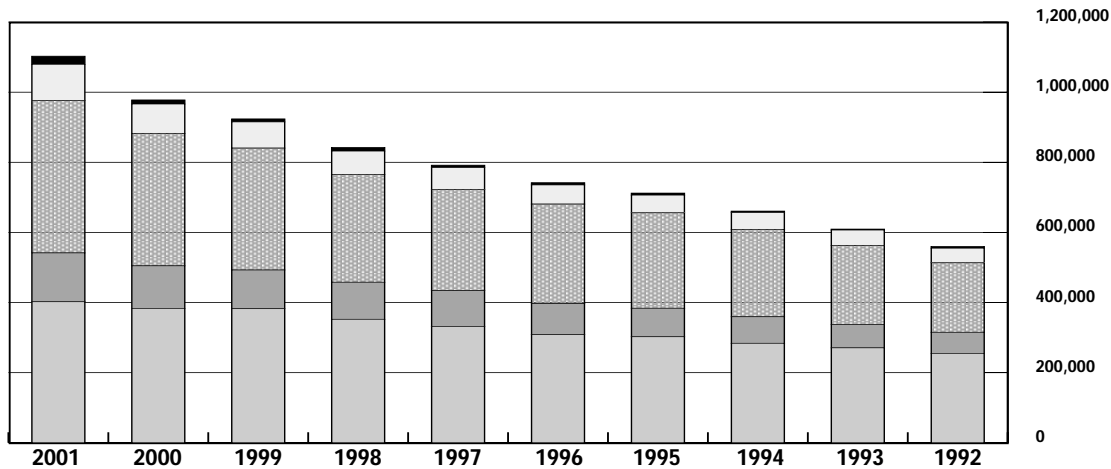
(in thousands)

For the Year Ended June 30,

	2001	2000	1999	1998	1997
Current Funds Revenues					
State Appropriations	\$402,205	\$383,189	\$382,372	\$352,283	\$331,650
Tuition and Fees	139,319	121,507	110,400	105,745	102,277
Contracts and Grants	434,683	378,094	347,850	307,685	288,042
Gifts, Investment and Endowment Income	103,382	83,459	74,557	66,321	62,720
Sales and Services and Others	23,347	11,797	8,767	10,816	7,317
Total Current Funds Revenues	\$1,102,936	\$978,046	\$923,946	\$842,850	\$792,006

Unrestricted General and Restricted Current Funds Revenues By Source for year ended June 30,

(dollars in thousands)



(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Current Funds Revenues					
State Appropriations	\$308,245	\$302,337	\$283,826	\$270,700	\$255,003
Tuition and Fees	88,478	81,465	75,531	66,718	60,247
Contracts and Grants	284,195	272,176	249,448	225,512	198,095
Gifts, Investment and Endowment Income	54,486	50,429	47,637	43,783	41,676
Sales and Services and Others	6,693	6,043	4,646	3,066	5,310
Total Current Funds Revenues	\$742,097	\$712,450	\$661,088	\$609,779	\$560,331

- Sales and Services and Others
- Gifts, Investment and Endowment Income
- Contracts and Grants
- Tuition and Fees
- State Appropriations

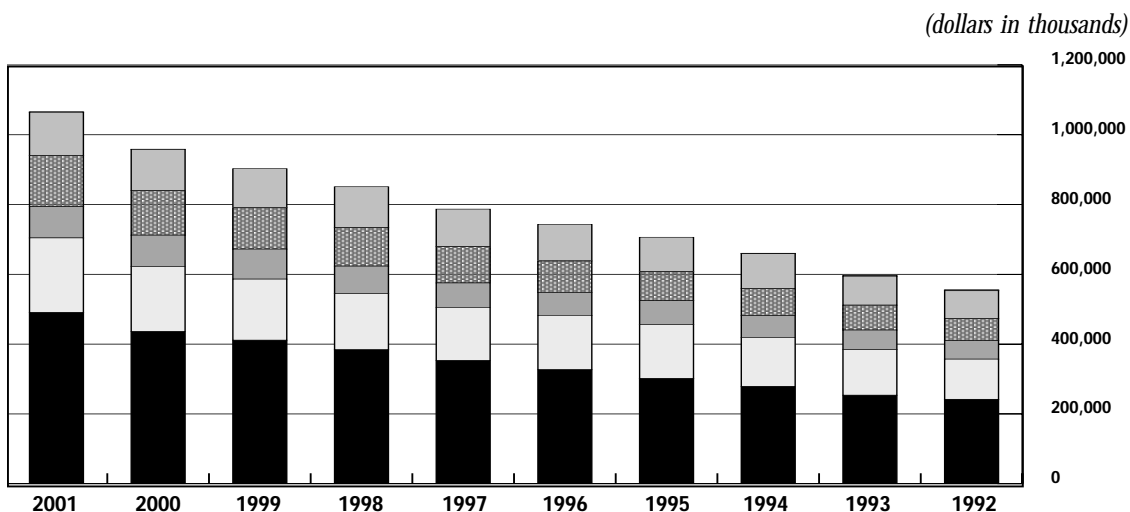
UNRESTRICTED GENERAL AND RESTRICTED CURRENT FUNDS EXPENDITURES AND MANDATORY TRANSFERS BY FUNCTION

LAST TEN FISCAL YEARS

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Current Funds Expenditures					
Instruction	\$490,447	\$435,839	\$411,292	\$383,759	\$352,711
Organized Research	213,833	186,550	174,973	161,128	152,478
Public Service	89,663	89,906	86,062	78,678	70,106
Academic Support, Student Services, and Financial Aid	146,575	128,107	118,351	110,863	104,051
Institutional Support, Plant Maintenance and Operations	123,867	117,690	122,029	116,583	107,535
Total Current Funds Expenditures	1,064,385	958,092	912,707	851,011	786,881
Current Funds Mandatory Transfers	1,346	502	37	43	689
Total Current Funds Expenditures and Mandatory Transfers	\$1,065,731	\$958,594	\$912,744	\$851,054	\$787,570

(in thousands)

Unrestricted General and Restricted Current Funds Expenditures and Mandatory Transfers by Function for year ended June 30,



(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Current Funds Expenditures					
Instruction	\$326,546	\$301,323	\$278,587	\$253,662	\$241,956
Organized Research	156,034	154,817	140,586	130,570	115,014
Public Service	65,502	68,317	62,834	56,111	52,952
Academic Support, Student Services and Financial Aid	90,236	83,016	77,728	71,427	64,079
Institutional Support, Plant Maintenance and Operations	104,929	98,751	99,372	82,921	78,970
Total Current Funds Expenditures	743,247	706,224	659,107	594,691	552,971
Current Funds Mandatory Transfers	57	490	1,323	2,202	2,754
Total Current Funds Expenditures and Mandatory Transfers	\$743,304	\$706,714	\$660,430	\$596,893	\$555,725

■ Institutional Support, Plant Maintenance
and Operations

▣ Academic Support, Student Support
and Financial Aid

■ Public Service

■ Organized Research

■ Instruction

CURRENT FUNDS REVENUES BY SOURCE

LAST TEN FISCAL YEARS

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Current Funds Revenues					
State Appropriations	\$402,205	\$383,189	\$382,372	\$352,283	\$331,650
Tuition and Fees	139,319	121,507	110,400	105,745	102,277
Federal Contracts and Grants	311,821	276,548	259,152	231,687	221,548
State Contracts and Grants	52,519	44,782	37,570	31,269	26,402
Nongovernmental Contracts and Grants	70,343	56,764	51,128	44,729	40,092
Gifts and Bequests	80,007	53,484	46,657	44,312	38,197
Investment Income	28,679	18,619	20,335	17,045	21,748
Endowment Income	8,727	21,110	19,556	16,176	15,544
Sales and Services	333,262	307,929	280,484	268,455	255,593
Other Revenues	29,790	15,506	13,027	15,547	9,231
Total Current Funds Revenues	\$1,456,672	\$1,299,438	\$1,220,681	\$1,127,248	\$1,062,282

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	27.6	29.5	31.3	31.3	31.2
Tuition and Fees	9.6	9.4	9.0	9.4	9.6
Federal Contracts and Grants	21.4	21.3	21.2	20.5	20.8
State Contracts and Grants	3.6	3.4	3.1	2.8	2.5
Nongovernmental Contracts and Grants	4.8	4.4	4.2	4.0	3.8
Gifts and Bequests	5.5	4.1	3.8	3.9	3.6
Investment Income	2.0	1.4	1.7	1.5	2.0
Endowment Income	0.6	1.6	1.6	1.4	1.5
Sales and Services	22.9	23.7	23.0	23.8	24.1
Other Revenues	2.0	1.2	1.1	1.4	0.9
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Current Funds Revenues					
State Appropriations	\$308,245	\$302,337	\$283,826	\$270,700	\$255,003
Tuition and Fees	88,478	81,465	75,531	66,718	60,247
Federal Contracts and Grants	219,878	208,802	190,534	172,288	147,556
State Contracts and Grants	24,607	26,394	22,696	17,948	15,498
Nongovernmental Contracts and Grants	39,710	36,980	36,218	35,276	35,041
Gifts and Bequests	34,464	30,688	27,928	25,544	23,851
Investment Income	15,274	12,726	13,748	14,534	15,828
Endowment Income	13,599	13,798	11,895	9,212	8,040
Sales and Services	233,888	224,600	210,767	187,390	176,297
Other Revenues	6,526	5,679	4,246	4,632	3,847
Total Current Funds Revenues	\$984,669	\$943,469	\$877,389	\$804,242	\$741,208

For the Year Ended June 30,

	1996	1995	1994	1993	1992
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	31.3	32.1	32.3	33.7	34.4
Tuition and Fees	9.0	8.6	8.6	8.3	8.1
Federal Contracts and Grants	22.3	22.1	21.7	21.4	19.9
State Contracts and Grants	2.5	2.8	2.6	2.2	2.1
Nongovernmental Contracts and Grants	4.0	3.9	4.1	4.4	4.8
Gifts and Bequests	3.5	3.3	3.2	3.2	3.2
Investment Income	1.5	1.3	1.6	1.8	2.1
Endowment Income	1.4	1.5	1.4	1.1	1.1
Sales and Services	23.8	23.8	24.0	23.3	23.8
Other Revenues	0.7	0.6	0.5	0.6	0.5
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

CURRENT FUNDS REVENUES BY SOURCE

ADJUSTED FOR INFLATION (1992 DOLLARS)

LAST TEN FISCAL YEARS

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Current Funds Revenues					
State Appropriations	\$316,793	\$311,619	\$322,554	\$303,007	\$290,064
Tuition and Fees	109,733	98,813	93,129	90,954	89,452
Federal Contracts and Grants	245,603	224,896	218,611	199,279	193,768
State Contracts and Grants	41,366	36,418	31,693	26,895	23,091
Nongovernmental Contracts and Grants	55,405	46,162	43,130	38,472	35,065
Gifts and Bequests	63,017	43,495	39,358	38,114	33,407
Investment Income	22,589	15,141	17,154	14,661	19,021
Endowment Income	6,874	17,167	16,497	13,913	13,595
Sales and Services	262,491	250,416	236,606	230,904	223,544
Other Revenues	23,464	12,610	10,989	13,372	8,074
Total Current Funds Revenues	\$1,147,335	\$1,056,737	\$1,029,721	\$969,571	\$929,081

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	27.6	29.5	31.3	31.3	31.2
Tuition and Fees	9.6	9.4	9.0	9.4	9.6
Federal Contracts and Grants	21.4	21.3	21.2	20.5	20.9
State Contracts and Grants	3.6	3.4	3.1	2.8	2.5
Nongovernmental Contracts and Grants	4.8	4.4	4.2	4.0	3.8
Gifts and Bequests	5.5	4.1	3.8	3.9	3.6
Investment Income	2.0	1.4	1.7	1.5	2.0
Endowment Income	0.6	1.6	1.6	1.4	1.5
Sales and Services	22.9	23.7	23.0	23.8	24.0
Other Revenues	2.0	1.2	1.1	1.4	0.9
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0
	<i>(percent of total current funds revenues)</i>				

Consumer Price Index	178.0	172.4	166.2	163.0	160.3
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(in thousands)

	For the Year Ended June 30,				
	1996	1995	1994	1993	1992
Current Funds Revenues					
State Appropriations	\$275,788	\$277,952	\$268,868	\$262,826	\$255,003
Tuition and Fees	79,162	74,894	71,550	64,777	\$60,247
Federal Contracts and Grants	196,726	191,961	180,492	167,277	\$147,556
State Contracts and Grants	22,016	24,265	21,500	17,426	\$15,498
Nongovernmental Contracts and Grants	35,529	33,997	34,309	34,250	\$35,041
Gifts and Bequests	30,835	28,213	26,456	24,801	\$23,851
Investment Income	13,666	11,700	13,023	14,111	\$15,828
Endowment Income	12,167	12,685	11,268	8,944	\$8,040
Sales and Services	209,260	206,485	199,659	181,940	\$176,297
Other Revenues	5,839	5,221	4,022	4,497	\$3,847
Total Current Funds Revenues	\$880,988	\$867,373	\$831,147	\$780,849	\$741,208

	For the Year Ended June 30,				
	1996	1995	1994	1993	1992
	%	%	%	%	%
Current Funds Revenues					
State Appropriations	31.2	32.1	32.3	33.7	34.4
Tuition and Fees	9.0	8.6	8.6	8.3	8.1
Federal Contracts and Grants	22.3	22.1	21.7	21.4	19.9
State Contracts and Grants	2.5	2.8	2.6	2.2	2.1
Nongovernmental Contracts and Grants	4.0	3.9	4.1	4.4	4.8
Gifts and Bequests	3.5	3.3	3.2	3.2	3.2
Investment Income	1.6	1.3	1.6	1.8	2.1
Endowment Income	1.4	1.5	1.4	1.1	1.1
Sales and Services	23.8	23.8	24.0	23.3	23.8
Other Revenues	0.7	0.6	0.5	0.6	0.5
Total Current Funds Revenues	100.0	100.0	100.0	100.0	100.0

(percent of total current funds revenues)

Consumer Price Index	156.7	152.5	148.0	144.4	140.2
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CURRENT FUNDS EXPENDITURES AND MANDATORY TRANSFERS BY FUNCTION

LAST TEN FISCAL YEARS

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Current Funds Expenditures					
Instruction	\$490,447	\$435,839	\$411,292	\$383,759	\$352,711
Organized Research	213,833	186,550	174,973	161,128	152,478
Public Service	89,663	89,906	86,062	78,678	70,106
Academic Support	75,226	63,528	60,384	56,528	53,663
Student Services	16,679	14,735	13,662	12,661	11,763
Institutional Support	51,122	48,165	58,078	49,309	44,105
Plant Maintenance and Operations	72,745	69,525	65,501	63,359	60,224
Student Financial Aid	54,670	49,844	44,305	41,674	38,625
Auxiliary Enterprises and Internal Services	135,706	127,443	121,148	112,844	101,556
Professional and Clinical Services	167,703	156,522	133,057	135,099	116,393
Other Expenditures and Deductions	0	0	0	5,974	5,669
Total Current Funds Expenditures	1,367,794	1,242,057	1,168,462	1,101,013	1,007,293
Current Funds Mandatory Transfers	27,481	27,620	20,079	22,852	29,007
Total Current Funds Expenditures and Mandatory Transfers	\$1,395,275	\$1,269,677	\$1,188,541	\$1,123,865	\$1,036,301

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
	%	%	%	%	%
Current Funds Expenditures					
Instruction	35.2	34.3	34.6	34.1	34.0
Organized Research	15.3	14.7	14.7	14.3	14.7
Public Service	6.4	7.1	7.2	7.0	6.8
Academic Support	5.4	5.0	5.1	5.0	5.2
Student Services	1.2	1.2	1.2	1.1	1.1
Institutional Support	3.7	3.8	4.9	4.4	4.3
Plant Maintenance and Operations	5.2	5.5	5.5	5.7	5.8
Student Financial Aid	3.9	3.9	3.7	3.7	3.8
Auxiliary Enterprises and Internal Services	9.7	10.0	10.2	10.1	9.8
Professional and Clinical Services	12.0	12.3	11.2	12.0	11.2
Other Expenditures and Deductions			0.6	0.5	
Total Current Funds Expenditures	98.0	97.8	98.3	98.0	97.2
Current Funds Mandatory Transfers	2.0	2.2	1.7	2.0	2.8
Total Current Funds Expenditures and Mandatory Transfers	100.0	100.0	100.0	100.0	100.0

(percent of total current funds expenditures and mandatory transfers)

(in thousands)

For the Year Ended June 30,

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

For the Year Ended June 30,

	1996	1995	1994	1993	1992
	%	%	%	%	%
Current Funds Expenditures					
Instruction	33.8	32.9	32.5	32.4	34.1
Organized Research	16.2	16.9	16.4	16.7	16.2
Public Service	6.8	7.5	7.3	7.2	7.5
Academic Support	4.9	4.7	4.7	4.6	4.6
Student Services	1.1	1.1	1.1	1.1	1.1
Institutional Support	4.3	4.1	4.3	4.1	4.2
Plant Maintenance and Operations	6.5	6.5	6.8	6.3	6.8
Student Financial Aid	3.3	3.2	3.3	3.4	3.3
Auxiliary Enterprises and Internal Services	9.3	9.8	9.4	10.9	10.3
Professional and Clinical Services	11.2	10.8	11.3	10.9	10.5
Other Expenditures and Deductions	0.1	0.2	0.4	0.1	0.1
Total Current Funds Expenditures	97.5	97.7	97.5	97.7	98.7
Current Funds Mandatory Transfers	2.5	2.3	2.5	2.3	1.3
Total Current Funds Expenditures and Mandatory Transfers	100.0	100.0	100.0	100.0	100.0

(percent of total current funds expenditures and mandatory transfers)

TEN YEAR SUMMARY OF RATIOS

LAST TEN FISCAL YEARS

RATIO OF TOTAL CURRENT REVENUES TO TOTAL CURRENT EXPENDITURES

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Total Current Revenues	\$1,456,672	\$1,299,438	\$1,220,681	\$1,127,248	\$1,062,282
Total Current Expenditures and Mandatory Transfers	1,395,275	1,269,677	1,188,541	1,123,865	1,036,301
Ratio	104.40%	102.34%	102.70%	100.30%	102.51%

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

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Current Fund Balance - General	\$115,263	\$86,061	\$60,828	\$54,643	\$60,437
Current Fund Balance - Proprietary	170,668	162,193	165,090	157,697	154,264
Quasi Endowment Fund Balance - Unrestricted	106,682	121,441	98,556	85,787	48,704
Total Availability	392,613	369,695	324,474	298,127	263,405
Total Availability	392,613	369,695	324,474	298,127	263,405
Educational and General Expenditures and Mandatory Transfers	1,091,866	985,712	934,336	869,948	812,682
Ratio	35.96%	37.51%	34.73%	34.27%	32.41%

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.

(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Total Current Revenues	\$984,669	\$943,469	\$877,389	\$804,242	\$741,208
Total Current Expenditures and Mandatory Transfers	965,559	915,654	858,117	783,792	710,029
Ratio	101.98%	103.04%	102.25%	102.61%	104.39%

(in thousands)

For the Year Ended June 30,

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

TEN YEAR SUMMARY OF RATIOS *(continued)*

LAST TEN FISCAL YEARS

RATIO OF EXPENDABLE FUND BALANCE TO TOTAL EXPENDITURES AND MANDATORY TRANSFERS

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Current Fund Balance - General	\$115,263	\$86,061	\$60,828	\$54,643	\$60,437
Current Fund Balance - Proprietary	170,668	162,193	165,090	157,697	154,264
Current Fund Balance - Restricted	207,040	147,942	137,437	112,855	94,072
Quasi Endowment Fund Balance	489,126	493,209	161,984	143,043	92,180
Unexpended Plant Fund Balance	63,159	55,581	86,670	72,332	61,063
Debt Service Fund Balance	24,761	28,485	28,628	32,329	26,454
Total Expendable Fund Balance	1,070,017	973,471	640,637	572,899	488,470
Total Expendable Fund Balance	1,070,017	973,471	640,637	572,899	488,470
Total Current Expenditures and Mandatory Transfers	1,395,275	1,269,677	1,188,541	1,123,865	1,036,301
Ratio	76.69%	76.67%	53.90%	50.98%	47.14%

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

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Instruction	\$490,447	\$435,839	\$411,292	\$383,759	\$352,711
Other Academic Support	75,226	63,528	60,384	56,528	53,663
Total Instruction and Academic Support	565,673	499,367	471,676	440,287	406,374
Educational and General Expenditures and Mandatory Transfers	1,065,655	958,594	914,294	847,139	784,364
Less: Restricted Scholarships	25,853	24,953	19,945	21,489	20,705
Total Educational and General Expenditures less Restricted Scholarships	1,039,802	933,641	894,349	825,650	763,659
Total Instruction and Academic Support	565,673	499,367	471,676	440,287	406,374
Total Educational and General Expenditures less Restricted Scholarships	1,039,802	933,641	894,349	825,650	763,659
Ratio	54.40%	53.49%	52.74%	53.33%	53.21%

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.

(in thousands)

For the Year Ended June 30,

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

(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Instruction	\$326,546	\$301,323	\$278,587	\$253,662	\$241,956
Other Academic Support	47,771	43,423	40,507	35,845	32,740
Total Instruction and Academic Support	374,317	344,746	319,094	289,507	274,696
Educational and General Expenditures and Mandatory Transfers	742,277	705,323	656,305	595,696	555,404
Less: Restricted Scholarships	19,021	17,713	17,439	17,116	14,940
Total Educational and General Expenditures less Restricted Scholarships	723,256	687,610	638,866	578,580	540,464
Total Instruction and Academic Support	374,317	344,746	319,094	289,507	274,696
Total Educational and General Expenditures less Restricted Scholarships	723,256	687,610	638,866	578,580	540,464
Ratio	51.75%	50.14%	49.95%	50.04%	50.83%

TEN YEAR SUMMARY OF RATIOS *(continued)*

LAST TEN FISCAL YEARS

EDUCATIONAL EXPENDITURES PER STUDENT

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Total Current Fund Expenditures	\$1,367,794	\$1,242,057	\$1,168,462	\$1,101,013	\$1,007,293
Plus: Current Fund Mandatory Transfers	27,481	27,620	20,079	22,852	29,007
Less: Student Financial Aid	54,670	49,844	44,305	41,674	38,625
Less: Auxiliary Enterprises Expenditures	127,425	121,969	115,280	106,837	96,674
Less: Professional Clinical Services	167,703	156,522	133,057	135,099	116,393
Total Educational Expenditures	1,045,477	941,342	895,899	840,255	784,608
Total Educational Expenditures	1,045,477	941,342	895,899	840,255	784,608
Undergraduate, Graduate and Professional FTE	23,000	22,761	21,940	21,794	21,709
Educational Expenditures per Student (in thousands)	\$45.5	\$41.4	\$40.8	\$38.6	\$36.1

This ratio measures average educational expenditures incurred per student FTE.

RATIO OF NET GAIN IN ENDOWMENT ASSETS

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Year - End Endowment Assets (Market Value)	\$768,816	\$750,321	\$593,373	\$554,029	\$465,152
Year - Begin Endowment Assets (Market Value)	750,321	593,373	554,029	465,152	390,146
Yearly Change	18,495	156,948	39,344	88,877	75,006
Yearly Change	18,495	156,948	39,344	88,877	75,006
Year - Begin Endowment Assets (Market Value)	750,321	593,373	554,029	465,152	390,146
Ratio	2.46%	26.45%	7.10%	19.11%	19.23%

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.

(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Total Current Fund Expenditures	\$941,475	\$894,896	\$836,959	\$765,652	\$700,963
Plus: Current Fund Mandatory Transfers	24,084	20,758	21,158	18,140	9,066
Less: Student Financial Aid	31,479	29,595	28,030	26,997	23,715
Less: Auxiliary Enterprises Expenditures	88,032	83,823	76,560	81,907	56,996
Less: Professional Clinical Services	108,282	99,140	97,265	85,187	74,769
Total Educational Expenditures	737,766	703,096	656,262	589,701	554,549
Total Educational Expenditures	737,766	703,096	656,262	589,701	554,549
Undergraduate, Graduate and Professional FTE	21,961	21,918	21,758	21,398	21,391
Educational Expenditures per Student (in thousands)	\$33.6	\$32.1	\$30.2	\$27.6	\$25.9

(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Year - End Endowment Assets (Market Value)	\$390,146	\$335,076	\$293,214	\$223,948	\$209,547
Year - Begin Endowment Assets (Market Value)	335,076	293,214	223,948	209,547	181,413
Yearly Change	55,070	41,862	69,266	14,401	28,134
Yearly Change	55,070	41,862	69,266	14,401	28,134
Year - Begin Endowment Assets (Market Value)	335,076	293,214	223,948	209,547	181,413
Ratio	16.44%	14.28%	30.93%	6.87%	15.51%

TEN YEAR SUMMARY OF RATIOS *(continued)*

LAST TEN FISCAL YEARS

RATIO OF UNRESTRICTED OPERATING RESOURCES TO DEBT

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Current Fund Balance - General	\$115,263	\$86,061	\$60,828	\$54,643	\$60,437
Current Fund Balance - Proprietary	170,668	162,193	165,090	157,697	154,264
Unrestricted Quasi Endowment Fund Balance	106,682	121,441	98,556	85,787	48,704
Unrestricted Unexpended Plant Fund Balance	1,433	1,828	1,837	6,291	3,112
Unrestricted Debt Service Fund Balance	5,892	6,725	5,211	11,305	7,453
Total Expendable Fund Balance	399,938	378,248	331,522	315,723	273,970
Total Expendable Fund Balance	399,938	378,248	331,522	315,723	273,970
Total Debt Outstanding	396,805	306,603	286,366	279,096	272,965
Ratio	100.79%	123.37%	115.77%	113.12%	100.37%

This ratio is a conservative measure of resources available to investors from unrestricted expendable reserves that excludes amounts designated for long-term investment.

RATIO OF TOTAL RESOURCES TO DEBT

(in thousands)

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
Current Fund Balance - General	\$115,263	\$86,061	\$60,828	\$54,643	\$60,437
Current Fund Balance - Proprietary	170,668	162,193	165,090	157,697	154,264
Current Fund Balance - Restricted	207,040	147,942	137,437	112,855	94,072
Endowment Fund Balance	731,170	727,798	587,946	547,750	376,052
Unexpended Plant Fund Balance	63,159	55,581	86,670	72,332	61,063
Debt Service Fund Balance	24,761	28,485	28,628	32,329	26,454
Total Expendable Fund Balance	1,312,061	1,208,060	1,066,599	977,606	772,342
Total Expendable Fund Balance	1,312,061	1,208,060	1,066,599	977,606	772,342
Total Debt Outstanding	396,805	306,604	286,366	279,096	272,965
Ratio	330.66%	394.01%	372.46%	350.28%	282.95%

This ratio is a broad measure of resources to debt that includes the corpus of endowed contributions.

(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Current Fund Balance - General	\$53,902	\$49,726	\$44,104	\$37,536	\$29,681
Current Fund Balance - Proprietary	149,134	140,429	127,098	116,643	111,371
Unrestricted Quasi Endowment Fund Balance	35,640	34,988	36,656	36,066	33,761
Unrestricted Unexpended Plant Fund Balance	3,645	4,658	4,366	5,178	1,872
Unrestricted Debt Service Fund Balance	(6,238)	2,298	3,798	7,901	9,327
Total Expendable Fund Balance	236,083	232,099	216,022	203,324	186,012
Total Expendable Fund Balance	236,083	232,099	216,022	203,324	186,012
Total Debt Outstanding	232,028	238,176	225,834	230,825	222,548
Ratio	101.75%	97.45%	95.66%	88.09%	83.58%

(in thousands)

For the Year Ended June 30,

	1996	1995	1994	1993	1992
Current Fund Balance - General	\$53,902	\$49,726	\$44,104	\$37,536	\$29,681
Current Fund Balance - Proprietary	149,134	140,429	127,098	116,643	111,371
Current Fund Balance - Restricted	92,510	91,586	77,839	66,205	53,318
Endowment Fund Balance	303,674	273,448	270,211	212,158	191,497
Unexpended Plant Fund Balance	55,763	48,658	34,830	20,573	9,657
Debt Service Fund Balance	10,833	17,073	16,421	16,244	18,300
Total Expendable Fund Balance	665,816	620,920	570,503	469,359	413,824
Total Expendable Fund Balance	665,816	620,920	570,503	469,359	413,824
Total Debt Outstanding	232,028	238,176	225,834	230,825	222,548
Ratio	286.96%	260.70%	252.62%	203.34%	185.95%

SPECIFIC REVENUE AND GENERAL REVENUE BOND COVERAGE

LAST TEN FISCAL YEARS

On February 7, 2001 The University of North Carolina at Chapel Hill issued General Revenue Bonds, which are repaid from Available Funds. Available Funds are defined as any Unrestricted General funds remaining after satisfying obligations of the University under trust indentures, trust agreements or bond resolutions (Specific Revenue Bonds), and Unrestricted Quasi-Endowment funds, but excluding State Appropriations, Tuition, and certain special facilities revenues. Specific Revenue Bonds have a pledged revenue stream as the repayment source.

	For the Year Ended June 30, (in thousands)			
	2001	2000	1999	1998
Specific Revenue Bond Coverage				
Gross Operating Revenues	\$92,977	\$250,316	\$246,610	\$226,567
Direct Operating Expenses	64,808	214,212	208,753	189,205
Net Revenue Available for Debt Service	28,169	36,104	37,857	37,362
Principal	9,195	11,601	10,128	8,913
Interest	10,203	11,351	11,008	10,634
Specific Revenue Debt Service Requirements	19,398	22,952	21,136	19,547
Coverage	1.45	1.57	1.79	1.91

	For the Year Ended June 30, (in thousands)			
	2001	2000	1999	1998 (1)
Available Funds General Revenue Bonds				
Total Current Unrestricted Revenue	\$1,009,353	\$924,667	\$877,492	\$819,645
Less:				
State Appropriations	(402,205)	(383,189)	(382,372)	(352,283)
Tuition and Fees	(139,319)	(121,507)	(110,400)	(105,745)
Specific Revenue Debt Service Requirements	(19,398)	(22,952)	(21,136)	(19,547)
Plus:				
Beg. Current Unrestricted General Fund Balance	86,061	60,828	54,643	59,582
Beg. Current Unrestricted Proprietary Fund Balance	162,193	165,090	157,697	154,998
End. Unrestricted Quasi Endowment Fund Balance	106,682	121,441	98,556	85,787
Total Available Funds	\$803,367	\$744,378	\$674,480	\$642,437
<i>Annual Increase</i>	\$58,989	\$69,898	\$32,043	\$67,308
<i>% Increase</i>	7.9%	10.4%	5.0%	11.7%

(1) As of July 1, 1997, the fund balances of the various funds as previously reported were restated as a result of the University implementing GASB 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.

(2) As of July 1, 1993, the fund balances of the various funds as previously reported were restated as a result of the University implementing GASB Number 14, The Financial Reporting Entity. This statement requires that the financial statements of certain affiliated organizations be blended with those of the University.

	For the Year Ended June 30, (in thousands)			
	2001	2000	1999	1998
General Revenue Bond Coverage				
Total Available Funds	\$803,367	\$744,378	\$674,480	\$642,437
Principal	2,840			
Interest	5,012			
General Revenue Debt Service Requirements	\$7,852	n/a	n/a	n/a
Coverage	102.31			

General Revenue Bond Debt Service includes debt service for specific revenue bonds refunded or defeased by issuance of general revenue debt during the year of refunding.

For the Year Ended June 30,						(in thousands)
1997	1996	1995	1994	1993	1992	
\$228,228	\$205,387	\$189,346	\$175,567	\$147,086	\$143,277	
177,793	158,584	147,847	140,552	125,555	108,122	
50,435	46,803	41,499	35,015	21,531	35,155	
8,279	7,743	6,217	5,794	3,450	1,067	
11,063	11,610	13,937	13,264	12,192	13,652	
19,342	19,353	20,154	19,058	15,642	14,719	
2.61	2.42	2.06	1.84	1.38	2.39	

For the Year Ended June 30,						(in thousands)
1997	1996	1995	1994 (2)	1993	1992	
\$776,658	\$709,447	\$682,180	\$641,932	\$591,534	\$553,418	
(331,650)	(308,245)	(302,337)	(283,826)	(270,700)	(255,003)	
(102,277)	(88,478)	(81,465)	(75,531)	(66,718)	(60,247)	
(19,342)	(19,353)	(20,154)	(19,058)	(15,642)	(14,719)	
53,902	49,726	44,104	38,865	29,681	25,784	
149,134	140,429	127,098	116,643	111,371	93,950	
48,704	35,640	34,988	36,656	36,066	33,761	
\$575,129	\$519,166	\$484,414	\$455,681	\$415,592	\$376,944	
\$55,963	\$34,752	\$28,733	\$40,089	\$38,648	n/a	
10.8%	7.2%	6.3%	9.6%	10.3%	n/a	

For the Year Ended June 30,						(in thousands)
1997	1996	1995	1994	1993	1992	
\$575,129	\$519,166	\$484,414	\$455,681	\$415,592	\$376,944	
n/a	n/a	n/a	n/a	n/a	n/a	

GROSS DEBT SERVICE COVERAGE

LAST TEN FISCAL YEARS

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
	(in thousands)				
General Fund Increase in Fund Equity	\$29,202	n/a	n/a	n/a	n/a
General Fund Mandatory Transfers	1,270	n/a	n/a	n/a	n/a
Proprietary Fund Increase in Fund Equity	8,475	(2,897)	7,393	2,699	5,130
Proprietary Fund Mandatory Transfers	26,135	27,118	20,042	22,809	28,318
Total Resources	65,082	24,221	27,435	25,508	33,448
Total Debt Service Requirements	27,250	22,952	21,136	19,547	19,342
Total Resources	65,082	24,221	27,435	25,508	33,448
Coverage	2.39	1.06	1.30	1.30	1.73

RATIO OF DEBT SERVICES TO CURRENT EXPENDITURES

LAST TEN FISCAL YEARS

	For the Year Ended June 30,				
	2001	2000	1999	1998	1997
	(in thousands)				
Debt Service Requirements	27,250	22,952	21,136	19,547	19,342
Current Funds Expenditures	1,367,794	1,242,057	1,168,462	1,101,013	1,007,293
Ratio %	1.99	1.85	1.81	1.78	1.92

		For the Year Ended June 30,			(in thousands)
1996	1995	1994	1993	1992	
n/a	n/a	n/a	n/a	n/a	
n/a	n/a	n/a	n/a	n/a	
8,705	13,331	10,455	5,272	17,421	
24,027	20,268	19,835	15,938	6,312	
32,732	33,599	30,290	21,210	23,733	
19,353	20,154	19,058	15,642	14,719	
32,732	33,599	30,290	21,210	23,733	
1.69	1.67	1.59	1.36	1.61	

		For the Year Ended June 30,			(in thousands)
1996	1995	1994	1993	1992	
19,353	20,154	19,058	15,642	14,719	
941,475	894,896	836,959	765,652	700,963	
2.06	2.25	2.28	2.04	2.10	

ADMISSIONS, ENROLLMENT AND DEGREE STATISTICS

LAST TEN FISCAL YEARS

	Fall Enrollment of Fiscal Year				
	2000-2001	1999-2000	1998-99	1997-98	1996-97
Admissions - Freshmen					
Applications	16,569	16,021	16,827	15,554	15,370
Accepted	6,088	6,176	6,041	6,050	5,826
Enrolled	3,415	3,396	3,437	3,417	3,278
Accepted as a Percentage of Applications	36.7%	38.5%	35.9%	38.9%	37.9%
Enrolled as a Percentage of Accepted	56.1%	55.0%	56.9%	56.5%	56.3%
Average SAT Scores - Total	1,251	1,245	1,230	1,220	1,222
Verbal	622	620	613	609	611
Math	629	625	617	611	611
Enrollment					
Undergraduate, Graduate and Professional FTE	23,000	22,761	21,940	21,794	21,709
Undergraduate, Graduate and Professional Headcount	24,872	24,635	24,238	24,189	24,141
Men (Headcount)	10,090	10,028	9,854	10,002	10,024
Percentage of Total	40.6%	40.7%	40.7%	41.3%	41.5%
Women (Headcount)	14,782	14,607	14,384	14,187	14,117
Percentage of Total	59.4%	59.3%	59.3%	58.7%	58.5%
African American (Headcount)	2,398	2,419	2,402	2,364	2,310
Percentage of Total	9.6%	9.8%	9.9%	9.8%	9.6%
White (Headcount)	19,547	19,515	19,318	19,348	19,376
Percentage of Total	78.5%	79.2%	79.7%	80.0%	80.2%
Other (Headcount)	2,927	2,701	2,518	2,477	2,455
Percentage of Total	11.9%	11.0%	10.4%	10.2%	10.2%
Degrees Granted					
Bachelor's	3,444	3,406	3,669	3,568	3,674
Master's	1,726	1,550	1,464	1,489	1,361
Doctoral	425	374	382	389	366
Professional	588	571	584	476	484

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

FACULTY AND STAFF STATISTICS

LAST TEN FISCAL YEARS

	Fall Employment of Fiscal Year				
	2000-2001	1999-2000	1998-99	1997-98	1996-97
Faculty					
Full-time	2,488	2,601	2,477	2,421	2,417
Part-time	294	260	260	239	223
Total Faculty	2,782	2,861	2,737	2,660	2,640
Percentage Tenured	53.9%	51.9%	54.6%	56.2%	57.9%
Staff and EPA Non-Faculty					
Full-time	993	784	725	674	653
Part-time	92	63	56	53	56
EPA Non-Faculty	1,085	847	781	727	709
Full-time	5,574	5,996	5,790	5,587	5,236
Part-time	284	307	311	314	298
SPA	5,858	6,303	6,101	5,901	5,534
Total Full-time	6,567	6,780	6,515	6,261	5,889
Total Part-time	376	370	367	367	354
Total Staff and EPA Non-Faculty	6,943	7,150	6,882	6,628	6,243

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

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.

The 2001 Comprehensive Annual Financial Report of the University of North Carolina at Chapel Hill was printed without the use of State Funds. This report was prepared by the University Controller's Office and produced by Design Services.

The University of North Carolina at Chapel Hill is a constituent institution of The University of North Carolina System and a component unit of the State of North Carolina.



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The University *of* North Carolina *at* Chapel Hill

2001 Comprehensive Annual Financial Report

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2001

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