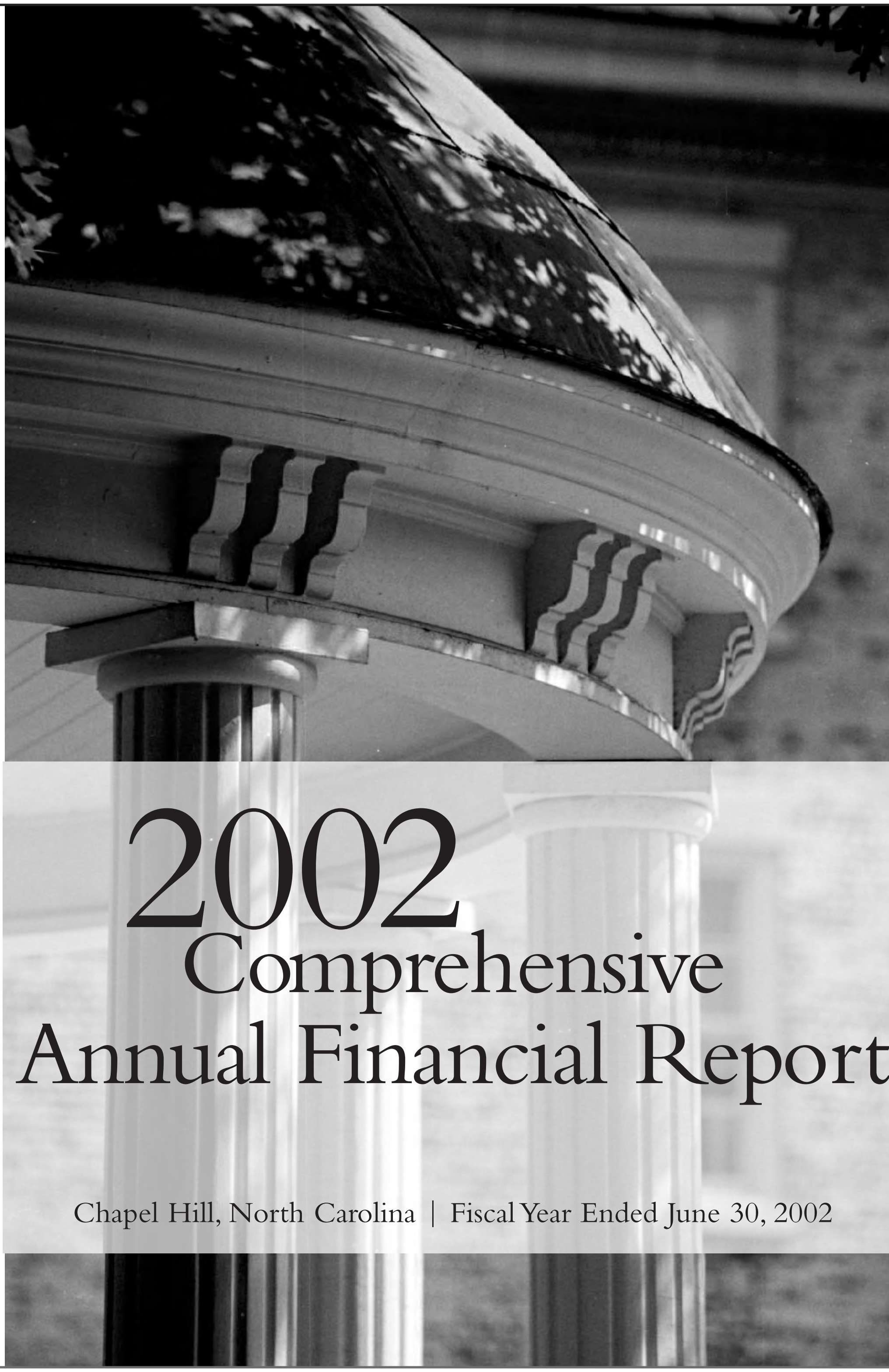
# The University *of* North Carolina *at* Chapel Hill



# 2002 Comprehensive Annual Financial Report

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2002

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

Office *of the* Vice Chancellor *for* Finance and Administration

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Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2002

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

# MESSAGE *from the* CHANCELLOR

The University of North Carolina at Chapel Hill remains focused on an ambitious vision for the future that is both simple and profound – to be the leading public university in America. The excellence and prominence we seek is for the benefit of the people, not ourselves. We want the University to be the best that it can be for the State of North Carolina and the nation.

Carolina, the university that became the model for American public higher education 209 years ago, is still leading the way. We are investing in the success of each rising generation. We are applying the University's finest minds to improving the health and well being of the people of North Carolina, the United States and the world. And we are striving to improve this university in the belief that excellence in teaching, research and public service is what our citizens and supporters deserve.

A key word in our vision is leading, which signals action and a sense of motion rather than the goal of an end point. It signals leadership. Last spring when Carolina became the first major American university to call a halt to binding early decision admissions, we demonstrated leadership – moral leadership. We did it because it was the right thing to do – right for prospective students as well as for their parents.

The other crucial word in our vision is public. Unlike some peers, we remain a proudly public university – committed to balancing our aspirations with a rich history and tradition of engagement and service to North Carolina. We will always draw from this core value while striving to be, at the same time, a great global university still grounded with a strong sense of place.

Carolina's myriad accomplishments during fiscal 2001-2002 were consistent with such a determined vision — despite the challenges posed by September 11th terrorist attacks and the economic downturn. We launched new planning initiatives while prudently managing our fiscal resources. We created momentum heading into the public kickoff of the Carolina First private fund-raising campaign. We realized the early promise of a master plan for future growth. And our remarkable faculty turned in another record-setting performance in securing funding for research, which is a major economic engine for North Carolina.

Ongoing efforts to plan and manage strategically intensified. In the context of deliberations about campus-based tuition levels, we launched a five-year planning process that will result in long-term, mission-driven financial decisions about programs, facilities and initiatives. Facing both painful permanent and non-recurring cuts in state appropriations, we carefully absorbed those reductions while protecting the University's core mission. We sought to protect the best units and emphasize classroom instruction while providing maximum discretion to deans and vice chancellors.

We also completed the initial build-out of a professional investment office. We have a fine-tuned endowment portfolio and asset allocation using the best available array of strategies and investment managers. The University secured approval from foundation and investment boards for the UNC Management Company, which aims to create an even stronger investment engine to manage endowment and foundation assets as well as to benefit the University. This move reflects the best practices of top peers.

Private support will drive our future success. When asking North Carolinians to approve the 2000 higher education bond referendum, I pledged to triple their investment on this campus with private gifts. We intend to fulfill this promise through the Carolina First Campaign, the largest in the University's history. Kick-off of the public phase was postponed after September 11 until October 11, 2002, when I announced a goal of $1.8 billion – second among public universities. Generous donors have already given $866 million to the campaign, which will continue until 2007.

In fiscal 2002, donors' financial commitments to the University totaled $180 million, an increase of 12.5 percent over 2001. From 1999 to 2002, donors initiated 86 new endowed professorships and 252 new scholarships. Last year's results included a $27 million challenge gift from the William R. Kenan Jr. Charitable Trust that will result in 10 $3 million Eminent Professorships. A gift for a new professorship enabled us to recruit a leading Southern culture expert, William R. Ferris, past director of the National Endowment for the Humanities, to the Center for the Study of the American South.

This marked the first year of carrying out the campus master plan – a guide over the next few decades for siting new buildings, green space, utilities, roads and parking. Work progressed quickly as we received funds from the state bond referendum, which will bring $510 million for repairs, renovations, utilities infrastructure and new buildings. We are investing another $600 million from non-state sources for buildings essential to continued excellence.

The first project on the main campus completed with state bond funds – on time and on budget – was the House Undergraduate Library renovation. The library, which students use 24 hours a day, opened for the fall 2002 semester. Four new residence halls with 960 beds – the first new student housing constructed since the 1980s – also were finished for the fall. The halls are helping integrate the life of the north side of campus with the residences on the south side. They include classrooms and are landscaped with our signature rock walls. Also intended to invigorate student life in the southern region, the Rams Head complex was just getting under way by mid-summer east of Kenan Stadium. Rams Head will be a parking deck combined with student dining, recreation and shopping facilities.

Two major buildings neared completion that will support the genomics research initiative: the Bioinformatics Building and the Medical Biomolecular Research Building. Site work also began for the first building in phase one of the Science Complex on north campus. It was the first step toward replacing Venable Hall, the 77-year-old, obsolete home of the Department of Chemistry.

For fiscal 2002, outside research funding topped $488 million – an increase of 11 percent over the previous year, which itself had increased 17 percent over the year before. We attributed much of those gains to National Institutes of Health awards. The University ranked 12th overall in such funding, up from 13th in the prior year. All five health affairs schools individually ranked in the top 25, and three were fifth or higher.

Discoveries by faculty are creating spin-off companies that are helping solve problems and create new jobs. From 1997 through 2002, Carolina spawned 22 spin-off companies. Fifteen started in 2001-2002. Discoveries being commercialized include therapeutic agents for Parkinson's disease, a dry powder inhaler system for drug delivery and industrial applications for carbon nanotubes. These positive trends correspond directly with a 1998 decision by the North Carolina General Assembly to permit the University to retain all facilities and administrative costs, or overhead receipts, generated by research.

The year 2001-2002 was difficult for the state and the University. The aftermath of the terrorist attacks and uncertainty about financial markets led us to postpone the kickoff of the Carolina First Campaign for a year. We took state budget cuts, and we are braced for the possibility of more reductions in fiscal 2003. Despite those developments, Carolina made impressive progress over the year. Our eyes are on the long term, and we remain enormously optimistic about the future.

Sincerely,

James Moeser

THE UNIVERSITY OF NORTH CAROLINA
AT
CHAPEL HILL

Office of the
Vice Chancellor for Finance and Administration

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

**NOVEMBER 22, 2002**

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, 2002, 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, expenses, and other changes in net assets. The Comprehensive Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the University's financial position and results of operations for the year ended June 30, 2002. 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. Information on major University initiatives and progress is also included. This section is intended to acquaint the reader with the organization and structure of the University, the scope of its operations, the significant factors contributing to the current fiscal environment, and anticipated factors influencing our future.

The **Financial Section** presents the management's discussion and analysis, basic financial statements and a report of the Office of the State Auditor. The management's discussion and analysis provides an objective review of the University's financial activities. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

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. Also included is historical statistical information reproduced from the 2001 Comprehensive Annual Financial Report.

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 nonprofit 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 16-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

## Economic Condition and Outlook

On November 22, 2001 the National Bureau of Economic Research (NBER) told the University that a national recession began in March, ending a 10-year period of economic expansion, the longest in the history of the United States. While they have not yet told the University when the recession ended, the most likely months are either November or December 2001.

This is the first national recession since the July 1990 - March, 1991 period. In that recession over 30 states, including North Carolina, encountered severe budget problems. This time every state, except Wyoming, has had severe budget problems. The University of North Carolina at Chapel Hill has endured reductions in state funding for two fiscal years in a row. At the same time, tuition has been increased.

The Bureau of Economic Analysis of the U.S. Department of Commerce published revised data for 1999-2001 for state personal income and per capita personal income on September 23, 2002. Most states were revised downward substantially, and North Carolina was no exception.

Our per capita income in 2001 was $27,514, which was up only 1.7 percent from 2000. The national average increased by 2.4 percent. North Carolina ranked 32nd among all states in per capita income in 2001, just below Indiana ($27,783) and just above Iowa ($27,331). We also had the same ranking in both 1999 and 2000.

Our per capita income in 2001 was 90% of the national average of $30,472. Fifteen states and the District of Columbia were above the national average, led by Connecticut at $42,435. Mississippi ranked last with per capita income of $21,750 in 2001. Virginia was 13th at $32,431.

During most of the fiscal year, the unemployment rate in North Carolina was the third highest in the country, behind Washington and Oregon. During most of the previous decade North Carolina had one of the lowest unemployment rates among the 50 states. Similarly, unemployment rates have risen in all 11 metropolitan statistical areas (MSA's) in the state. The Raleigh-Durham-Chapel Hill MSA had an unemployment rate of 5.2 percent in August 2002, up from 3.8 percent a year earlier. The Asheville MSA increased from 3.6 percent in August 2001 to 3.8 percent in August 2002. It is now the MSA with the lowest unemployment rate in the state. The Rocky Mount MSA has the highest unemployment rate among all MSA's in North Carolina. It was 9.5 percent in August 2002, up from 7.4 percent a year earlier.

The current fiscal year will, for the second consecutive year, be one of the most difficult for the University of any of the last 50 years. However, as the economy rebounds, the situation will improve significantly.

## Major Initiatives and Progress

Carolina's major initiatives and progress during fiscal year 2001-2002 reflected the University's vision of becoming the leading public university in the United States. Following this letter are highlights from among just a few of the major campus-wide areas of focus during the fiscal year under the caption "Major Initiatives and Progress: Fiscal 2001-2002."

## Financial Information

### INTERNAL CONTROL STRUCTURE

The Finance and Administration 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. 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 is subject to an annual examination by the Office of the State Auditor of its federal financial assistance programs and federal cost-reimbursement contracts in accordance with U. S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations.*

## 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. Finance and Administration issues periodic interim budget statements to department heads to guide them in managing their budget allocations. Monthly financial reports are provided on each fund to individual managers responsible for the fund. Financial reports are also provided at the State level. When actual conditions require changes to the budget, revisions are prepared, and these revisions are appropriately approved and communicated to those affected. Changes to the budget are approved at the University level and/or the State level as required. Based on the State's management flexibility legislation, the University has received delegated authority for designated budget changes.

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

## DEBT ADMINISTRATION

To ensure the appropriate mix of funding sources is utilized, the University established 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 component of the University's liabilities. Debt, especially tax-exempt debt, provides a low-cost source of capital for the University to fund capital investments and 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 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.** This practice 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:

Provide framework with a 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 $383.9 million of revenue bonds outstanding at June 30, 2002. Bonds are issued to finance the construction and/or renovation of many facilities including essential new research buildings, major new cultural facilities that will benefit the local community, undergraduate residence halls, student family housing, and parking facilities. The bonds are payable both as to principal and interest from the general revenues of the University and net revenues generated by the operations of revenue-generating facilities.

## 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. Other resources, such as gifts, contract and grant awards, auxiliary revenues, and student activity fees are not appropriated by the State. Some of these funds 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 14 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 Investment Fund, Inc., The University of North Carolina at Chapel Hill Foundation, Inc., The Kenan-Flagler Business School Foundation, The School of Social Work Foundations Inc., The U.N.C. Law Foundation Inc. and 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, 2001. This was the seventh consecutive year that the University has achieved this prestigious award. 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, Research and Graduate Studies, Student Affairs, Information Technology Services, University Advancement, University Relations, Institutional Research, the Office of Scholarships and Student Aid, the Department of Athletics, and Dr. James F. Smith, Adjunct Professor of Business Administration in the Kenan-Flagler Business School. In addition, the Office of the State Auditor provided invaluable assistance.

Nancy D. Suttenfield

Nancy D. Suttenfield
Vice Chancellor for Finance and Administration

# MAJOR INITIATIVES *and* PROGRESS
## FISCAL 2001-2002

Carolina's major initiatives and progress during fiscal 2001-2002 reflected the University's vision of becoming the leading public university in the United States. Following are highlights from among just a few of the major campuswide areas of focus during the fiscal year:

### LAUNCH THE CAROLINA FIRST CAMPAIGN

The Carolina First Campaign is a comprehensive, multi-year private fund-raising campaign — the largest in the University's history — to help support the vision of Carolina becoming the nation's leading public university. The ultimate beneficiaries of reaching that goal will be the people of North Carolina, whom Carolina is dedicated to serve.

Under Chancellor Moeser's leadership, the University focused during fiscal 2001-2002 on successfully kicking off the Carolina First Campaign. The Chancellor announced a goal of $1.8 billion on October 11, 2002, one year later than initially planned because of the September 11th terrorist attacks and its aftermath. By kick-off, generous donors had committed $866 million to the fund-raising effort, which will continue until 2007.

Through the campaign, Carolina plans to create 200 new professorships and 1,000 new undergraduate scholarships and graduate fellowships. Other priorities include pursuing strategic initiatives to enrich the academic experience, conducting research that improves the health and the economic, social and cultural well being of citizens, redoubling the commitment to public service and engagement, and implementing a campus master plan to create 21st Century teaching and learning environments.

Strongly supporting the preparations for the public launch was a record-setting fund-raising year in fiscal 2002. It was the best fund-raising year ever for Carolina, with $180 million received in gifts and private grants — a 12 percent increase over the previous year. Carolina has recorded six consecutive years of surpassing the $100 million mark in private giving.

Carolina donors believe in the University's mission and have committed their financial resources to enrich the experiences of everyone at Carolina. Donors are creating opportunities that are benefiting faculty, students, research, public service and facilities.

The gains in gifts during the year came in several areas including bequests and life income gifts, stock gifts, gifts from corporations and donations from alumni. Participation by Chancellor's Club members, the senior class, parents and via the Internet also increased significantly.

Major gifts and pledges announced in fiscal 2001-2002 included:

- A $27 million challenge gift from the William R. Kenan Jr. Charitable Trust that has the potential to create the largest endowed professorships in University history. Ten $3 million Eminent Professorships will be named if the challenge is met by other Carolina donors.

Photo by Dan Sears

*Professor Joseph Carter, right, and an undergraduate student examine the skeleton of an extinct reptile called a rauisuchian. Carter's former students discovered the fossil in east-central North Carolina. The professor and students re-assembled the 221 million-year-old jigsaw puzzle.*

This lead gift also included a $3 million pledge to the Science Complex, a major component of the campus master plan. New undergraduate classrooms and laboratories as well as facilities for emerging areas such as genomics, bioinformatics, virtual reality and nanotechnology will be housed in the complex.

$10 million for international studies from alumnus Alston Gardner of Atlanta. The gift will create 25 undergraduate scholarships, a Global Scholars Program in the Kenan-Flagler Business School, a rotating Asian field research seminar, two graduate fellowships and a speaker series.

$2.5 million from faculty member David McNeilis and his wife, Gladys Hau McNelis, to establish a professorship in the Carolina Environmental Program, with a joint appointment in the School of Public Health.

$2 million from the Freeman Foundation to the College of Arts and Sciences to support Asian studies. The gift will fund faculty positions, course development grants, library acquisitions, a distinguished speakers series and new study abroad scholarships and programs in Asia.

$2 million from Frank Borden Hanes Sr. to establish the Thomas Wolfe Scholarship in Creative Writing. The full four-year award is among the largest single scholarships in the College of Arts and Sciences.

$1 million from the W.M. Keck Foundation to support ground-breaking research in the nanosciences. The funding is helping the nanoscience team purchase new instruments to improve on the first-generation nanoManipulator developed at Carolina. The nanoManipulator uses virtual reality technology to provide a visual, three-dimensional image of microscopic particles.

$1 million from The Blue Cross Blue Shield Foundation to the School of Public Health to support scientific, educational and practice-based initiatives.

William R. Ferris, past director of the National Endowment for the Humanities and a widely recognized leader in Southern studies, joined the University faculty, thanks in part to a commitment of funds from an anonymous donor. He is serving on the history faculty and as senior associate director of the Center for the Study of the American South.

Gifts also enabled the recruitment of other top scholars including acclaimed fiction writer Pam Durban, whose work is included in a collection of the best American short stories of the past century, as the Doris Betts Distinguished Professor of Creative Writing.

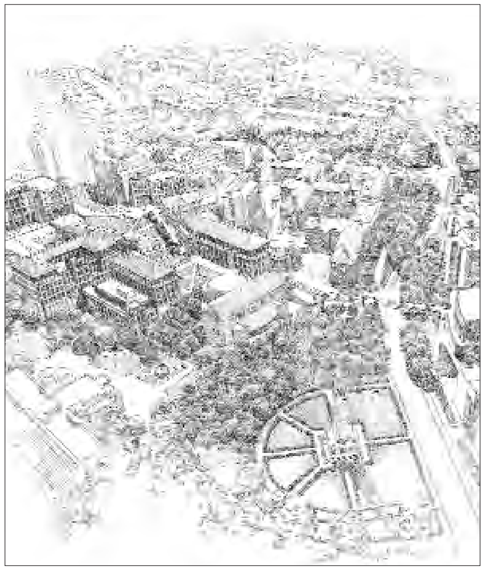
Carolina First is the private complement to the generous public support that North Carolina's voters and legislators have shown for the University over the years. In 2000 North Carolina voters approved $510 million in bond funding for repair, renovations, utilities, infrastructure and new buildings at Carolina. Carolina First will leverage that bond money by making good on the Chancellor's pledge to state citizens to triple it through private gifts. In all, the University plans to invest more than $600 million more in non-state funds for additional buildings essential to continued excellence. The current capital construction program is valued at more than $1 billion.

Since its beginning, Carolina has benefited from a public-private partnership. With continued strong support from both the state and from private sources, the University will return to its partners, the people, great teaching, path-breaking research and inspired public service.

> "We aim for the very highest levels of achievement and service in everything that we do — from improving elementary and secondary education in the state to pioneering new knowledge in genomic technology. And we must be innovators — because if Carolina isn't leading, it isn't Carolina."
> *Chancellor James Moeser*

## Bring the Master Plan to Life

The campus master plan will guide the next several decades of an aggressive renovation and building program at Carolina, which is blessed with one of the nation's most beautiful settings for a great academic enterprise. On its hilltop campus, the trees cast shade for generations, and the oldest quadrangle unites in harmony buildings from the 18th, 19th, 20th and 21st Centuries. Rock walls and brick walks are signature features. Libraries, laboratories and classrooms are close. Students and professors in all disciplines easily mingle as they walk and



*The view at left shows the existing Bell Tower area. Under the master plan changes illustrated at right, a proposed pedestrian bridge over South Road and the replacement of asphalt with the Bell Tower parking structure will help make the south side of campus as rich in connections and beauty as the north.*

bike between classes, offices and Franklin Street. The campus is a prime asset in the University's culture of collaboration and interdisciplinary work — a culture that has lifted Carolina into the top rank of American universities. The beauty and livability of the campus help the University recruit the finest minds in North Carolina and the nation.

The role of the campus master plan is to guide efforts to preserve those positive characteristics while at the same time constructing essential new buildings, modernizing still-useful buildings and lovingly preserving historic structures.

The master plan shows how Carolina can build for the future yet keep the most cherished physical features of the historic campus — including the signature sense of place. It identifies the principles the University will follow as it charts future growth, the most important of which being to serve the missions of teaching, research and public service.

The master plan shows where and how to place future buildings. It identifies transportation and utility corridors and suggests ways to protect open space and meet important environmental standards including no net increase in stormwater runoff.

The master plan recognizes the importance of enhancing the intellectual climate and the valuable University culture of collegiality and collaboration. And the plan affirms that Carolina, the local community and the region must plan for future solutions that work for all.

Fiscal 2001-2002 marked the first year the University began implementing the master plan, which was approved by the Board of Trustees in March 2001 after three years of work involving the University, consultants and Town of Chapel Hill representatives.

Joint town-gown discussions that followed resulted in the creation of a new zoning ordinance and category as well as the rezoning of the main campus. A development plan approved by the Town of Chapel Hill in October 2001 included details on proposed development and strategies to mitigate community impacts in areas such as traffic, stormwater and noise.

Key developments in carrying out Carolina's master plan included:

Completing four new residence halls with a total of 960 beds to open the 2002-2003 academic year. These halls are the first new student housing built on campus since the 1980s. The halls were designed to help integrate the life of the north side of campus with the residences on the south side. They include classrooms and were landscaped with the signature rock walls long associated with Carolina.

Starting work for the Rams Head complex — also designed to invigorate student life on the south side of campus — in the surface parking lot east of Kenan Stadium. The Rams Head will be a parking deck combined with student dining, recreation and shopping facilities. It will physically tie the north and south sides of campus

"We express our values by what we build."
*Chancellor James Moeser*

together via bridges to its rooftop sidewalk and bikeway. Offering a relatively flat grade for pedestrians and cyclists crossing from one hilltop to another, the Rams Head will help reduce daily use of cars and increase walking and biking by students moving between south campus residences and north campus classrooms.

Closing Memorial Hall to undergo a complete modernization, including enlargement of the stage house and addition of air conditioning. This makeover will help it draw national theater touring companies and allow it to be used year-round. Memorial Hall will anchor one end of the planned arts common that will extend to the Ackland Art Museum. Renovating Memorial is the first step in reinvigorating the University as a venue for the performing and visual arts.

Jump-starting planning for the Arts Common with a goal of transforming this portion of campus from a back yard to a first-class celebration of the arts. It will serve as a new front door to the historic campus and as a destination benefiting downtown businesses. The planning committee engaged a nationally recognized architectural firm, Polshek Partnership, and involved the campus and local communities in the planning process.

Continuing progress on two major new research buildings that are linchpins in Carolina's genome sciences research initiative: the Medical Biomolecular Research Building and the Bioinformatics Building. Both facilities were more than 75 percent complete by the fiscal year's end.

Beginning site work for the first building in phase one of the new science complex on north campus. It will be located between Kenan Labs and Wilson Library and is the first step toward replacing Venable Hall, the 77-year-old, physically and functionally obsolete home of the Department of Chemistry.

Most of these projects and others to be started will be paid for in part with funds from the state higher education bond referendum. And all express the four underlying principles of the campus master plan. They support the University's mission, enhance intellectual life, incorporate the best features of the historic campus and reflect coordination of campus development with the town and the region.

Related accomplishments during fiscal year 2001-2002 included:

Revamping the design review process for new and renovated buildings and hiring a historical preservation manager to ensure excellence in architectural legacy.

Reorganizing facilities planning and plant operations, yielding major improvements in operations, services and oversight of the overall construction program.

Launching new transportation strategies, including additional park-and-ride lots and fare-free transit, in partnership with the Towns of Chapel Hill and Carrboro. Ridership rose 29 percent on the fare-free transit system.

Enhancing management of construction financing through pooled debt issues, a tracking system for private gifts, a balanced mix of debt and revenue funding and oversight of construction cash flow requirements.

Completing independent assessments and audits by the internal auditor as well as PricewaterhouseCoopers of processes, controls and reporting related to construction planning, design and management.

Finishing Carolina's first comprehensive utilities needs assessment – steam, chilled water, electricity, water and sewer – and a 10-year plan and financial strategies to carry out the plan.

In response to a legislative initiative, creating a new Historically Underutilized Business Resource Center to increase participation of minority-owned businesses in the University's building program.

## Revitalize Planning for Carolina North

Vice Chancellor Tony Waldrop continued guiding a new planning phase for potential development of Carolina North, a 900-plus acre tract of University-owned property north of Chapel Hill. That property previously was called the Horace Williams tract, which was part of a bequest by an esteemed University philosopher years ago.

Campus leaders have articulated a long-term vision for Carolina North as a living-learning community that can expand the University's multiple missions, create diverse partnerships, and connect to and enhance both the main campus and neighboring communities. An executive group will make major policy decisions. Several University-appointed advisory committees, with campus and town representatives, will address issues including infrastructure, academic issues, mixed uses, external relations, a business plan and economic/new business development.

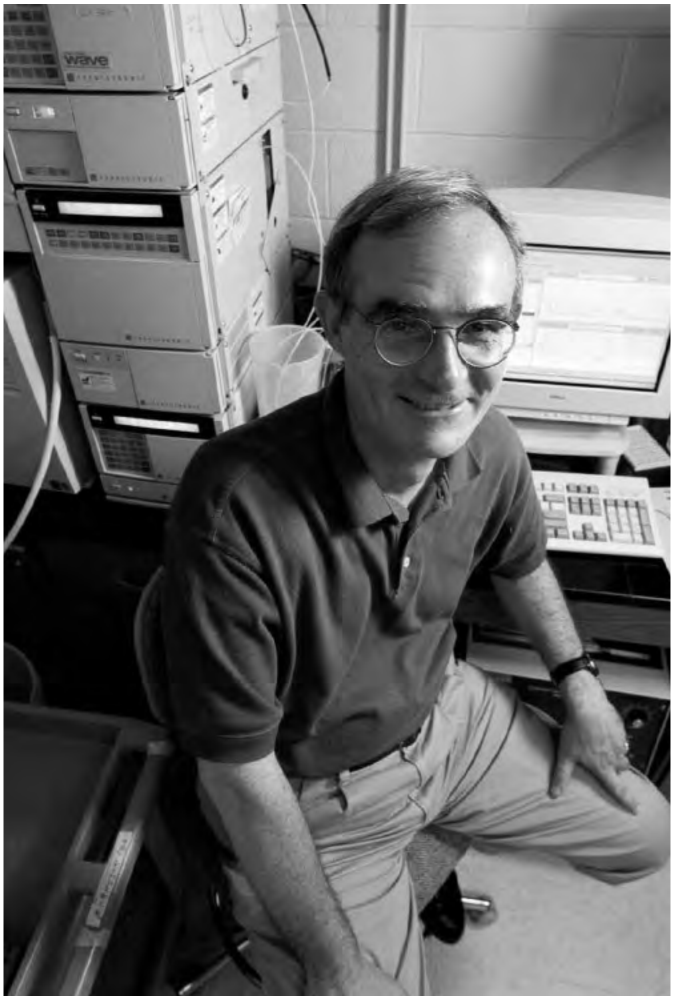


Photo by Dan Sears

*Professor Terry Magnuson, one of the world's most renowned scientists in mammalian genetics, founded the Department of Genetics at Carolina and leads the campuswide genome sciences initiative.*

## Continue to Pursue Key Academic and Research Initiatives

### ADVANCE GENOMICS INITIATIVE

In 2001, Chancellor Moeser announced the University's commitment to investing at least $245 million over the next decade to genome sciences. The campuswide initiative represents both public and private investments, including an anonymous $25 million gift for a proteomics research center.

Other key elements include:

- Construction of four new buildings to house genomics research: the Medical Biomolecular Research Building, Bioinformatics Building, Science Complex and Research and Teaching Building.
- Recurring funds for 40 new faculty positions including start-up costs and lab equipment through reallocation of existing resources or generation of new funds.
- A $2.25 million federal appropriation for program support.

University administrators, faculty, staff and students continued working toward this campuswide vision for excellence in genome sciences during the fiscal year. As a result of this commitment, the School of Public Health was selected by the U.S. Centers for Disease Control and Prevention to house one of the nation's three centers of excellence for genomics and public health. Cancer genetics will be a major focus.

### IMPROVE ACADEMIC ADVISING

As part of a multi-year strategy to enhance undergraduate education, the administration has put in place a new advising team to serve 12,500 undergraduate students. The system employs 18 full-time and 27 part-time advisors. Each semester, the advisers record an estimated 18,200 face-to-face contacts and another 7,800 contacts by either telephone or e-mail. Recent reorganization increased advisor hours, implemented a computerized appointment calendar and electronic notes from student meetings, and launched a computerized degree audit program (helping students track progress toward degree completion). Satisfaction ratings increased to 77 percent in December 2000 from 48 percent to 50 percent in April 1999.

### IMPROVE PLANNING FOR ENROLLMENT AND ENHANCED QUALITY AMONG THE FRESHMAN CLASS

Last year Carolina established a new enrollment planning and management structure to guide growth and enhance quality.

> "The fact that we already have received a $25 million gift devoted solely to the study of proteins brings an added sense of excitement to our genomics initiative."
>
> *Jeffrey Houpt*
> *vice chancellor for medical affairs and dean, School of Medicine*

The effort consolidated growth plans, initiated a student retention study and implemented a system to do financial modeling based on various enrollment and tuition levels.

The entering freshman class of 2001 was the strongest in University history, marking the third straight year of record-setting improvement in academic preparation. The average SAT score of 1257 — among the nation's highest for any university, public or private — was six points higher than any other class in University history and 37 points higher than the class enrolling five years ago. The class enrolled in record numbers in Advanced Placement, International Baccalaureate, and other top-level secondary-school courses: 23 percent took seven or more, and 84 percent took three or more. Incoming freshmen earned records-setting marks on national end-of-course exams: 74 percent submitted at least one AP score (a 3 percent rise over the previous high in 2000). The class also included 336 valedictorians; 36 percent were among the top 10 students in their high-school class.

## CONTINUE GROWTH IN RESEARCH FUNDING

The research funding Carolina attracts helps create new knowledge and useful new technologies. The research programs develop economic opportunities and improve the health and welfare of the citizens of North Carolina and beyond. They also strengthen teaching because high-quality research attracts talented students and faculty, bringing leading-edge science and scholarship into classrooms and laboratories. Working with experienced researchers, students learn the skills they need to become innovators and leaders.

For fiscal 2002, total outside research funding at Carolina topped $488 million — an increase of 11 percent over the previous year, which itself had increased 17 percent over the year before. Much of the recent increases resulted from strong gains in National Institutes of Health funding. That total rose more than 14 percent. Faculty was awarded nearly $237 million — up from $207 million the prior year.

The University's rank in NIH funding also improved. In fiscal 2001, the latest year with rankings data, the University finished 12th overall in such funding among private and public universities nationwide, up from 13th in fiscal 2000. Carolina also was the top public university in the South and one of only five Southern universities — public or private — among the NIH's top 20. All five of Carolina's health affairs schools individually ranked in the top 25, and three are fifth or higher.

The University also cracked the top 20 list, as compiled by the National Science Foundation, of national universities receiving federal science and engineering funding. That achievement is remarkable considering Carolina has no engineering school. Of the University's $254 million total, $218 million came from the U.S. Department of Health and Human Services. Nearly $16 million was from the NSF.

Positive growth in research funding corresponds with a decision made in mid-1998 by the North Carolina General Assembly to permit the University to retain all overhead receipts generated by research.

## INCREASE EMPHASIS ON TECHNOLOGY TRANSFER AND SPIN-OFF COMPANIES

The Office of Technology Development is responsible for the transfer of new technologies into the marketplace, resulting in increased economic value for North Carolinians as well as income for inventors and the University.

That office is a leader in electronic tech-transfer systems, technology-based economic and business development initia-

Photo by Dan Sears

*Professor Anthony Hickey of the School of Pharmacy holds up the "smart inhaler" behind Oriel Therapeutics, Inc., one of 22 spin-off companies created at Carolina. The inhaler disperses medicine in the form of a powdered drug, wasting less of the drug and maximizing its effect.*

tives as well as venture capital resource development. Priorities include launching a Carolina Venture Fund, which will invest in seed- and even pre-seed stage start-up companies to commercialize technologies developed in faculty labs. Another goal is bridge funding to encourage start-ups in areas such as prototype development, proof-of-concept experiments, business plans and management recruitment.

From 1997 through 2002, the University spawned 22 new spin-off companies based upon faculty research. Fifteen launched in 2001-2002 — more than twice as many as in the four prior years. Examples of commercialization include therapeutic agents for Parkinson's Disease, technologies for drug delivery to treat cancer, contrast media for medical imaging, industrial applications for carbon nanotubes and gene therapy treatment for diseases like muscular dystrophy.

## SECURE FEDERAL FUNDS FOR MOREHEAD PLANETARIUM AND SCIENCE CENTER

The University's work with North Carolina's Congressional delegation resulted in a $1.5 million appropriation in the 2002 National Aeronautics and Space Administration budget. The appropriation provided planning funds for the Morehead Planetarium and Science Center, which will build upon the planetarium's long tradition of science education and outreach. The center also plans to take Carolina science and scientists to K-12 students across North Carolina. The new funding complemented the appointment of Holden Thorp, professor of chemistry, as center director. He is creating a movie marking the 50th anniversary of the discovery of the DNA double helix. The movie and an exhibit will be shown at Morehead. The movie will be installed free at science centers and public spaces in North Carolina and will be licensed to other science centers worldwide.

## CONTINUE PROGRESS IN DIVERSITY

The University continued to consistently demonstrate its commitment to diversity and an open intellectual community. The Office of Minority Affairs published the University's first campuswide resource tool to communicate that commitment.

Other indicators signal significant progress. The Journal of Blacks in Higher Education listed Carolina among four highly ranked universities with 100 or more black professors. The same 2002 survey showed Carolina has the most tenured black faculty — 51 — among top universities. The University ranked 14th among the top 50 campuses for African-Americans in a 2001 issue of Black Enterprise magazine. That was the highest listing for a national public university. The survey focused on which schools were good social and academic fits for black students. Professional schools, including Kenan-Flagler Business School and the School of Medicine, received recent national recognition from publications and professional organizations for programs and policies involving minorities.

For the incoming fall 2002 class, 2,076 black students applied, up 1.4 percent from the prior year. African-American students made up a larger share of the 2001 class — 11.6 percent – than in the previous year. Steady gains are evident in the number of black students enrolling as freshmen as well as in the retention and graduation rates for all minority undergraduates.

## LAUNCH OTHER KEY ACADEMIC INITIATIVES

Numerous important new initiatives planned or implemented during the year began reaching fruition. Examples included:

The first class of 31 nurses last summer completing the School of Nursing's new 14-month fast-track program to help solve the shortage of registered nurses in North Carolina.

Photo by Dan Sears

*Laptops are becoming more prevalent in classrooms as part of the Carolina Computing Initiative.*

Becoming the only university in North Carolina and one of just a handful nationwide offering a bachelor's degree in the rapidly evolving field of information science. The new major, begun in fall 2002, is being taught in the School of Information and Library Science and builds upon the extraordinary popularity of the school's undergraduate minor, which had been offered since 1997. The change provides opportunities for Carolina students to move into key posts in the information sector in North Carolina and around the world.

The Kenan-Flagler Business School joining four other top business schools in China, Brazil, Mexico and the Netherlands to design and deliver OneMBA, a global executive MBA program that is radically different from programs offered by other leading business schools. OneMBA is distinguished by its span of five business cultures in Asia, Europe and North and South America. It connects a globally diverse network of executives living and working on four continents. The 21-month program began in fall 2002 with a class of about 100 senior executives.

The School of Law opening in January 2002 the UNC Center for Civil Rights. The center is committed to the advancement of rights and social justice, especially in the American South. It fosters research, sponsors student inquiry and activities and convenes faculty, visiting scholars, policy advocates and practicing attorneys to confront legal and social issues. The center's work focuses on education, economic justice, employment, health care, housing and community development and voting rights. The center is directed by Julius L. Chambers, who graduated from the School of Law in 1962, co-founded the nation's most successful private civil rights law firm and led the NAACP Legal Defense & Educational Fund, Inc. before becoming Chancellor of North Carolina Central University.

## Remain the Technology Leader Among Public Universities

The University has continued implementation of the Carolina Computing Initiative, a campuswide technology plan to enhance teaching, learning and research. In fall 2000, 3,400 Carolina freshmen became the largest entering class in the United States ever required to own laptops. By making technology now essential in academic life accessible, the University aims to produce graduates who have the high-tech savvy required for 21st Century professional success. While several campuses had begun a wide range of computer requirements, Carolina's initiative was unique among major research universities because of its size, scope and approach.

A key component of the initiative is a campuswide contract with a single vendor, IBM, to maximize the University's collective buying power. Carolina also is bridging a digital divide between students who previously brought computers on their own and those who did not. Carolina was the nation's first public university to offer a pre-approved low-interest loan to entering students to buy laptops. The University also provides funds to offer need-based grants to eligible students to ensure that needy students will not be harmed by the requirement. By the end of the fiscal year 2001-2002, the initiative had delivered more than 26,000 IBM computers to students and departments.

Carolina launched a related wireless technology initiative in early 2001. Wireless access points allow users with laptops and adapter cards to connect to the Internet, e-mail and the campus network from key classroom and other buildings, libraries and nearby outdoor sites. Going wireless also saved money by eliminating some costly classroom renovations involving wiring.

Now faculty are beginning to incorporate technology, including the wireless capability, into the classroom. They are using resources such as Blackbeard, a course management system that helps instructors create Web sites for individual classes. Faculty interest in the Blackbeard system, supported on campus for three years, continues to grow. The system permits faculty to post course materials and resources, e-mail class members, report grades back to students and use a built-in discussion forum.

The University also continued to build its infrastructure for new Web-based applications. Student Web registration, for example, permits approximately 2,400 students to register for a full class load in 15 minutes. That has permitted deletion of 240 telephone lines, saving more than $35,000 annually. Web-based systems also are in place in areas such as student advising, orientation, scholarships and student aid, and telecommunications services in residence hall rooms.

The University also recorded milestones during the year in implementing projects that help manage research grants, departmental accounting, human resources information and space management. Other key projects completed during the year included a state-of-the-art hazardous materials tracking and reporting system, enhancements to the UNC One Card identification card system and e-business solutions with partners such as Staples, Inc. and Fisher Scientific, Inc.

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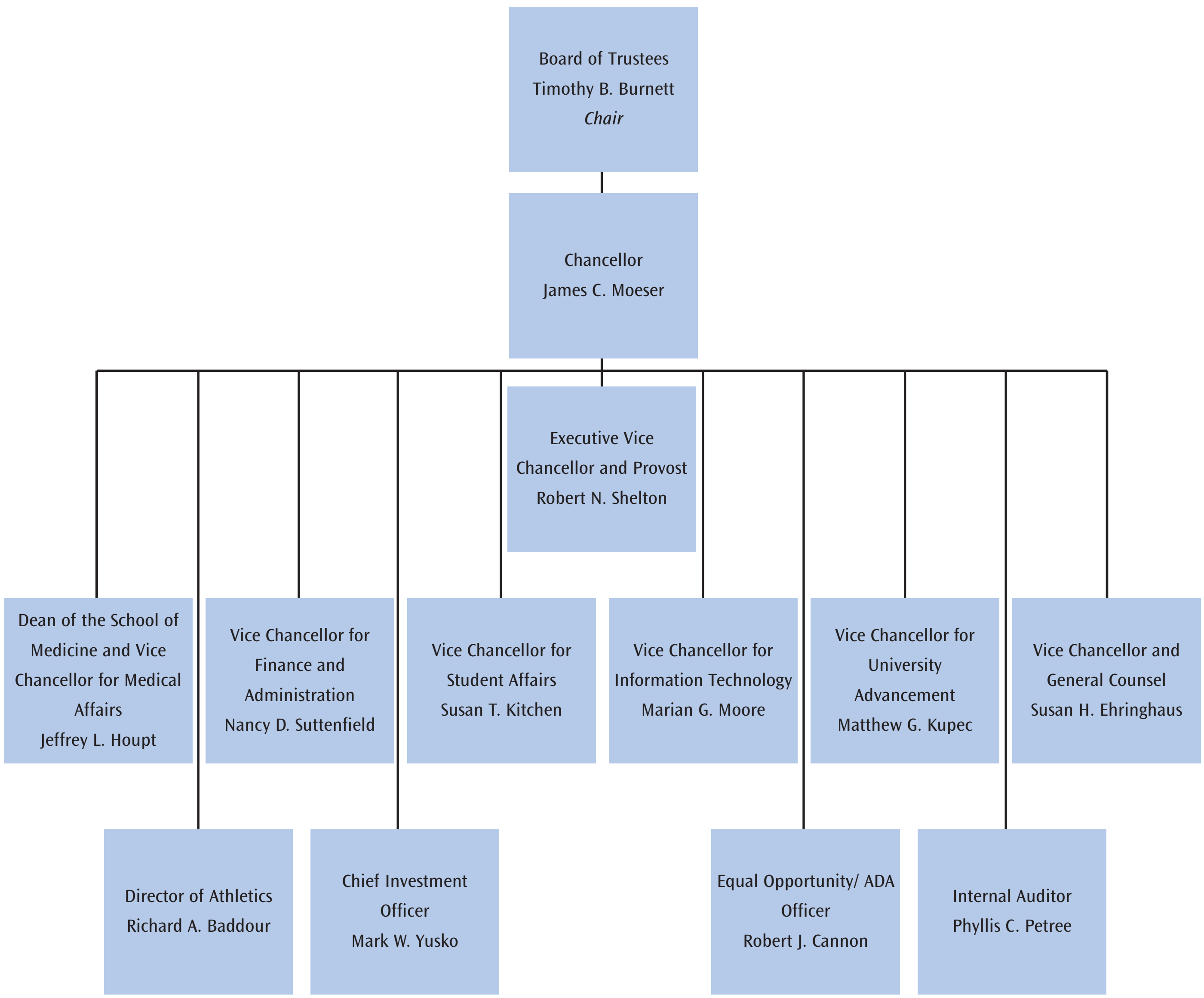
# Organization Chart

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




Certificate of Achievement for Excellence in Financial Reporting
Presented to
The University of North Carolina At Chapel Hill, North Carolina
For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.
President
Executive Director

# Financial Section

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2002

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

STATE OF NORTH CAROLINA
Office of the State Auditor

RALPH CAMPBELL, JR.
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 basic financial statements of The University of North Carolina at Chapel Hill, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. 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, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities* and Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

Board of Trustees
November 22, 2002
Page 2

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we will also issue our report dated November 22, 2002 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. The report on compliance and internal control will be issued under separate cover in the Financial Statement Audit Report of The University of North Carolina at Chapel Hill published by this Office.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

November 22, 2002

# Management's Discussion and Analysis

## Introduction

This discussion and analysis provides an overview of the financial position and activities of The University of North Carolina at Chapel Hill (the "University") for the fiscal year ended June 30, 2002. Selected financial information for the fiscal year ended June 30, 2001, is included in the discussion and analysis. In future years, when prior year information is available, a comprehensive, comparative analysis will be presented. Management has prepared the discussion and analysis, which should be read in conjunction with the financial statements and the accompanying note disclosures.

## Financial Statements Overview

The University's Comprehensive Annual Financial Report includes the following three financial statements.

Statement of Net Assets
Statement of Revenues, Expenses, and Changes in Net Assets
Statement of Cash Flows

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These GASB standards were effective for the University for the fiscal year ended June 30, 2002, and include significant changes in the presentation of financial information.

Significant changes to the financial statements are as follows:

The financial statements are presented in a single-column format. Previously, accountability focused on individual fund groups, which were reported in separate columns.

The term "net assets" replaces "fund balance". Net assets represent the excess of total assets over total liabilities. There are three classes of net assets – unrestricted, restricted (nonexpendable and expendable) and invested in capital assets net of related debt.

Assets and liabilities are categorized as either current or noncurrent. Current liabilities are due within one year, and current assets are those assets available to pay current liabilities.

Revenues and expenses are categorized as either operating or nonoperating, and a net income or loss from operations is displayed. State appropriations, noncapital gifts, and investment income are treated as nonoperating revenues, which results in a net loss from operations for the University.

Tuition and fees revenues are reported net of scholarships and fellowships that are applied to student accounts. Scholarship discounts reduce tuition and fees revenues and scholarship and fellowship expenses by equal amounts. Scholarships and fellowships paid directly to students continue to be reported as expenses.

Expenses are reported in the financial statements by natural classification such as salaries and benefits, supplies and materials and other categories. Presentation by program classification such as instruction, research and public service are disclosed in the notes to the financial statements.

Expenditures for purchases of capital assets are replaced by the recognition of depreciation expense on the capital assets.

A Statement of Cash Flows using the direct method is now a required presentation.

## Condensed Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year, includes all assets and liabilities of the University, and segregates the assets and liabilities into current and noncurrent components. Net assets represent the difference between total assets and total liabilities, and are one indicator of the current financial condition of the University. The following table summarizes the University's assets, liabilities and net assets at June 30, 2002.

| | 2002 |
|---|---|
| **Assets:** | |
| Current assets | $677,009,821 |
| Noncurrent assets: | |
| Endowment investments | 758,987,497 |
| Other long-term investments | 300,226,736 |
| Capital assets, net | 1,027,884,988 |
| Other noncurrent assets | 125,423,197 |
| **Total Assets** | $2,889,532,239 |

| | |
|---|---|
| **Liabilities:** | |
| Current liabilities | 280,246,736 |
| Noncurrent liabilities: | |
| Funds held in trust for pool participants | 291,899,328 |
| Long-term liabilities | 321,843,654 |
| Other noncurrent liabilities | 31,124,475 |
| **Total Liabilities** | 925,114,193 |
| | |
| **Net Assets** | |
| Invested in capital assets, net of related debt | 608,183,275 |
| Restricted | |
| Nonexpendable | 304,096,632 |
| Expendable | 705,592,337 |
| Unrestricted | 346,545,802 |
| **Total Net Assets** | **$1,964,418,046** |

The University's financial position remained strong at June 30, 2002, with total assets of $2.9 billion. Net assets, which represent the residual interest in the University's assets after deducting liabilities, were $2 billion at June 30, 2002.

## CURRENT ASSETS AND LIABILITIES

The Statement of Net Assets indicates the University had total assets of $2.9 billion at June 30, 2002. Working capital, which is current assets less current liabilities, was $397 million. Current assets of $677 million include cash and cash equivalents of $325.8 million, short-term investments of $202.9 million, receivables of $121.4 million, inventories of $16.7 million, and other current assets of $10.2 million.

Cash and cash equivalents include cash in bank accounts, cash with fiscal agents, and cash invested through the State Treasurer of North Carolina.
Short-term investments include funds invested through an investment pool administered by the University.
Receivables include amounts due from students of the University, patients of the professional health care clinics, governmental and private entities for contract and grant awards, donors for pledges of gifts as well as accrued investment earnings.
Inventories represent goods for resale by auxiliary operations of the University.
Other current assets include student loans and amounts due from the State of North Carolina or its component units.

Current liabilities of $280.2 million include accounts payable and accrued liabilities of $70.5 million, deferred revenue of $38.5 million, obligations under reverse repurchase agreements of $35 million, the current portion of long-term liabilities of $124.9 million and other current liabilities of $11.3 million.

Accounts payable and accrued liabilities include payables to vendors, accrued payroll costs, retainage on construction contracts, and commercial paper.
Deferred revenue is primarily students' advance payments and gifts through the planned giving program representing the calculated remainder after annuity obligations to beneficiaries are determined.
Obligations under reverse repurchase agreements are liabilities incurred as part of the University's investment management program.
The current portion of long-term liabilities includes bonds payable, notes payable, capital leases payable and compensated absences (accrued vacation leave).
Other current liabilities include amounts due to North Carolina State government or its component units, deposits and interest payable, and funds held for others.

## ENDOWMENT AND OTHER LONG-TERM INVESTMENTS

Endowment investments were $758.9 million at June 30, 2002 and include permanent endowments, funds internally designated as endowments, and similar funds such as gift annuities and charitable trusts. Net assets of endowment and similar funds were $716.2 million. The endowment assets are invested with The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (the "Investment Fund"), which is reported as a governmental external investment pool in the financial statements. The Investment Fund is a 501(c)(3) nonprofit corporation established to support the University by operating an investment pool for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University.

The net assets of the endowment are categorized as restricted nonexpendable, restricted expendable, or unrestricted.

Restricted nonexpendable net assets include permanent endowments for which the donor has stipulated that the principal shall remain inviolate and be invested in perpetuity to generate earnings that can be expended consistent with the purposes specified in the gift instrument.
Restricted expendable net assets include internally designated endowments established by the University with restricted gifts and the undistributed earnings of permanent endowments.
Unrestricted net assets include internally designated endowments established by the University with unrestricted funds.

The objective of the endowment's earnings distribution policy is to provide a stable source of spending support that is sustainable over the long term while preserving the purchasing power of the endowment. The earnings distribution is generally 5% of the time weighted average market value of the endowment, but may vary between 4 and 7%.

Investment management of the University's endowment provided a positive, albeit small, return for the fiscal year of 1.2%. This return compares favorably with the -2.2% return of the strategic investment policy portfolio, a short-term benchmark that represents a weighted average for each strategic asset class. The return also compares favorably with the -10.4% return of a long-term performance benchmark, a 70% S&P 500 Index/30% Lehman Brothers Government/Corporate Bond Index.

Other long-term investments of $300.2 million include funds of $281 million of affiliated foundations that are not part of the University's financial reporting entity but do invest through the Investment Fund and bond reserves and related funds of $19.2 million.

## CAPITAL ASSETS AND DEBT MANAGEMENT

Capital assets, net of accumulated depreciation, at June 30, 2002 and 2001 are as follows:

| | 2002 | 2001 |
|---|---|---|
| **Capital Assets:** | | |
| Construction in Progress | $225,022,791 | $151,638,839 |
| Land and other non-depreciable assets | 75,465,273 | 74,075,659 |
| Buildings | 491,322,542 | 449,711,643 |
| General Infrastructure | 162,460,694 | 156,373,495 |
| Machinery and Equipment | 73,613,688 | 74,081,893 |
| **Total** | $1,027,884,988 | $905,881,529 |

The University's strategic and capital planning is a long-term process that is continuously reevaluated. The University has adopted a *Facilities Profile and 10-Year Capital Plan*, recognizing the need for additional academic and student life facilities to keep pace with programmatic expansion. One of the critical factors for the University in fulfilling its mission of instruction, research, and public service and for providing a satisfying residential life for its students is investment in its facilities. Maintenance and renewal of its facilities and infrastructure is an important priority for the University, as evidenced by its $1.2 billion capital construction program.

The 48.4% increase in construction in progress to $225 million at June 30, 2002 is one indicator of the University's commitment to the improvement of its capital assets. Projects completed during fiscal year 2001-2002 include construction of new residence halls to house 960 students and Hyde Hall, the new home of the Institute for the Arts and Humanities, as well as renovations to the Robert B. House Undergraduate Library. Many other important projects are under construction. The $64.8 million Medical Biomolecular Research Building is nearing completion, as is a $22.1 million addition, Banks D. Kerr Hall, in the School of Pharmacy. The $14.2 million renovation and addition to the Frank Porter Graham Student Union continues, as does the construction of the $33.7 million Bioinformatics Building. Construction has begun on the $9 million Sonja Haynes Stone Black Cultural Center, and many other capital projects are also underway. Projects related to the general infrastructure of the campus have also been completed or are under construction.

To achieve its capital plan, the University uses a mix of funding sources, including state funds (higher education bonds and appropriations), University bonds, internal reserves and philanthropy. University bonds provide an integral source of funds, and bonds payable were $383.9 million at June 30, 2002. Previous changes in state legislation allowed the University to use a broader stream of revenues for the repayment of its debt obligations, and general revenue bonds were initially issued in fiscal year 2000-2001. The use of general revenue bonds provide a stronger, more flexible financing alternative that captures the strengths of not only our auxiliary and student-related revenues, but also of our research programs.

A commercial paper program was implemented during fiscal year 2001-2002 and provides low cost working capital and bridge financing for capital projects until gifts are received or in anticipation of an external bond issue. The program was implemented as part of a long-term strategy to provide effective and flexible funding for the University's $1.2 billion capital improvement program to renovate and build new facilities.

Many projects are currently underway on campus, including critical bond-funded projects, essential new research buildings, major new cultural facilities that will benefit the local community, undergraduate residence halls, student family housing, and parking facilities. The capital financing program is separated into two five-year phases, the first of which is occurring from fiscal year 2000-2001 through fiscal year 2005-2006, with the projected buildout extending through fiscal year 2007-2008. University debt of $534 million, of which $110 million has been issued, will provide funding for the capital program. State higher education bond proceeds and appropriations will fund $526 million, fund-raising will provide $121 million, and $22 million will come from reserves and other sources. Commercial paper debt was $1 million at June 30, 2002. The commercial paper program and the general revenue bonds allow the University to use a central bank concept for funding capital projects. The University issues fixed and variable rate debt externally, and blends the average borrowing rate to allocate debt costs to individual capital projects and campus divisions. This concept provides a stable and flexible debt-funding source for capital projects.

The University's financial strength allowed it to achieve ratings of AA+/Aa1 by the national rating agencies. The University debt burden ratio, a measure of an entity's dependence on borrowed funds, was only 2.4% at June 30, 2002.

For additional information refer to Note 6, Capital Assets, and Note 8, Long-term Liabilities.

## OTHER NONCURRENT ASSETS

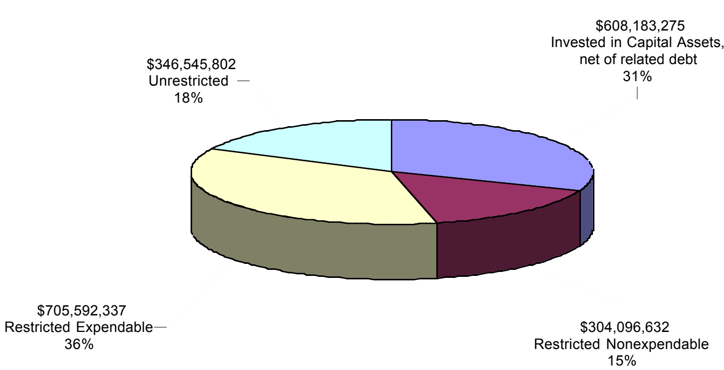
Other noncurrent assets include restricted cash and cash equivalents of $56.5 million, receivables for pledged gifts of $25.4 million, notes receivable for student loans of $26.1 million and a restricted due from the primary government of $17.4 million from statewide higher education bond proceeds.

## NONCURRENT LIABILITIES

Noncurrent liabilities of $644.9 million include funds of $291.9 million held for affiliated foundations that are not part of the University's financial reporting entity but that do invest through the Investment Fund. Other noncurrent liabilities of $31.1 million are refundable U.S. government grants that provide resources for student loan programs. Long-term liabilities of $321.9 million are the noncurrent portion of bonds payable, notes payable, capital leases payable, compensated absences, and annuities payable.

## NET ASSETS

Net assets, reported as fund balance in previous years, represents the value of the University's assets after liabilities are deducted. The University's net assets at June 30, 2002 are summarized as follows:




The invested in capital assets, net of related debt category represents the University's land, buildings, general infrastructure, equipment, and other capital assets net of accumulated depreciation and net of the outstanding bonds and other indebtedness on the facilities. The restricted nonexpendable category includes the University's permanent endowment funds. The restricted expendable category primarily includes restricted internally designated endowments, gifts, contract and grant awards and distributed endowment earnings. The unrestricted category includes unrestricted internally designated endowments, gifts, auxiliary operations, facilities and administrative funds (overhead receipts) and other unrestricted funds. While there are no externally imposed restrictions on unrestricted funds, the funds are substantially designated by the University for particular academic programs or capital needs.

## CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of operations. The condensed statement for the fiscal year ended June 30, 2002 is as follows:

| | 2002 |
|---|---|
| **Operating Revenues:** | |
| Student tuition and fees, net | $124,661,145 |
| Grants and contracts | 479,219,974 |
| Sales and services, net | 376,716,731 |
| Other | 22,972,089 |
| **Total Operating Revenues** | 1,003,569,939 |
| **Operating Expenses** | 1,477,012,999 |
| **Operating Loss** | (473,443,060) |
| **Nonoperating Revenues (Expenses):** | |
| State appropriations | 368,504,553 |
| Noncapital gifts, net | 62,403,802 |
| Investment income, net | 52,956,614 |
| Interest and fees on capital asset-related debt | (15,031,104) |
| Other nonoperating revenues (expenses) | (7,661,489) |
| **Income Before Other Revenues, Expenses, Gains, or Losses** | (12,270,684) |
| Capital grants | 27,479,400 |
| Capital gifts, net | 8,238,379 |
| Additions to permanent endowments | 21,946,491 |
| **Increase in Net Assets** | 45,393,586 |
| **Net Assets – July 1, 2001** | 1,919,024,460 |
| **Net Assets – June 30, 2002** | $1,964,418,046 |

Despite reductions in state appropriations due to statewide revenue shortfalls, the net loss from operating and nonoperating activities was limited to $12.3 million. Overall, net assets of the University increased by $45.4 million in fiscal year 2001-2002 when capital gifts and endowment additions are included.

## OPERATING REVENUES

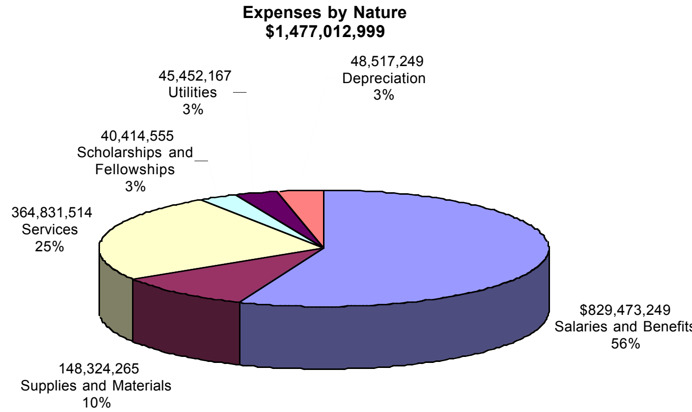
The operating revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions. Student tuition and fees of $124.7 million are reported net of the scholarship discount of $25.8 million. Gross student tuition and fees of $150.5 million represent an increase 8.1% over the prior year. An approved increase of $300 per student, a 4% inflationary increase, and additional increases for graduate students resulted in the increase in fiscal year 2001-2002.

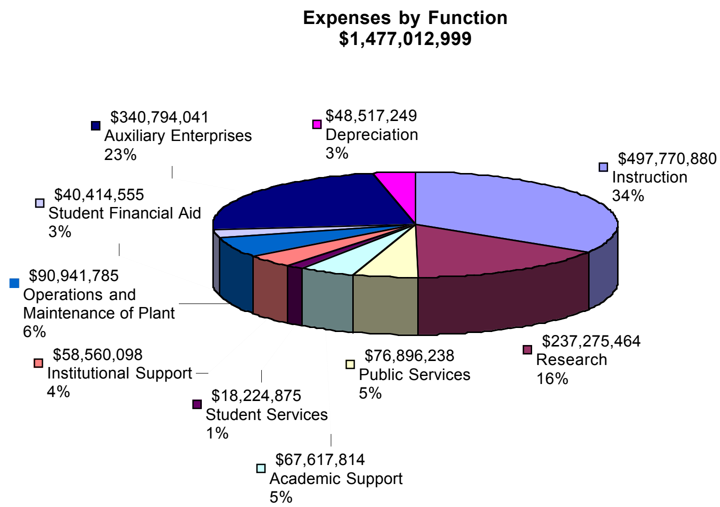
Revenues from grants and contracts totaled $479.2 million and increased 10% over the prior year. The University is among the nation's leading public research universities with a diversified portfolio of research funding. Funding from the National Institutes of Health (NIH) increased 14%, placing the University 12th nationally in overall funding from the NIH. The University also ranks among the top 20 institutions nationally in federal support for science and technology.

Sales and services revenues of $376.7 million, including patient services, represented an increase of 18% over the prior year and included the revenues of campus auxiliary or similar operations such as student housing, student stores, student health services, the utilities system, parking and transportation, the professional health care clinics and others. The increased revenues resulted from rate increases for the utilities system and student housing and dining as well as the inclusion of clinical contracts for the health care operations in sales and services. Other revenues of $22.9 million represent operating resources not separately identified and include, as examples, an assessment to the Investment Fund to support administrative services, funds from the state's program to match gifts for distinguished professorship endowments, library fines and interest on student loans.

## OPERATING EXPENSES

The University's operating expenses were $1.5 billion for the fiscal year ended June 30, 2002. The operating expenses are reported by natural classification in the financial statement and by functional classification in the note disclosures. The following charts illustrate the University's operating expenses by the two classifications.




## NONOPERATING REVENUES AND EXPENSES

State appropriations of $368.5 million, noncapital gifts of $62.4 million, investment income of $53 million, interest and fees on capital assets related debt of -$15 million, and other revenues and expenses of -$7.7 million comprise nonoperating revenues and expenses. These revenues are considered nonoperating because they were not generated by the University's principal, ongoing operations. For example, state appropriations were not generated by the University but were provided to help fund operating expenses.

The University's initial budget for state appropriations was $407.9 million for fiscal year 2001-2002. This initial budget for state appropriations included increases of $21.2 million to fund enrollment increases including distance learning and other program enhancements as well as reductions in budgeted state appropriations of $23.2 million. During the fiscal year, it was determined that the State of North Carolina would not meet its budget revenue targets. To ensure that the state ended the fiscal year with a balanced budget, spending limitations were enacted statewide and the carryforward of unspent appropriations was disallowed. These limitations resulted in a loss of state appropriations of $39.4 million when compared to the budget.

Net noncapital gifts of $62.4 million represent expendable gifts received and pledges made and are net of an allowance for uncollectible pledges. Net investment income of $53 million includes income and realized and unrealized gains and is net of realized and unrealized losses and investment management fees. Interest and fees on capital asset-related debt were $15 million. Other nonoperating expenses total $7.7 million and include $6.6 million in capital asset disposals.

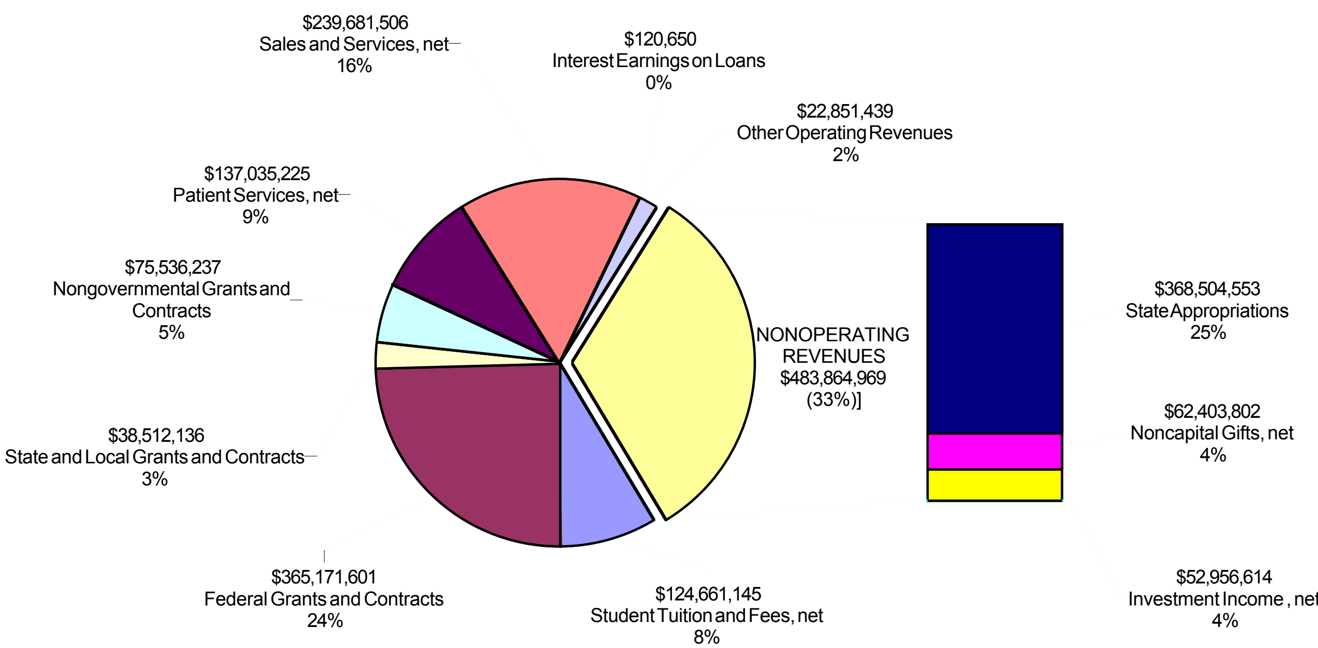
## OTHER CHANGES IN NET ASSETS

Capital grants of $27.5 million are statewide higher education bond proceeds for capital construction projects. Capital gifts of $8.2 million also provided funding for construction projects. Nonexpendable gifts and other additions to permanent endowments were $21.9 million.

## TOTAL OPERATING AND NONOPERATING REVENUES

Operating and nonoperating revenues such as state appropriations, noncapital gifts, and investment income are used to fund University operations. The following chart illustrates the University's operating and nonoperating revenues which total $1.5 billion.

**TOTAL REVENUES BY SOURCE**
**$1,487,434,908**



## Condensed Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's financial results by reporting the major sources and uses of cash. Cash decreased by $37.8 million during the fiscal year 2001-2002. The condensed statement for the fiscal year ended June 30, 2002, is as follows:

| | 2002 |
|---|---|
| **Cash Flows Provided (Used):** | |
| Operating activities | ($403,993,881) |
| Noncapital financing activities | 446,775,572 |
| Capital and related financing activities | (171,429,157) |
| Investing activities | 90,827,088 |
| **Net Decrease in Cash** | (37,820,378) |
| **Cash – July 1, 2001** | 420,086,283 |
| **Cash – June 30, 2002** | $382,265,905 |

Cash flows from operating activities include, as examples, cash received for tuition and fees or research grants and salaries paid to faculty or payments of invoices to vendors. Since state appropriations and gifts are not considered an operating revenue, operating activities had a net cash outflow of $404 million.

Noncapital financing activities include state appropriations received for operations and noncapital gifts, and had a net cash inflow of $446.8 million.

The cash flows from capital and related financing activities include the proceeds received from short-term and long-term debt obligations, the repayment of debt, and the acquisition of capital assets. Due to the significant expenditure of funds that were received as bond proceeds in prior years, capital and related financing activities had a net cash outflow of $171.4 million.

The net cash inflows from investing activities of $90.8 million include purchases and sales of equity securities and other investments as well as interest and dividends received.

## Economic Outlook

Management believes the University will maintain its solid financial foundation and is well-positioned to continue demonstrating excellence in teaching, discovery and public service. The University's strong debt credit rating, relatively low tuition levels, impressive student body, solid support from the state in difficult economic times, diversified portfolio of research funding, strong investment performance, and outstanding fund-raising capabilities are among the factors indicating a bright future for the University.

Tuition rates increased for fiscal year 2002-2003 by 8% for resident students and 12% for nonresident students. The funds are designated for enrollment growth funding and need-based student financial aid for undergraduate students. A special campus increase of $300 per student was approved to enhance instructional and academic support, provide need-based student aid, and fund more competitive faculty salaries.

The condition of the state economy declined during fiscal year 2001-2002. However, more economic activity is expected for fiscal year 2002-2003 when compared to the prior year. Improvement in the stock market is anticipated as corporate earnings increase. The University was provided a reasonable funding level for state appropriations for 2002-2003. The University's state appropriations budget for 2002-2003 was reduced by $11.6 million to $391.8 million, which represents an increase of 6.3% over fiscal year 2001-2002. The amount of any additional reductions for fiscal year 2002-2003 is unknown. University management may determine the allocation of the budget reductions.

On October 11, 2002, the University announced the $1.8 billion Carolina First fund-raising campaign. The campaign began its quiet phase on July 1, 1999. As of June 30, 2002, gifts, pledges, and deferred commitments of $817 million had been received. Gift receipts were $497 million of that total. Of the $1.8 billion goal, more than half is targeted directly for the University and for the business school, social work, law and UNC foundations, with the remainder for other University related-foundations.

As of June 30, 2002 endowment commitments totaled $328 million toward the overall endowment goal of $700 million. With 37.5 percent of the campaign completed the drive has reached 47% of the endowment goal. We expect that success to continue. While some pledge collections may be delayed because of current economic conditions, we are confident that we will reach both the overall and endowment goals by the end of the campaign on June 30, 2007.

# STATEMENT OF NET ASSETS
## JUNE 30,2002

### ASSETS

| | |
|---|---|
| **Current Assets** | |
| Cash and Cash Equivalents (Note 1D and 3A) | $134,948,413 |
| Restricted Cash and Cash Equivalents (Note 1D, 1I and 3A) | 190,843,227 |
| Short-term Investments (Note 1E) | 131,039,580 |
| Restricted Short-term Investments (Note 1E and 1I) | 71,858,492 |
| Receivables, net (Note 1F and 5) | 121,372,921 |
| Due from primary government | 4,663,472 |
| Due from State of North Carolina component units | 2,799,547 |
| Inventories (Note 1G) | 16,660,221 |
| Notes receivable, net (Note 1F and 5) | 2,823,948 |
| Total current assets | 677,009,821 |
| **Nonurrent Assets** | |
| Restricted Cash and Cash Equivalents (Note 1D, 1I and 3A) | 56,474,265 |
| Receivables, net (Note 1F and 5) | 25,449,474 |
| Restricted Due from primary government | 17,448,686 |
| Endowment investments | 758,987,497 |
| Other long-term investments | 300,226,736 |
| Notes receivable, net | 26,050,772 |
| Capital assets, net (Note 6) | 1,027,884,988 |
| Total noncurrent assets | 2,212,522,418 |
| Total Assets | $2,889,532,239 |

### LIABILITIES

| | |
|---|---|
| **Current Liabilities** | |
| Accounts Payable and Accrued Liabilities (Note 7) | $70,478,088 |
| Due to primary government | 198,183 |
| Due to State of North Carolina component units | 1,843,848 |
| Deferred revenue | 38,517,030 |
| Interest Payable | 2,208,906 |
| Deposits payable | 1,135,327 |
| Funds held for others | 5,934,797 |
| Obligations under reverse repurchase agreements | 34,995,000 |
| Long-term liabilities-current portion (Note 8) | 124,935,557 |
| Total current liabilities | 280,246,736 |
| **Noncurrent Liabilities** | |
| US Government Grants Refundable | 31,124,475 |
| Funds held in trust for pool participants | 291,899,328 |
| Long-term liabilities (Note 8) | 321,843,654 |
| Total noncurrent liabilities | 644,867,457 |
| Total liabilities | $925,114,193 |

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

# Statement of Net Assets (*continued*)

## JUNE 30,2002

### NET ASSETS

| | |
|---|---|
| Invested in capital assets, net of related debt | $608,183,275 |
| Restricted for | |
| Nonexpendable | |
| Professorships and Lectureships | 107,759,463 |
| Scholarships and Fellowships | 76,426,182 |
| Research | 9,971,833 |
| Library Acquisitions | 18,926,206 |
| Departmental Uses | 47,584,886 |
| Loans | 13,214,353 |
| Other | 30,213,709 |
| Expendable | |
| Professorships and Lectureships | 170,169,791 |
| Scholarships and Fellowships | 103,039,482 |
| Research | 26,973,584 |
| Library Acquisitions | 28,674,617 |
| Departmental uses | 198,961,418 |
| Instruction and Educational Service Agreements | 26,768,710 |
| Plant Improvements | 21,471,111 |
| Capital Projects | 118,810,804 |
| Debt Service | 10,722,820 |
| Unrestricted | 346,545,802 |
| Total net assets | $1,964,418,046 |

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

# Statement of Revenues, Expenses, and Changes in Net Assets
## For the Year ended June 30,2002

| | |
|---|---|
| **REVENUES** | |
| **Operating Revenues** | |
| Student Tuition and Fees, net (Note 10) | $124,661,145 |
| Federal Grants and Contracts | 365,171,601 |
| State and Local Grants and Contracts | 38,512,136 |
| Nongovernmental Grants and Contracts | 75,536,237 |
| Patient Services, net (Note 10) | 137,035,225 |
| Sales and Services, net (Note 10) | 239,681,506 |
| Interest Earnings on Loans | 120,650 |
| Other Operating Revenues | 22,851,439 |
| Total Operating Revenues | 1,003,569,939 |
| **EXPENSES** | |
| **Operating Expenses** | |
| Salaries and Benefits | 829,473,249 |
| Supplies and Materials | 148,324,265 |
| Services | 364,831,514 |
| Scholarships and Fellowships | 40,414,555 |
| Utilities | 45,452,167 |
| Depreciation | 48,517,249 |
| Total Operating Expenses | 1,477,012,999 |
| Operating Loss | (473,443,060) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| State Appropriations | 368,504,553 |
| Noncapital Gifts, net (Note 10) | 62,403,802 |
| Investment Income (net of Investment Expense of $2,220,237) | 52,956,614 |
| Interest and Fees on Capital Asset-related Debt | (15,031,104) |
| Other Nonoperating Revenues (Expenses) | (7,661,489) |
| Net Nonoperating Revenues | 461,172,376 |
| Income Before Other Revenues, Expenses, Gains, or Losses | (12,270,684) |
| Capital Grants | 27,479,400 |
| Capital Gifts, net (Note 10) | 8,238,379 |
| Additions to permanent endowments | 21,946,491 |
| Increase in Net Assets | 45,393,586 |
| **NET ASSETS** | |
| Net Assets July 1, 2001, as Restated | 1,919,024,460 |
| Net Assets June 30, 2002 | $1,964,418,046 |

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

# Statement of Cash Flows
## For the Year ended June 30,2002

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Received from Customers | $994,354,800 |
| Payments to Employees and Fringe Benefits | (827,166,001) |
| Payments to Vendors and Suppliers | (555,090,010) |
| Payments for Scholarships and Fellowships | (40,414,555) |
| Loans Issued to Students | (3,562,402) |
| Collection of Loans to Students | 5,751,046 |
| Other Receipts (Payments) | 22,133,241 |
| Net Cash Used by Operating Activities | (403,993,881) |
| **Cash Flows from Noncapital Financing Activities** | |
| State Appropriations | 368,504,553 |
| Grants for Other than Capital Purposes | 3,890,817 |
| Noncapital Gifts | 53,150,901 |
| Additions to Permanent Endowments | 21,946,491 |
| Related Activity Agency Receipts | 4,971,473 |
| Related Activity Agency Disbursements | (5,688,663) |
| Net Cash Provided by Noncapital Financing Activities | 446,775,572 |
| **Cash Flows from Capital Financing and Related Financing Activities** | |
| Proceeds from Capital Debt | 1,000,000 |
| Proceeds from Capital Refunding Debt | 66,965,201 |
| Capital Grants | 34,539,226 |
| Capital Gifts | 6,898,069 |
| Acquisition and Construction of Capital Assets | (175,519,351) |
| Principal Paid on Capital Debt and Leases | (14,130,000) |
| Defeasance of Capital Debt | (70,065,001) |
| Interest and Fees Paid on Capital Debt and Leases | (21,117,301) |
| Net Cash Used by Capital Financing Activities | (171,429,157) |
| **Cash Flows from Investing Activities** | |
| Proceeds from Sales and Maturities of Investments | 732,646,620 |
| Interest on Investments | 60,629,791 |
| Purchase of Investments and Related Fees | (702,449,323) |
| Net Cash Provided by Investing Activities | 90,827,088 |
| Net Decrease in Cash | (37,820,378) |
| Cash July 1, 2001 | 420,086,283 |
| Cash June 30, 2002 | $382,265,905 |

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

# STATEMENT OF CASH FLOWS (*continued*)
## FOR THE YEAR ENDED JUNE 30,2002

**Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities:**

| | |
|---|---|
| Operating (Loss) | ($473,443,060) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 48,517,249 |
| Allowances, Write-offs and Amortizations | (863,712) |
| Nonoperating Other Income (Expense) | (1,097,034) |
| Changes in Assets and Liabilities: | |
| Receivables, net | 17,880,346 |
| Notes Receivable , net | 2,106,858 |
| Inventories | (573,956) |
| Accounts Payable & Accrued Liabilities | 1,746,007 |
| Due to primary government | 91,629 |
| Deferred revenue | 95,873 |
| Compensated Absences | 5,425,219 |
| US Govt. Grants Refundable | 1,581,612 |
| Fund Held for Others | (5,460,912) |
| Net Cash used by Operating Activities: | ($403,993,881) |

**Noncash Investing, Capital, and Financing Activities:**

| | |
|---|---|
| Assets Acquired Through the Assumption of a Liability | $ 9,857,223 |
| Assets Acquired Through a Gift | 1,008,188 |
| Change in Fair Value of Investments | (17,465,914) |
| Increase in Receivable Related to Nonoperating Income | 9,585,023 |

**Reconciliation of Cash and Cash Equivalent Balances:**

| | |
|---|---|
| Current Assets: | |
| Cash and Cash Equivalents | 134,948,413 |
| Restricted Cash and Cash Equivalents | 190,843,227 |
| Noncurrent Assets | 56,474,265 |
| Total Cash and Cash Equivalent Balances | $ 382,265,905 |

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

# NOTES TO THE FINANCIAL STATEMENT

**JUNE 30,2002**

## INDEX

# 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 accounting principles generally accepted in the United States of America, 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 16 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-Flagler 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 11 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, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. 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-Flagler 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 remaining 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 10 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 Assistant Dean for External Affairs. The remaining 10 directors are elected to membership on the Social Work Foundation by action of the ex officio directors. 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 and 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 and Temporary Pool as presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. The University's financial statements include the financial activities of the clinical patient care programs. 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities* effective for the University's year ended June 30, 2002, the full scope of the University's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

## C. BASIS OF ACCOUNTING

The financial statements of the University have been prepared using the economic resource management focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenditures are recorded when an obligation has been incurred. 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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

## D. CASH AND CASH EQUIVALENTS

This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes cash on deposit with private bank accounts, petty cash, undeposited receipts, savings accounts, cash on deposit with fiscal agents and deposits with the State Treasurer's Cash and Investment Pool (a governmental external investment pool).

## E. 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.

Short-term investments include marketable securities representing the investment of cash that is available for current operations. A majority of this available cash is invested in the University's Temporary Pool, a governmental external investment pool.

## F. RECEIVABLES

The receivables consist of tuition and fees charges to students, and charges to patients for services provided by the UNC Physicians & Associates and the Dental Faculty

Practices. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied, and notes receivable from loans to students. Patients, pledges and notes receivables are recorded net of the allowance for doubtful accounts. The accounts and other receivables are shown at book value with no provision for doubtful accounts considered necessary.

## G. 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 consist of expendable supplies, postage, fuel held for consumption, textbooks and other merchandise for resale.

## H. CAPITAL ASSETS

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes assets that have 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, except for literary collections, are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 40 years for infrastructure, 10 to 50 years for buildings and 4 to 10 years for equipment.

The University's historic property, artworks and literary collections are capitalized at cost or fair value at the date of donation. These property and collections are considered inexhaustible and are therefore not depreciated.

## I. RESTRICTED ASSETS

Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

## J. FUNDS HELD IN TRUST FOR POOL PARTICIPANTS

Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 3.

## K. FUNDS HELD IN TRUST BY OTHERS

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, 2002, is approximately $26,589,426.

## L. NONCURRENT LONG-TERM LIABILITIES

Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, capital lease obligations, annuity payable and compensated absences that are not scheduled to be paid within the next fiscal year.

Bonds payable are reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are expensed.

## M. COMPENSATED ABSENCES

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 can 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last in, first out method.

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.

## N. NET ASSETS

The University's net assets are classified as follows:

### INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

### RESTRICTED NET ASSETS – NONEXPENDABLE

Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

RESTRICTED NET ASSETS – EXPENDABLE

Expendable restricted net assets include resources in which the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

UNRESTRICTED NET ASSETS

Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are recorded using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the University would generally first apply restricted funds, although individual departments have authority to use either restricted or unrestricted funds as appropriate.

### O. SCHOLARSHIP DISCOUNTS

Student tuition and fees and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

### P. REVENUE AND EXPENSE RECOGNITION

The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University. Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

### Q. INTERNAL SALES ACTIVITIES

Certain institutional auxiliary operations provide goods and services to University departments as well as to its customers. These institutional auxiliary operations include activities such as utility services, telecommunications, central stores, printing and copy centers, postal services, repairs and maintenance services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

## NOTE 2 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 3 DEPOSITS AND INVESTMENTS

## A. DEPOSITS

The University is required by General Statute 147-77 to deposit its budget code cash, as defined in Note 2, 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 $382,124,912. At year-end, cash on hand was $140,993. The University's portion of the State Treasurer's Cash and Investment Pool was $354,919,311. It is the State Treasurer's policy and practice for 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 his 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 was $27,346,594 and the bank balance was $5,976,150. Of the bank balance, $1,557,248 was covered by federal depository insurance or by collateral held by the University's agent in the University's name, and $4,418,902 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c), applicable to the State's General Fund and 147-69.2, applicable to institutional trust funds, 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; time deposits of specified institutions; prime quality commercial paper, asset-backed securities with specified ratings. General Statute 147-69.1(c) also authorizes the following: specified bills of exchange or time drafts; corporate bonds and notes with specified ratings. General Statues 147-69.2 also authorizes the following: 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/ 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 pursuant to General Statute 116-36.1(h) in the same manner as the State Treasurer is required to invest, as previously discussed.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that 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 Endowment 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 General Statute 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 Asset Management. 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. 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. 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. In June, 2002 the University elected to invest a portion of the Temporary Pool assets into the University's Investment Fund.

Through written request to Accounting Services, participants may purchase and sell shares in the Temporary Pool at a fixed value of $1 per share. 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's Investment Office and the Vice Chancellor for Finance and Administration.

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

This is a North Carolina nonprofit 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, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. 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.

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 Fund 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 Northern Trust Company is the custodian for the Investment Fund and provides the University with monthly statements defining income and market value information. The Investment Fund uses a unit basis to determine each participant's market value and to distribute the Fund's earnings according to 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 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 counterparty's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 2002 is presented below.

## TEMPORARY POOL INVESTMENTS

| | Fair Value | | | |
|---|---|---|---|---|
| | Risk Category | | | |
| | 1 | 2 | 3 | Total |
| **Categorized Investments:** | | | | |
| U. S. Government Securities | $ 85,505,183 | $ 0 | $ 0 | $ 85,505,183 |
| Collateralized Mortgage Obligations | 49,737,227 | | | 49,737,227 |
| State and Municipal Securities | 4,640,640 | | | 4,640,640 |
| Corporate Bonds | 44,111,103 | | | 44,111,103 |
| Corporate Stocks | 30,000 | | | 30,000 |
| **Total Categorized Investments** | $ 184,024,153 | $ 0 | $ 0 | $ 184,024,153 |
| **Investments Not Categorized:** | | | | |
| Investments Held by Broker-Dealers | | | | |
| Under Reverse Repurchase Agreements | | | | |
| U. S. Government Securities | | | | 15,133,500 |
| Money Market Funds | | | | 7,859,537 |
| Mutual Funds | | | | 22,142,135 |
| **Total Investments Not Categorized** | | | | 45,135,172 |
| **Total Temporary Pool Investments** | | | | $ 229,159,325 |

## INVESTMENT FUND POOL INVESTMENTS

| | Fair Value | | | |
|---|---|---|---|---|
| | Risk Category | | | |
| | 1 | 2 | 3 | Total |
| **Categorized Investments:** | | | | |
| U. S. Government Securities | $ 8,280,031 | $ 0 | $ 0 | $ 8,280,031 |
| Collateralized Mortgage Obligations | 11,925,245 | | | 11,925,245 |
| Corporate Bonds | 8,197,210 | | | 8,197,210 |
| Corporate Stocks | 88,440,413 | | | 88,440,413 |
| **Total Categorized Investments** | $ 116,842,899 | $ 0 | $ 0 | $ 116,842,899 |
| **Investments Not Categorized:** | | | | |
| Investments Held by Broker-Dealers | | | | |
| Under Reverse Repurchase Agreements | | | | |
| U. S. Government Securities | | | | 19,352,433 |
| Money Market Funds | | | | 14,509,031 |
| Mutual Funds | | | | 363,546,415 |
| Limited Partnerships | | | | 409,112,030 |
| Real Estate Investment Trusts | | | | 12,633,966 |
| Other Investments | | | | 69,600 |
| **Total Investments Not Categorized** | | | | 819,223,475 |
| **Total Investment Fund Pool Investments** | | | | $ 936,066,374 |

## NON POOLED INVESTMENTS

| | Fair Value | | | |
|---|---|---|---|---|
| | Risk Category | | | |
| | 1 | 2 | 3 | Total |
| **Categorized Investments:** | | | | |
| U. S. Government Securities | $ 4,664,437 | $ 843,571 | $ 0 | $ 5,508,008 |
| State and Municipal Securities | 672,194 | | | 672,194 |
| Corporate Bonds | 6,523,990 | | | 6,523,990 |
| Corporate Stocks | 10,610,402 | 1,196,518 | | 11,806,920 |
| **Total Categorized Investments** | $ 22,471,023 | $ 2,040,089 | $ 0 | $ 24,511,112 |
| **Investments Not Categorized:** | | | | |
| Money Market Funds | | | | 33,184,162 |
| Mutual Funds | | | | 24,671,204 |
| Real Estate | | | | 10,778,788 |
| Other Investments | | | | 3,741,340 |
| **Total Investments Not Categorized** | | | | 72,375,494 |
| **Total Non Pooled Investments** | | | | $ 96,886,606 |

## TOTAL INVESTMENTS

| | Fair Value | | | |
|---|---|---|---|---|
| | Risk Category | | | |
| | 1 | 2 | 3 | Total |
| **Total Categorized Investments** | $ 323,338,075 | $ 2,040,089 | $ 0 | $ 325,378,164 |
| **Total Investments Not Categorized** | | | | 936,734,141 |
| **Total Investments** | | | | $ 1,262,112,305 |

Since a separate annual financial report of the Temporary 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, 2002 are as follows:

STATEMENT OF NET ASSETS
JUNE 30, 2002

| | |
|---|---|
| **Assets:** | |
| State Treasurer Investment Fund | $ 22,000,000 |
| Accrued Investment Income | 1,427,530 |
| Investment Fund Equity | 24,574,434 |
| Investments | 229,159,325 |
| **Total Assets** | $ 277,161,289 |
| **Liabilities:** | |
| Obligations Under Reverse Repurchase Agreements | $ 15,075,000 |
| Deferred Income | 556,301 |
| **Total Liabilities** | $ 15,631,301 |
| **Net Assets:** | |
| Internal Portion | $ 169,628,350 |
| External Portion | 91,901,638 |
| **Total Net Assets** | $ 261,529,988 |
| **Total Liabilities and Net Assets** | $ 277,161,289 |

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

| | |
|---|---|
| **Increase in Net Assets From Operations:** | |
| **Revenues:** | |
| Investment Income | $ 16,133,440 |
| **Expenses:** | |
| Investment Management | 263,330 |
| **Net Increase in Net Assets Resulting from Operations** | 15,870,110 |
| **Distributions to Participants:** | |
| Distributions Paid and Payable | 15,870,110 |
| **Share Transactions:** | |
| Net Share Purchases | 51,174,558 |
| **Total Increase in Net Assets** | 51,174,558 |
| **Net Assets:** | |
| Beginning of Year | 210,355,430 |
| End of Year | $ 261,529,988 |

The major investment classifications of the Temporary Pool had the following attributes at June 30, 2002:

| Investment Classification | Fair Value | Principal Amount | Range of Interest Rates | Range of Maturities |
|---|---|---|---|---|
| U.S. Government Securities: | $ 85,505,183 | $ 82,293,379 | 2.5% - 11.5% | 2003 - 2003 |
| Collateralized Mortgage Obligations | 49,737,227 | 44,287,212 | 2.8% - 19.0% | 2002 - 2032 |
| State and Municipal Securities | 4,640,640 | 4,396,640 | 2.7% - 4.0% | 2009 |
| Corporate Bonds | 44,111,103 | 43,219,384 | 2.5% - 8.7% | 2003 - 2011 |
| Corporate Stocks | 30,000 | 30,000 | N/A | N/A |
| Mutual Funds | 22,142,135 | 20,380,659 | N/A | N/A |
| Money Market Funds | 7,859,537 | 7,859,537 | 1.8% | 1 day |
| Reverse Repurchase Agreements | 15,133,500 | 15,010,222 | 1.8% | 1 day |
| **Total Temporary Pool Investments** | $ 229,159,325 | $ 217,477,033 | | |

## C. 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 fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair 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 fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was $324,396.

At June 30, 2002 reverse repurchase agreements are open (on-demand) agreements and have no specified maturity date. The amount and interest rate of the agreement may be changed daily and either party may terminate the transaction at any time. In investing the proceeds of reverse repurchase agreements, the University's practice is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. The University's investments in the underlying securities and the securities purchased with proceeds from the reverse repurchase agreements are in accordance with the statutory requirements as noted. The interest earnings and interest cost arising from reverse repurchase agreement transactions are reported at gross amounts on the accompanying financial statements.

## D. 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 accounting principles generally accepted in the United States of America, the nature of 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, the 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 security 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 meet 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, and 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 that 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 "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, 2002 the University was holding $142,482,521 in mortgage-backed securities valued at fair value representing approximately 11.3% of its total investments. Of this amount $61,662,473 represent investments in CMOs.

OTHER ASSET-BACKED SECURITIES

The University invests in various asset-backed securities such as automobile loan securitizations, credit card securitizations, and home equity loans. 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 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 market risk due to fluctuations in interest rates, prepayment rates, and various liquidity factors related to their specific markets. The market risk is reduced by the University's preference to invest in the shorter average life securities.

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 obligation given their high credit ratings. The assets that collateralize these securities, which could be liquidated at market values at the time of non-performance, reduce the credit risk.

As of June 30 2002 the University was holding $17,113,221 in asset-backed securities valued at fair value representing approximately 1.4% 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, 2002 the futures contracts held by the University had expiration dates not exceeding September 2002.

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, 2002, 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 mitigate its credit risk of default by a counterparty.

As of June 30, 2002 the University had no outstanding option transactions.

## 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 to increase the yield and return on its investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. Fund investments generally include equity and bond funds. Certain funds expose the University to significant amounts of market risk by trading or holding derivative instruments 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 funds that utilized derivative securities for the fiscal year ending June 30, 2002 are summarized in the chart below. The amounts shown in the chart represent the market value of the University's (including affiliated external foundations who participate in the Investment Fund) investment in the various asset classes and the market value and percent of holdings held in derivatives in those classifications. The University's reporting entity comprises 75.54% of these totals.

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

The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. Indirect Derivative Analysis For Fiscal Year Ending 6/30/02:

| Asset Class | Total Market Value | % Invested Derivatives | Amount |
|---|---|---|---|
| DOMESTIC EQUITY | $ 99,801,698 | 11.80% | $ 11,776,600 |
| INTERNATIONAL EQUITY | 154,624,478 | 4.53% | 7,004,489 |
| OPPORTUNISTIC EQUITY | 77,942,370 | 15.56% | 12,127,833 |
| ABSOLUTE RETURN | 119,411,857 | 6.80% | 8,120,006 |
| FIXED INCOME | | | |
| Domestic Fixed Income | 54,650,106 | 8.00% | 4,372,008 |
| Enhanced Fixed Income | 102,767,539 | 2.37% | 2,435,591 |
| **Total** | $ 609,198,048 | | $ 45,836,527 |
| **TOTAL MARKET VALUE OF INVESTMENTS IN THE INVESTMENT FUND** | | | $ 936,006,374 |
| **TOTAL % OF MARKET VALUE FOR INDIRECT DERIVATIVE EXPOSURE** | | | 4.90% |

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. Domestic and Enhanced are two subasset classes of this fund type. Domestic Fixed Income focuses upon U.S. Treasury securities, quasi-government securities and high-grade U.S. corporate bonds. Enhanced Fixed Income can include non-U.S. investments and non high-grade securities, and are generally intended to provide a higher total return than traditional fixed income.

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 4.90% 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 4
## ENODWMENT INVESTMENTS 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 Investment Fund to the University's pooled endowment funds are based on an adopted spending policy. Under this policy, the prior year distribution is increased by the rate of inflation as measured by the Consumer Price Index (CPI). Each year's distribution, however, is subject to a minimum of 4% and a maximum of 7% of the pooled endowment fund's average market value for the previous year.

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 meet the distribution requirements, the University uses accumulated income and appreciation to make up the difference. At June 30, 2002 accumulated income and appreciation of $288,274,274 was available in the University's pooled endowment funds of which $254,345,358 was restricted to specific purposes.

# NOTE 5
# RECEIVABLES

Receivables at June 30, 2002 were as follows:

| | Gross Receivables | Allowance for Doubtful Accounts | Net Receivables |
|---|---|---|---|
| **Current Receivables:** | | | |
| Students | $ 2,362,079 | | $ 2,362,079 |
| Patients | 68,969,330 | $ (52,366,054) | 16,603,276 |
| Accounts | 45,709,279 | | 45,709,279 |
| Intergovernmental | 38,526,001 | | 38,526,001 |
| Pledges | 13,834,244 | (271,074) | 13,563,170 |
| Investment Earnings | 4,002,618 | | 4,002,618 |
| Interest on Loans | 606,498 | | 606,498 |
| **Total Current Receivables** | $ 174,010,049 | $ (52,637,128) | $ 121,372,921 |
| **Noncurrent Receivables:** | | | |
| Pledges | $ 25,837,029 | $(387,555) | $ 25,449,474 |
| **Notes Receivables:** | | | |
| Notes Receivables - Current | | | |
| Federal Loan Programs | 2,532,901 | (208,706) | 2,324,195 |
| Institutional Student Loan Programs | 523,824 | (24,071) | 499,753 |
| **Total Notes Receivables Current** | $ 3,056,725 | $(232,777) | $ 2,823,948 |
| Notes Receivable - Noncurrent: | | | |
| Federal Loan Programs | 23,365,886 | (1,925,301) | 21,440,585 |
| Institutional Student Loan Programs | 4,832,248 | (222,061) | 4,610,187 |
| **Total Notes Receivable Noncurrent** | $ 28,198,134 | $ (2,147,362) | $ 26,050,772 |

Pledges are receivable over varying time periods ranging from one to 10 years, and have been discounted based on a projected interest rate of 3.58% for the outstanding periods, and allowances are provided for the amounts estimated to be uncollectible. Scheduled receipts, the discounted amount under these pledge commitments, and allowances for uncollectible pledges are as follows:

| Fiscal Year | Amount |
|---|---|
| 2003 | $ 13,929,249 |
| 2004 | 10,758,017 |
| 2005 | 8,607,217 |
| 2006 | 6,152,851 |
| 2007 | 1,155,278 |
| 2008-2011 | 1,860,844 |
| **Total Pledge Receipts Expected** | 42,463,456 |
| Discount Amount Representing Interest (3.58% Rate of Interest) | (2,792,183) |
| **Present Value of Pledge Receipts Expected** | |
| Less Allowance for Uncollectible | (658,629) |
| **Pledges Receivable** | $ 39,012,644 |

# NOTE 6
# CAPITAL ASSETS

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

| | Balance July 1, 2001 | Adjustments | Increases | Decreases | Balance June 30, 2002 |
|---|---|---|---|---|---|
| **Capital Assets, Non-Depreciable:** | | | | | |
| Land | $ 22,093,860 | | | | $ 22,093,860 |
| Art, Literature, and Artifacts | 50,981,799 | | $ 1,390,094 | $ 480 | 52,371,413 |
| Construction in Progress | 151,638,839 | $ (59,737,439) | 144,509,838 | 11,388,447 | 225,022,791 |
| Intangible assets | 1,000,000 | | | | 1,000,000 |
| Total Capital Assets, Non-Depreciable | 225,714,498 | (59,737,439) | 145,899,932 | 11,388,927 | 300,488,064 |
| **Capital Assets, Depreciable:** | | | | | |
| Buildings | 760,607,088 | 44,326,346 | 18,866,929 | 59,957 | 823,740,406 |
| Machinery and Equipment | 189,578,631 | | 21,468,172 | 17,847,750 | 193,199,053 |
| General Infrastructure | 267,687,586 | 15,411,093 | 2,238,577 | | 285,337,256 |
| Total Capital Assets, Depreciable | 1,217,873,305 | 59,737,439 | 42,573,678 | 17,907,707 | 1,302,276,715 |
| Less Accumulated Depreciation/Amortization for: | | | | | |
| Buildings | 310,895,445 | | 21,530,253 | 7,834 | 332,417,864 |
| Machinery and Equipment | 115,496,738 | | 15,424,524 | 11,335,897 | 119,585,365 |
| General Infrastructure | 111,314,091 | | 11,562,471 | | 122,876,562 |
| Totals, Accumulated Depreciation/ Ammortization | 537,706,274 | | 48,517,248 | 11,343,731 | 574,879,791 |
| Total capital assets, depreciable, net | 680,167,031 | 59,737,439 | (5,943,570) | 6,563,976 | 727,396,924 |
| **Capital Assets, net** | $ 905,881,529 | | $ 139,956,362 | $ 17,952,903 | $ 1,027,884,988 |

# NOTE 7
# ACCOUNTS PAYABLE AND ACCURED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

| | Totals |
|---|---|
| Accounts Payable | $ 43,334,804 |
| Accrued Payroll | 17,729,070 |
| Contract Retainage | 8,228,702 |
| Commercial Paper | 1,000,000 |
| Other | 185,512 |
| **Total accounts payable and accrued liabilities** | $ 70,478,088 |

On March 5, 2002 the University issued University of North Carolina at Chapel Hill General Revenue Bonds, Series 2002A with a maximum issue amount of $75,000,000. The issue is the University's portion of the University of North Carolina System Board of Governors Tax-Exempt Commercial Paper Bonds (UNC at Chapel Hill/NC State 2002 Issue), with a maximum issue amount of $100,000,000. On March 5, 2002 the University sold $1,000,000 of Series 2002A with a final maturity date of November 12, 2002. The proceeds of this issuance were used to provide interim financing for the construction related to the University's Dormitory System.

# NOTE 8
# LONG-TERM LIBILITIES

## A. CHANGES IN LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

| | Balance July 1, 2001 | Additions | Reductions | Balance June 30, 2002 | Current Portion |
|---|---|---|---|---|---|
| **Notes, Bonds and Capital Leases Payable** | | | | | |
| Notes Payable | | $ 3,800,229 | | $ 3,800,229 | $ 3,800,229 |
| Bonds Payable | $ 459,900,000 | 66,555,000 | $ 84,025,000 | 442,430,000 | 116,312,178 |
| Add/Deduct Premium/Discount | (62,822,379) | 3,667,455 | (3,936,816) | (55,218,108) | |
| Deduct Deferred Charge on Refunding | | (3,257,254) | | (3,257,254) | |
| Total Bonds Payable | 397,077,621 | 66,965,201 | 80,088,184 | 383,954,638 | 116,312,178 |
| Capital Leases Payable | 335,760 | 1,318,939 | 1,048,999 | 605,700 | 294,252 |
| Total Notes, Bonds, and Capital Leases Payable | 397,413,381 | 72,084,369 | 81,137,183 | 388,360,567 | 120,406,659 |
| Compensated Absences | 47,050,200 | 39,485,312 | 34,060,092 | 52,475,420 | 3,836,481 |
| Annuity Payable | 11,631,887 | 0 | 5,688,663 | 5,943,224 | 692,417 |
| **Total long-term liabilities** | $ 456,095,468 | $ 111,569,681 | $ 120,885,938 | $ 446,779,211 | $ 124,935,557 |

Additional information regarding capital lease obligations is included in Note 9.

On January 7, 2002 the UNC-CH Foundation (which is part of the University's financial reporting entity) signed a promissory note with First Union National Bank in the amount of $3,534,971. On April 30, 2002 a second advance was received in the amount of $265,258 for a total note amount of $3,800,229. The final maturity date is January 7, 2003. The proceeds were used to acquire, equip and furnish an office building used by the University's Development Office.

The University plans to refinance the notes maturing on January 7, 2003 with other long term financing.

## B. BONDS PAYABLE

The University was indebted for bonds payable for the purposes shown in the following table:

| Purpose | Series | Interest Rate/ Ranges | Final Maturity Date | Original Amount of Issue plus Capital Appreciation | Principal Paid Through 6/30/02 | Discount on Capital Appreciation Bonds | Principal Outstanding 6/30/02 |
|---|---|---|---|---|---|---|---|
| Dormitory System | 1997A | 4.500%-5.100% | Nov. 1, 2017 | $ 9,170,000 | $ 965,000 | | $ 8,205,000 |
| | 1997B | 4.000%-5.000% | Nov. 1, 2017 | 7,210,000 | 260,000 | | 6,950,000 |
| Total Dormitory System | | | | 16,380,000 | 1,225,000 | | 15,155,000 |
| Utility System | 1997 | 5.250%-5.500% | Aug 1, 2021 | 84,135,000 | | $ (45,148,385) | 38,986,615 |
| | 1992 | 3.000%-6.000% | Aug 1, 2007 | 3,490,000 | 2,065,000 | | 1,425,000 |
| Total Utility System | | | | 87,625,000 | 2,065,000 | (45,148,385) | 40,411,615 |
| Parking System | 1997A | 4.350%-5.700% | May 15, 2027 | 11,750,000 | 615,000 | | 11,135,000 |
| | 1997B | 3.900%-5.150% | May 15, 2009 | 8,245,000 | 2,845,000 | | 5,400,000 |
| Total Parking System | | | | 19,995,000 | 3,460,000 | | 16,535,000 |
| General Revenue 2001 | 2001A | 2.900%-5.125% | Dec. 1, 2025 | 89,930,000 | 1,580,000 | | 88,350,000 |
| | 2001B | variable | Dec. 1, 2025 | 54,970,000 | 1,240,000 | | 53,730,000 |
| | 2001C | variable | Dec. 1, 2025 | 54,970,000 | 1,240,000 | | 53,730,000 |
| Total General Revenue 2001 | | | | 199,870,000 | 4,060,000 | | 195,810,000 |
| General Revenue 2002 | 2002B | 3.500%-5.000% | Dec. 1, 2011 | 66,555,000 | 0 | | 66,555,000 |
| Student Union | 2000 | 4.550%-5.659% | Jun. 1,2022 | 12,465,000 | 335,000 | | 12,130,000 |
| Student Recreation Center | 1997 | 3.900%-5.000% | Jun. 1,2011 | 3,545,000 | 485,000 | | 3,060,000 |
| U.S. EPA Project, Series 1991 | 1991 | 8.250%-9.050% | Feb. 15, 2015 | 58,125,000 | 11,695,000 | (15,034,035) | 31,395,965 |
| U.S. EPA Project, Series 1996 | 1996 | 6.720% | Feb. 15, 2006 | 2,400,000 | 1,205,000 | | 1,195,000 |
| Total Bonds Payable (principal only) | | | | $ 466,960,000 | $ 24,530,000 | $ (60,182,420) | 382,247,580 |
| Less: Unamortized Loss on Refunding | | | | | | | (3,257,254) |
| Less: Unamortized Discount | | | | | | | (919,548) |
| Plus: Unamortized Premium | | | | | | | 5,883,860 |
| **Net Bonds Payable** | | | | | | | $ 383,954,638 |

## 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 of 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:

In 2001 the University issued two series of variable rate demand bonds in the amount of $54,970,000 (2001B) and $54,970,000 (2001C) that each have a final maturity date of December 1, 2025, and are repaid from Available Funds. Available Funds are defined as any Unrestricted Net Assets remaining after satisfying obligations of the University under trust indentures, trust agreements or bond resolutions (Specific Revenue Bonds), but excluding State Appropriations, Tuition, and certain special facilities revenues. The bonds are subject to mandatory sinking fund redemption that began on December 1, 2001. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: 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 UBS 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, 2002 no purchase drawings had been made under the letter of credit.

The letter of credit terminates on February 6, 2003, subject to extension by the agreement of both parties.

In 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. For the fiscal year ended June 30, 2002, Lehman Brothers paid the University $431,597 under this agreement. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of 5.24%. For the fiscal year ended June 30, 2002, the University paid Lehman Brothers $1,152,800 under this agreement.

## D. CAPITAL APPRECIATION BONDS

The University's Series 1997 Utility System and the Series 1991 U. S. Environmental Protection Agency Project bond issues include capital appreciation bonds with an original issue amount of $30,379,142 and $3,828,921, respectively. These bonds are recorded in the amounts of $38,986,615 ($84,135,000 ultimate maturity less $45,148,385 discount) and $10,240,965, ($25,275,000 ultimate maturity less $15,034,035 discount) respectively, which are the accreted values at June 30, 2002. These bonds mature in the years from 2010 to 2021.

## E. ANNUAL REQUIREMENTS

The annual requirements to pay principal and interest on the long-term obligations at June 30, 2002 are as follows:

| | Annual Requirements | | | |
|---|---|---|---|---|
| | Bonds Payable | | Notes Payable | |
| Fiscal Year | Principal | Interest | Principal | Interest |
| 2003 | $ 12,365,000 | $ 10,003,190 | $ 3,800,229 | $ 75,766 |
| 2004 | 17,305,000 | 9,517,077 | | |
| 2005 | 18,165,000 | 8,991,294 | | |
| 2006 | 19,120,000 | 8,419,403 | | |
| 2007 | 19,885,000 | 7,832,293 | | |
| 2008-2012 | 111,165,000 | 30,385,784 | | |
| 2013-2017 | 106,275,000 | 21,127,434 | | |
| 2018-2022 | 94,315,000 | 12,300,684 | | |
| 2023-2027 | 43,835,000 | 3,324,255 | | |
| **Total Requirements** | $ 442,430,000 | $ 111,901,414 | $ 3,800,229 | $ 75,766 |

Interest on the variable rate General Revenue Bonds 2001B revenue bonds is calculated at 1.000% at June 30, 2002
Interest on the variable rate General Revenue Bonds 2001C revenue bonds is calculated at 1.100% at June 30, 2002

For UNC-CH General Revenue Bonds: Series 2001B and 2001C, interest rates change monthly.

## F. BOND DEFEASANCE

The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

UTILITIES SYSTEM:

On May 7, 2002 the University issued $66,555,000 in the University of North Carolina at Chapel Hill General Revenue Refunding Bonds, Series 2002B, with an average interest rate of 3.50%. The refunding was used to defease $69,895,000 of outstanding University of North Carolina at Chapel Hill Utility System Revenue Bonds, Series 1993, with a combined average interest rate of 5.34%. The net proceeds amount 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 reduced its debt service requirements by $3,340,000 over the next 10 years and obtained an economic gain of $1,700,902. At June 30, 2002, the outstanding balance was $69,895,000 for defeased outstanding Utility System Revenue Bonds, Series 1993.

DINING SYSTEM:

On February 7, 2001 the University defeased $13,205,000 of outstanding Dining System Revenue Bonds, Series 1997. 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, 2002 the outstanding balance of the defeased Dining System bonds was $12,155,000.

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, 2002, the outstanding balance was $673,000 for the defeased outstanding Dormitory System Revenue Bonds, Series E, F & G (1963).

STUDENT APARTMENTS:

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, 2002, the outstanding balance was $40,000 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, 2002, the outstanding balance was $480,000 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 through November 1, 2001, at which time all the outstanding bonds were redeemed. At June 30, 2002 the outstanding balance of the defeased Housing System bonds was $0.

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, 2002 the outstanding balance of the defeased Utility System bonds was $19,337,370.

# NOTE 9
# LEASE OBLIGATIONS

## A. CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to medical and research equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002:

| Fiscal Year | Amount |
|---|---|
| 2003 | $ 341,776 |
| 2004 | 285,649 |
| 2005 | 49,584 |
| 2006 | 10,038 |
| **Total Minimum Lease Payments** | $ 687,047 |
| Amount Representing Interest (8.2%-14.9% Rate of Interest | 81,347 |
| **Present Value of Future Lease Payment** | $ 605,700 |

Leased assets amounted to $1,609,480 at June 30, 2002.

## B. OPERATING LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

| Fiscal Year | Amount |
|---|---|
| 2003 | $ 4,537,897 |
| 2004 | 3,295,273 |
| 2005 | 2,958,522 |
| 2006 | 2,077,741 |
| 2007 | 32,099 |
| **Total Minimum Lease Payments** | $ 12,901,532 |

Rental expense for all operating leases during the year was $11,625,340.

## C. OTHER LEASE OBLIGATIONS

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, 2002 the aggregate principal amount of the certificates was $9,950,000.

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

# NOTE 10
# REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows:

| | Gross Revenues | Internal Sales Eliminations | Less: Scholarship Discounts | Less: Allowance for Uncollectibles | Less: Indigent Care and Contractual Adjustments | Net Revenues | Revenues Pledged as Security for Debt |
|---|---|---|---|---|---|---|---|
| **Operating revenues:** | | | | | | | |
| Student tuition and fees | $ 150,537,311 | | $ 25,876,166 | | | $ 124,661,145 | |
| Patient Service | 311,760,599 | | | $ (4,949,060) | $ 179,674,434 | 137,035,225 | |
| Sales and Services: | | | | | | | |
| Residential Life | 22,578,714 | | 3,905,806 | | | 18,672,908 | $ 17,200,826 (A) |
| Dining | 15,968,058 | | 180,931 | | | 15,787,127 | |
| Student Union Services | 1,835,757 | | 1,016,666 | | | 819,091 | |
| Health, physical education and recreation services | 13,099,556 | | 1,795,273 | 740 | | 11,303,543 | 11,304,283 (B) |
| Bookstore | 33,389,738 | | | | | 33,389,738 | |
| Parking | 12,408,017 | | | | | 12,408,017 | 12,408,017 (C) |
| Athletic | 31,722,630 | | 390,845 | | | 31,331,785 | |
| Utilities | 60,595,890 | 43,624,502 | | | | 16,971,388 | 16,971,388 (D) |
| Other Professional Income | 49,754,020 | | | | | 49,754,020 | |
| Other | 113,799,033 | 64,523,372 | | 31,772 | | 49,243,889 | 4,581,720 (E) |
| Total Sales and Services | $ 355,151,413 | $ 108,147,874 | $ 7,289,521 | $ 32,512 | | $ 239,681,506 | $ 62,466,234 |
| **Nonoperating noncapital gifts** | $ 65,854,614 | | | $ 3,450,812 | | $ 62,403,802 | |
| **Capital Gifts** | $ 8,238,379 | | | | | $ 8,238,379 | |

(A) Housing System Revenue Bonds, Series 1997 A & B
(B) Student Fee Revenue Bonds. Series 1997 & 2000
(C) Parking System Revenue Bonds, Series 1997 A & B
(D) Utility System Revenue Bonds, Series 1992 & 1997
(E) US EPA Project, Series 1991 & 1996
* Includes $2,792,183 PV discount on pledges receivable

# NOTE 11
# OPERATING EXPENSES BY FUNCTION

The University's operating expenses by functional classification are presented as follows:

| | Salaries and Benefits | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Instruction | $ 377,733,925 | $ 29,723,404 | $ 90,283,674 | | $ 29,877 | | $ 497,770,880 |
| Research | 140,283,583 | 37,007,721 | 59,970,636 | | 13,524 | | 237,275,464 |
| Public Service | 26,891,751 | 1,272,686 | 48,695,946 | | 35,855 | | 76,896,238 |
| Academic Support | 44,094,982 | 13,861,680 | 9,661,152 | | | | 67,617,814 |
| Student Services | 9,380,825 | 810,404 | 8,030,748 | | 2,898 | | 18,224,875 |
| Institutional Support | 40,625,131 | 4,164,940 | 13,746,601 | | 23,426 | | 58,560,098 |
| Operations and Maintenance of Plant | 27,207,188 | 2,410,214 | 26,218,791 | | 35,105,592 | | 90,941,785 |
| Student Financial Aid | | | | $ 40,414,555 | | | 40,414,555 |
| Auxiliary Enterprises | 163,255,864 | 59,073,216 | 108,223,966 | | 10,240,995 | | 340,794,041 |
| Depreciation | | | | | | $ 48,517,249 | 48,517,249 |
| **Total Operating Expenses** | $ 829,473,249 | $ 148,324,265 | $ 364,831,514 | $ 40,414,555 | $ 45,452,167 | $ 48,517,249 | $ 1,477,012,999 |

# Note 12
# Pension Plans

## A. RETIREMENT PLANS

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

After five years of creditable service, 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 contributions rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002 these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002 the University had a total payroll of $690,345,877 of which $313,456,885 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $18,807,413 and $6,175,101, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $6,175,101, $16,111,000, and $24,505,000, respectively.

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/ 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 Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to any one of the carriers or may direct their contributions to one carrier and the University contributions to another. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contributions rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2002 these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

For the year ended June 30, 2002 the University had a total payroll of $690,345,877 of which $264,414,349 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were $15,864,860 and $18,085,942, respectively.

## 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 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 $279,942 for the year ended June 30, 2002.

### IRC SECTION 401(K) PLAN

All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University's law enforcement officers for the year ended June 30, 2002 were $86,326. The voluntary contributions by employees amounted to $2,159,498 for the year ended June 30, 2002.

### IRC SECTION 403(B) AND 403(B)(7) PLANS

Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $19,084,246 for the year ended June 30, 2002.

# NOTE 13
# OTHER POSTEMPLOYMENT BENEFITS

## A. HEALTH CARE FOR LONG-TERM DISABILITY BENEFICIARIES AND RETIREES

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 were 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 contributed 2.35% of the 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, 2002 the University's total contribution to the plan was $13,579,974. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

## B. LONG-TERM DISABILITY

The University participates in the Disability Income Plan of North Carolina (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 DIPNC. For the fiscal year ended June 30, 2002 the University's total contribution to the DIPNC was $3,004,930. The University assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

# NOTE 14
# RISK MANAGEMENT

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. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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 $11,000,000 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 North Carolina 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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible.

Other coverage not handled by the North Carolina 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. Beginning October 1, 2001 the plan no longer offers health coverage through 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 healthcare 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 $3,500,000 per occurrence and $12,000,000 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 $30,000,000 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, 2002 the University assets in the Fund totaled $15,945,529 while the University liabilities totaled $15,328,949, resulting in net assets of $616,580.

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, 2002 and 2001. 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 15 COMMITMENTS AND CONTINGENCIES

## A. COMMITMENTS

The University had commitments of $25,775,290 for various capital improvements projects that include construction and completion of new buildings, and renovations of existing buildings.

## B. PENDING LITIGATION AND CLAIMS

Litigation is still pending between NC School Boards Association, et. al. v. Harlan Boyles, et. al. which involves various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds rather than statutorily designated recipients. The complaint alleges in part that the monetary payments collected pursuant to statutory authority by the University for violations of parking and traffic regulations and library fines are "civil penalties" which the State Constitution requires to be paid to the School fund in the county where they are collected. The lawsuit seeks declaratory judgment that the State Civil Penalty and Forfeiture Fund, the State School Technology Fund, and the Public Settlement Reserve Fund are unconstitutional. On December 14, 2001 the Wake County Superior Court ruled in favor of the Plaintiffs but has stayed enforcement of the ruling, pending appeal. The Defendants did appeal this judgment. It is still too soon to identify what effect this litigation will have on the University's financial statements. At issue is approximately $6.7 million collected from December 1995 through June 2002 and $1.3 million annually thereafter representing fines, penalties, and forfeitures from the Public Safety department and the University libraries.

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 judgment, 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 on the Old Sanitary Landfill. The amount of the liability associated with this site 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 $2.5 billion 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 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 amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The University's remaining authorization of $458,621,100 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions, the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

### D. OTHER CONTINGENT RECEIVABLES

The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied, or in the case of permanent endowments, can not begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

| Purpose | Amount |
|---|---|
| **Pledges to Permanent Endowments** | $12,888,481 |

## NOTE 16
## 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 $16,949,101 for the year ended June 30, 2002.

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 17
# ACCOUNTING CHANGES

Effective July 1, 2001, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities*. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

# NOTE 18
# NET ASSET RESTATEMENTS

As of July 1, 2001 the net assets as previously reported were restated as a result of the implementation of GASB Statements Nos. 34, 35 and 38 (Note 17), and correction of errors in the reported balances of the fiscal year ended June 30, 2001.

| | |
|---|---|
| June 30, 2001 Net Assets as previously reported | $2,690,444,020 |
| Implementation of GASB Statements Nos 34 and 35 | (755,617,471) |
| Restatement due to corrections related to prior year implementation of GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions* | (15,802,089) |
| **July 1, 2001 Net Assets as Restated** | $1,919,024,460 |

# Statistical Section

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2002

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

Effective July 1, 2001, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities*. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

Due to these significant changes, the University has implemented GASB Statements Nos. 34, 35 and 38 for the current fiscal year only and has not restated prior years. Therefore, the University is presenting only one year of data in the statistical section, except for Specifiic Revenue and General Revenue Bond Coverage and demographic data which are not affected by the GASB implementation. For information purposes, selected ten years of statistical data is included in the "Historical Statistical Section," reproduced from the prior year CAFR.

# Operating and Nonoperating Revenues by Source

| | For the Year Ended June 30, 2002 | % |
|---|---|---|
| **Operating Revenues** | | |
| Student Tuition and Fees, net | $ 124,661,145 | 8% |
| Federal Grants and Contracts | 365,171,601 | 24% |
| State and Local Grants and Contracts | 38,512,136 | 3% |
| Nongovernmental Grants and Contracts | 75,536,237 | 5% |
| Patient Services, net | 137,035,225 | 9% |
| Sales and Services, net | 239,681,506 | 16% |
| Interest Earnings on Loans | 120,650 | 0% |
| Other Operating Revenues | 22,851,439 | 2% |
| **Total Operating Revenues** | $ 1,003,569,939 | 67% |
| **Nonoperating Revenues** | | |
| State Appropriations | $ 368,504,553 | 25% |
| Noncapital Gifts, net | 62,403,802 | 4% |
| Investment Income (net of Investment Expense of $2,220,237) | 52,956,614 | 4% |
| **Total Nonoperating Revenues** | $ 483,864,969 | 33% |
| **TOTAL REVENUES** | $ 1,487,434,908 | 100.0% |
| | | *(Percent of total revenues)* |

# Operating Expenses by Nature and Function

| | For the Year Ended June 30, 2002 | % |
|---|---|---|
| **Operating Expenses by Nature** | | |
| Salaries and Benefits | $ 829,473,249 | 56% |
| Supplies and Materials | 148,324,265 | 10% |
| Services | 364,831,514 | 25% |
| Scholarships and Fellowships | 40,414,555 | 3% |
| Utilities | 45,452,167 | 3% |
| Depreciation | 48,517,249 | 3% |
| **Total Operating Expenses by Nature** | $ 1,477,012,999 | 100% |
| | | *(Percent of total operating expenses by nature)* |

| | For the Year Ended June 30, 2002 | % |
|---|---|---|
| **Operating Expenses by Function** | | |
| Instruction | $ 497,770,880 | 34% |
| Research | 237,275,464 | 16% |
| Public Service | 76,896,238 | 5% |
| Academic Support | 67,617,814 | 5% |
| Student Services | 18,224,875 | 1% |
| Institutional Support | 58,560,098 | 4% |
| Operations and Maintenance of Plant | 90,941,785 | 6% |
| Student Financial Aid | 40,414,555 | 3% |
| Auxiliary Enterprises | 340,794,041 | 23% |
| Depreciation | 48,517,249 | 3% |
| **Total Opearating Expenses by Function** | $ 1,477,012,999 | 100% |
| | | *(Percent of total operating expenses by function)* |

# Summary of Ratios

## PRIMARY RESERVE RATIO

| | For the Year Ended June 30, |
|---|---|
| | **2002** |
| Unrestricted Net Assets | $ 346,545,802 |
| Expendable Restricted Net Assets | 705,592,337 |
| Less:Expendable Restricted for Capital Projects | (118,810,804) |
| **Expendable Net Assets** | $ 933,327,335 |
| Operating Expenses | $ 1,477,012,999 |
| Interest and Fees on Capital Asset-related Debt | 15,031,104 |
| Other Nonoperating Revenues (Expenses) | 7,661,489 |
| **Total Expenses** | $ 1,499,705,592 |
| **Expendable Net Assets** | $ 933,327,335 |
| **Total Expenses** | $ 1,499,705,592 |
| **Ratio** | 0.6 x |

Measures the financial strength of the institution by indicating how long the institution could function using its expendable reserves to cover operations should additional net assets not be available. A positive ratio and an increasing amount over time denotes strength.

## RETURN ON NET ASSETS RATIO

| | For the Year Ended June 30, |
|---|---|
| | **2002** |
| **Change in Net assets** | $ 45,393,586 |
| **Total Net Assets (Beginning of Year)** | $ 1,919,024,460 |
| **Ratio** | 2.4% |

Measures total economic return. While a increasing trend reflects strength, a decline may be appropriate and even warranted if it represents a strategy on the part of the institution to fulfill its mission.

## NET OPERATING REVENUES RATIO

| | For the Year Ended June 30, |
|---|---|
| | **2002** |
| Total Operating Revenues | $ 1,003,569,939 |
| State Appropriations | 368,504,553 |
| Noncapital Gifts, net | 62,403,802 |
| Investment Income, net | 52,956,614 |
| **Adjusted Net Operating Revenues** | $ 1,487,434,908 |
| **Income Before Other Revenues, Expenses, Gains, or Losses** | $ (12,270,684) |
| **Adjusted Net Operating Revenues** | $ 1,487,434,908 |
| **Ratio** | -0.8% |

Measures whether the institution is living within available resources. A positive ratio and an increasing amount over time, generally reflects strength.

# SUMMARY OF RATIOS (*continued*)

## OPERATING MARGIN EXCLUDING GIFTS

| | For the Year Ended June 30, 2002 |
|---|---|
| Income Before Other Revenues, Expenses, Gains, or Losses | $ (12,270,684) |
| Less: Noncapital Gifts, net | (62,403,802) |
| **Adjusted Income Before Other Revenues, Expenses, Gains, or Losses** | $ (74,674,486) |
| | |
| Total Operating Revenues | $ 1,003,569,939 |
| State Appropriations | 368,504,553 |
| Investment Income, net | 52,956,614 |
| **Adjusted Net Operating Revenues less Gifts** | $ 1,425,031,106 |
| | |
| **Adjusted Income Before Other Revenues, Expenses, Gains, or Losses** | $ (74,674,486) |
| **Adjusted Net Operating Revenues less Gifts** | $ 1,425,031,106 |
| | |
| **Ratio** | -5.2% |

A more restrictive measure of whether the institution is living within available resources. A positive ratio and an increasing amount over time, generally reflects strength.

## VIABILITY RATIO

| | For the Year Ended June 30, 2002 |
|---|---|
| Unrestricted Net Assets | $ 346,545,802 |
| Expendable Restricted Net Assets | 705,592,337 |
| Less:Expendable Restricted for Capital Projects | (118,810,804) |
| **Expendable Net Assets** | $ 933,327,335 |
| | |
| **Expendable Net Assets** | $ 933,327,335 |
| **Total Notes, Bonds, Capital Leases and Commercial Paper** | $ 389,360,566 |
| | |
| **Ratio** | 2.4 x |

Measures the ability of the institution to cover its debt as of the balance sheet date, should the institution need to do so. A positive ratio of greater than 1:1 denotes strength, however this ratio can be misleading.

# SUMMARY OF RATIOS (*continued*)

## TOTAL FINANCIAL RESOURCES TO DIRECT DEBT

| | For the Year Ended June 30, |
|---|---|
| | **2002** |
| Unrestricted Net Assets | $ 346,545,802 |
| Nonexpendable Restricted Net Assets | 304,096,632 |
| Expendable Restricted Net Assets | 705,592,337 |
| **Total Financial Resources** | $ 1,356,234,771 |
| | |
| **Total Financial Resources** | $ 1,356,234,771 |
| **Total Notes, Bonds, Capital Leases and Commercial Paper** | $ 389,360,566 |
| | |
| **Ratio** | 3.5 x |

A broader measure of the ability of the institution to cover its debt as of the balance sheet date.

## DEBT BURDEN RATIO

| | For the Year Ended June 30, |
|---|---|
| | **2002** |
| Interest and Fees Paid on Capital Debt and Leases | $ 21,117,301 |
| Principal Paid on Capital Debt and Leases | 14,130,000 |
| | |
| **Debt Service** | $ 35,247,301 |
| | |
| Operating Expenses | $ 1,477,012,999 |
| Interest and Fees on Capital Asset-related Debt | 15,031,104 |
| Other Nonoperating Revenues (Expenses) | 7,661,489 |
| Less: Depreciation Expense | (48,517,249) |
| Plus: Principal Paid on Capital Debt and Leases | 14,130,000 |
| **Total Expenditures** | $ 1,465,318,343 |
| | |
| **Debt Service** | $ 35,247,301 |
| **Total Expenditures** | $ 1,465,318,343 |
| | |
| **Ratio** | 2.4% |

Measures the financial strength of the institution by indicating how long the institution could function using its expendable reserves to cover operations should additional net assets not be available. A positive ratio and an increasing amount over time denotes strength.

# SUMMARY OF RATIOS (*continued*)

## DIRECT DEBT TO ADJUSTED CASH FLOW

| | For the Year Ended June 30, |
|---|---|
| | **2002** |
| Net Cash Used by Operating Activities | $ (403,993,881) |
| State Appropriations | 368,504,553 |
| Grants for Other than Capital Purposes | 3,890,817 |
| Noncapital Gifts | 53,150,901 |
| **Adjusted Cash Flow from Operations** | $ 21,552,390 |
| | |
| **Total Notes, Bonds, Capital Leases and Commercial Paper** | $ 389,360,567 |
| **Adjusted Cash Flow from Operations** | $ 21,552,390 |
| | |
| **Ratio** | 18.1 x |

Measures the financial strength of the institution by indicating how long the institution would take to repay the debt using the cash provided by its operations. A decreasing ratio over time denotes strength.

## RESEARCH EXPENSES TO TOTAL OPERATING EXPENSES

| | For the Year Ended June 30, |
|---|---|
| | **2002** |
| Operating Expenses | $ 1,477,012,999 |
| Interest and Fees on Capital Asset-related Debt | 15,031,104 |
| Other Nonoperating Revenues (Expenses) | 7,661,489 |
| **Total Adjusted Operating Expenses** | $ 1,499,705,592 |
| | |
| **Research Expenses** | $ 237,275,464 |
| **Total Adjusted Operating Expenses** | $ 1,499,705,592 |
| | |
| **Ratio** | 15.8% |

Measures the Institution's research expense to the total operating expenses.

# SUMMARY OF RATIOS (*continued*)

## NET TUITION PER STUDENT

| | For the Year Ended June 30, 2002 |
|---|---|
| Student Tuition and Fees, net | $ 124,661,145 |
| Less: Scholarships and Fellowships | (40,414,555) |
| **Net Tuition and Fees** | $ 84,246,590 |
| | |
| **Net Tuition and Fees** | $ 84,246,590 |
| **Undergraduate, Graduate and Professional FTE** | 23,517 |
| | |
| **Net Tuition per Student** | $ 3,582 |

Measures the institution's net student tution and fees received per student.

## STATE APPROPRIATION PER STUDENT

| | For the Year Ended June 30, 2002 |
|---|---|
| **State Appropriations** | $ 368,504,553 |
| **Undergraduate, Graduate and Professional FTE** | 23,517 |
| | |
| **State Appropriation per Student** | $ 15,670 |

Measures Institution's dependency on state appropriations.

# Specific Revenue and General Revenue Bond Coverage

## LAST TEN FISCAL YEARS

On May 7, 2002 and February 7, 2001, the University issued General Revenue Bonds which are repaid from Available Funds. Available Funds are defined as any unrestricted Net Assets remaining after satisfying obligations of the University under trust indentures, trust agreements or bond resolutions (Specific Revenue Bonds), 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) |
|---|---|---|---|---|---|
| | **2002** | **2001** | **2000** | **1999** | **1998** |
| **Specific Revenue Bond Coverage** | | | | | |
| Gross Operating Revenues | $ 102,042 | $ 92,977 | $ 250,316 | $ 246,610 | $ 226,567 |
| Direct Operating Expenses | 73,720 | 64,808 | 214,212 | 208,753 | 189,205 |
| **Net Revenue Available for Debt Service** | $ 28,322 | $ 28,169 | $ 36,104 | $ 37,857 | $ 37,362 |
| Principal | $ 10,090 | $ 9,195 | $ 11,601 | $ 10,128 | $ 8,913 |
| Interest | 8,433 | 10,203 | 11,351 | 11,008 | 10,634 |
| **Specific Revenue Debt Service Requirements** | $ 18,523 | $ 19,398 | $ 22,952 | $ 21,136 | $ 19,547 |
| **Coverage** | **1.53** | **1.45** | **1.57** | **1.79** | **1.91** |

| | | | For the Year Ended June 30, | | (in thousands) |
|---|---|---|---|---|---|
| | **2002(1)** | **2001** | **2000** | **1999** | **1998 (2)** |
| **Available Funds General Revenue Bonds** | | | | | |
| Total Unrestricted Revenue | $ 955,138 | $ 1,009,353 | $ 924,667 | $ 877,492 | $ 819,645 |
| Less: | | | | | |
| State Appropriations | (368,505) | (402,205) | (383,189) | (382,372) | (352,283) |
| Tuition and Fees | (124,661) | (139,319) | (121,507) | (110,400) | (105,745) |
| Specific Revenue Debt Service Requirements | (18,523) | (19,398) | (22,952) | (21,136) | (19,547) |
| Plus: | | | | | |
| Beginning Unrestricted Net Assets | 392,613 | 354,936 | 347,359 | 310,896 | 300,367 |
| **Total Available Funds** | $ 836,062 | $ 803,367 | $ 744,378 | $ 674,480 | $ 642,437 |
| *Annual Increase* | $ 32,695 | $ 58,989 | $ 69,898 | $ 32,043 | $ 67,308 |
| *% Increase* | 4.1% | 7.9% | 10.4% | 5.0% | 11.7% |

| | | | For the Year Ended June 30, | | (in thousands) |
|---|---|---|---|---|---|
| | **2002** | **2001** | **2000** | **1999** | **1998** |
| **General Revenue Bond Coverage** | | | | | |
| Total Available Funds | $ 836,062 | $ 803,367 | $ 744,378 | $ 674,480 | $ 642,437 |
| Principal | $ 4,060 | $2,840 | | | |
| Interest | 7,094 | 5,012 | | | |
| **General Revenue Debt Service Requirements** | $ 11,154 | $ 7,852 | n/a | n/a | n/a |
| **Coverage** | **74.96** | **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.

(1) For fiscal year ended June 30, 2002, the Univerity implemented GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments as amended by GASB Statement No. 35, Basic Financial Statements - and Management's Discussion and Analaysis - for Public Colleges and Universities. In addition, the University implmented GASB Statement No. 38, Certain Financial Statement Note Disclosures. The definition of available funds has not changed as a result of implementing these GASB Statements.

(2) 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.

(3) 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) |
|---|---|---|---|---|---|
| | **1997** | **1996** | **1995** | **1994** | **1993** |
| **Specific Revenue Bond Coverage** | | | | | |
| Gross Operating Revenues | $ 228,228 | $ 205,387 | $ 189,346 | $ 175,567 | $ 147,086 |
| Direct Operating Expenses | 177,793 | 158,584 | 147,847 | 140,552 | 125,555 |
| **Net Revenue Available for Debt Service** | $ 50,435 | $ 46,803 | $ 41,499 | $ 35,015 | $ 21,531 |
| Principal | $ 8,279 | $ 7,743 | $ 6,217 | $ 5,794 | $ 3,450 |
| Interest | 11,063 | 11,610 | 13,937 | 13,264 | 12,192 |
| **Specific Revenue Debt Service Requirements** | $ 19,342 | $ 19,353 | $ 20,154 | $ 19,058 | $ 15,642 |
| **Coverage** | **2.61** | **2.42** | **2.06** | **1.84** | **1.38** |

| | For the Year Ended June 30, | | | | (in thousands) |
|---|---|---|---|---|---|
| | **1997** | **1996** | **1995** | **1994 (3)** | **1993** |
| **Available Funds General Revenue Bonds** | | | | | |
| Total Unrestricted Revenue | $ 776,658 | $ 709,447 | $ 682,180 | $ 641,932 | $ 591,534 |
| Less: | | | | | |
| State Appropriations | (331,650) | (308,245) | (302,337) | (283,826) | (270,700) |
| Tuition and Fees | (102,277) | (88,478) | (81,465) | (75,531) | (66,718) |
| Specific Revenue Debt Service Requirements | (19,342) | (19,353) | (20,154) | (19,058) | (15,642) |
| Plus: | | | | | |
| Beginning Unrestricted Net Assets | 251,740 | 225,795 | 206,190 | 192,164 | 177,118 |
| **Total Available Funds** | $ 575,129 | $ 519,166 | $ 484,414 | $ 455,681 | $ 415,592 |
| *Annual Increase* | $ 55,963 | $ 34,752 | $ 28,733 | $ 40,089 | n/a |
| *% Increase* | 10.8% | 7.2% | 6.3% | 9.6% | n/a |

| | For the Year Ended June 30, | | | | (in thousands) |
|---|---|---|---|---|---|
| | **1997** | **1996** | **1995** | **1994** | **1993** |
| **General Revenue Bond Coverage** | | | | | |
| Total Available Funds | $ 575,129 | $ 519,166 | $ 484,414 | $ 455,681 | $ 415,592 |
| Principal | | | | | |
| Interest | | | | | |
| **General Revenue Debt Service Requirements** | n/a | n/a | n/a | n/a | n/a |
| **Coverage** | | | | | |

# Admissions, Enrollment and Degree Statistics

LAST TEN FISCAL YEARS

| | Fall Enrollment of Fiscal Year | | | | |
|---|---|---|---|---|---|
| | **2001-2002** | **2000-2001** | **1999-2000** | **1998-99** | **1997-98** |
| **Admissions - Freshmen** | | | | | |
| Applications | 15,946 | 16,569 | 16,021 | 16,827 | 15,554 |
| Accepted | 6,339 | 6,088 | 6,176 | 6,041 | 6,050 |
| Enrolled | 3,687 | 3,415 | 3,396 | 3,437 | 3,417 |
| Accepted as a Percentage of Applications | 39.8% | 36.7% | 38.5% | 35.9% | 38.9% |
| Enrolled as a Percentage of Accepted | 58.2% | 56.1% | 55.0% | 56.9% | 56.5% |
| Average SAT Scores - Total | 1,257 | 1,251 | 1,245 | 1,230 | 1,220 |
| Verbal | 623 | 622 | 620 | 613 | 609 |
| Math | 634 | 629 | 625 | 617 | 611 |
| **Enrollment** | | | | | |
| Undergraduate, Graduate and Professional FTE | 23,517 | 23,000 | 22,761 | 21,940 | 21,794 |
| Undergraduate, Graduate and Professional Headcount | 25,464 | 24,872 | 24,635 | 24,238 | 24,189 |
| Men (Headcount) | 10,344 | 10,090 | 10,028 | 9,854 | 10,002 |
| Percentage of Total | 40.6% | 40.6% | 40.7% | 40.7% | 41.3% |
| Women (Headcount) | 15,120 | 14,782 | 14,607 | 14,384 | 14,187 |
| Percentage of Total | 59.4% | 59.4% | 59.3% | 59.3% | 58.7% |
| African American (Headcount) | 2,490 | 2,398 | 2,419 | 2,402 | 2,364 |
| Percentage of Total | 9.7% | 9.6% | 9.8% | 9.9% | 9.8% |
| White (Headcount) | 19,720 | 19,547 | 19,515 | 19,318 | 19,348 |
| Percentage of Total | 77.3% | 78.5% | 79.2% | 79.7% | 80.0% |
| Other (Headcount) | 3,254 | 2,927 | 2,701 | 2,518 | 2,477 |
| Percentage of Total | 12.9% | 11.9% | 11.0% | 10.4% | 10.2% |
| **Degrees Granted** | | | | | |
| Bachelor's | 3,477 | 3,444 | 3,406 | 3,669 | 3,568 |
| Master's | 1,679 | 1,726 | 1,550 | 1,464 | 1,489 |
| Doctoral | 398 | 425 | 374 | 382 | 389 |
| Professional | 599 | 588 | 571 | 584 | 476 |

Source: University of North Carolina at Chapel Hill Fact Book.

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

# Faculty and Staff Statistics

LAST TEN FISCAL YEARS

| | Fall Employment of Fiscal Year | | | | |
|---|---|---|---|---|---|
| | **2001-2002** | **2000-2001** | **1999-2000** | **1998-99** | **1997-98** |
| **Faculty** | | | | | |
| Full-time | 2,598 | 2,488 | 2,601 | 2,477 | 2,421 |
| Part-time | 322 | 294 | 260 | 260 | 239 |
| **Total Faculty** | 2,920 | 2,782 | 2,861 | 2,737 | 2,660 |
| **Percentage Tenured** | 52.1% | 53.9% | 51.9% | 54.6% | 56.2% |
| **Staff and EPA Non-Faculty** | | | | | |
| Full-time | 1,034 | 993 | 784 | 725 | 674 |
| Part-time | 97 | 92 | 63 | 56 | 53 |
| **EPA Non-Faculty** | 1,131 | 1,085 | 847 | 781 | 727 |
| Full-time | 5,782 | 5,574 | 5,996 | 5,790 | 5,587 |
| Part-time | 278 | 284 | 307 | 311 | 314 |
| **SPA** | 6,060 | 5,858 | 6,303 | 6,101 | 5,901 |
| Total Full-time | 6,816 | 6,567 | 6,780 | 6,515 | 6,261 |
| Total Part-time | 375 | 376 | 370 | 367 | 367 |
| **Total Staff and EPA Non-Faculty** | 7,191 | 6,943 | 7,150 | 6,882 | 6,628 |

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

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

Source: University of North Carolina at Chapel Hill Fact Book.

# Historical Statistical Section

Chapel Hill, North Carolina | Fiscal Year Ended June 30, 2002

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

# Unrestricted General and Restricted Current Funds Revenues By Source

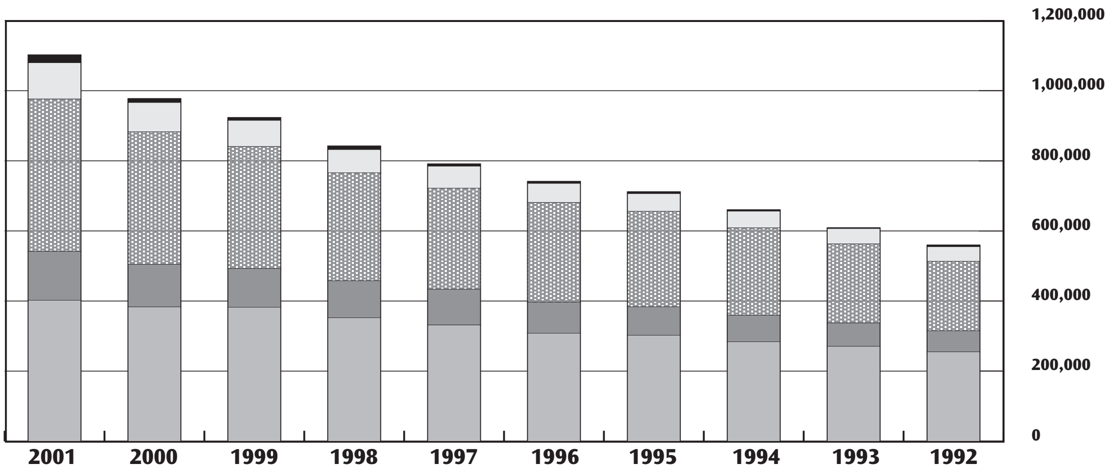
LAST TEN FISCAL YEARS

(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

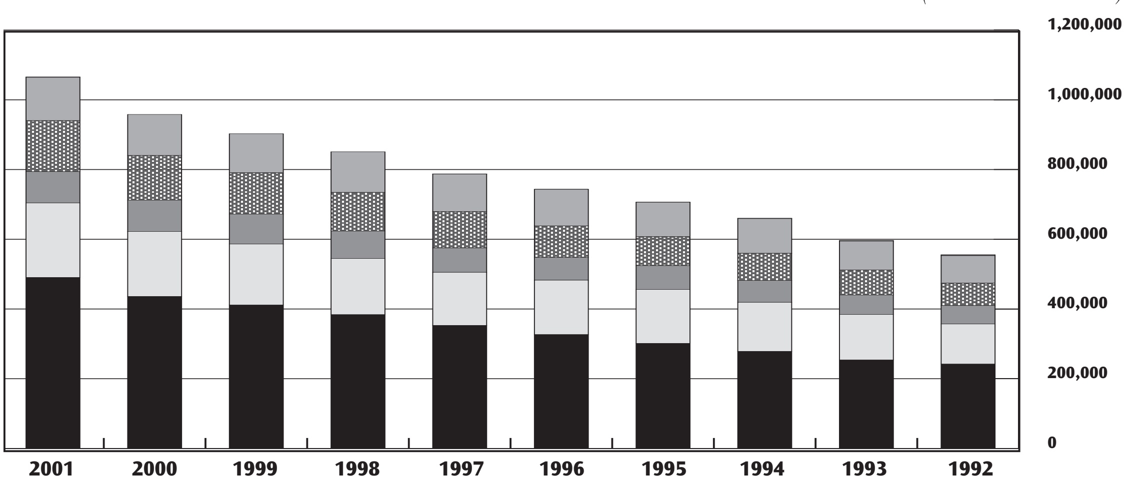
LAST TEN FISCAL YEARS

(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, 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** |

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

*(dollars in thousands)*



(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** |

*(percent of total current funds revenues)*

| | | | | | |
|---|---|---|---|---|---|
| **Consumer Price Index** | 178.0 | 172.4 | 166.2 | 163.0 | 160.3 |

(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)*

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| **Consumer Price Index** | 156.7 | 152.5 | 148.0 | 144.4 | 140.2 |

# 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%** |

# Gross Debt Service Coverage

LAST TEN FISCAL YEARS

| | For the Year Ended June 30, | | | | (in thousands) |
|---|---|---|---|---|---|
| | **2001** | **2000** | **1999** | **1998** | **1997** |
| 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, | | | | (in thousands) |
|---|---|---|---|---|---|
| | **2001** | **2000** | **1999** | **1998** | **1997** |
| 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** |