THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

Comprehensive Annual Financial Report 2007

FISCAL YEAR ENDED JUNE 30, 2007 | CHAPEL HILL, NORTH CAROLINA

A Constituent Institution of the University of North Carolina System
and a Component Unit of the State of North Carolina

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Prepared by the Controller's Office

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

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"This University is on an incredible roll. There is a lot to celebrate in Chapel Hill because we are making progress on virtually every priority that we have set for ourselves. Every part of the University is positioned for the kind of distinction that we expect at Carolina."

— JAMES MOESER

This University is on an incredible roll. That is a great tribute to our students, faculty, staff, trustees, alumni, parents and friends, as well as President Bowles and the leaders of the UNC system and North Carolina.

This fall we enrolled the most academically prepared first-year class from a record 20,000 applications. Our first class of Carolina Covenant Scholars became seniors and will graduate next May. Oliver Smithies, Excellence Professor of Pathology and Laboratory Medicine, received the Nobel Prize for work that has fundamentally changed the science of genetic medicine and laid the foundation for gene therapy research. The North Carolina General Assembly created what will become an annual $50 million fund for cancer research. We dedicated the FedEx Global Education Center, a symbol of our commitment to global education. The Carolina First Campaign, now drawing to a close, has been a spectacular success.

Those are just a few recent major milestones. There is a lot to celebrate in Chapel Hill because we are making progress on virtually every priority that we have set for ourselves. Every part of the University is positioned for the kind of distinction that we expect at Carolina. Following are a few details about some recent developments important to the University's future.

State Budget Positions Carolina for Success

The North Carolina General Assembly's most recent budget may be the best in the University's history. Our legislators made a stunning series of allocations including meaningful salary increases for faculty, a well-deserved raise for our staff and the creation of the University Cancer Research Fund that will help put Chapel Hill on the map as one of the nation's pre-eminent institutions leading cancer research. Other highlights included significant recurring funds to support excellence in the School of Law, capital construction for genomics and dentistry, and new faculty positions for the nutrition institute at the Kannapolis research campus.

Enhancing the Learning Environment

This year's first-year class is again the most academically qualified in Carolina's history. The average SAT score was 1302, and 77 percent of our newest students graduated in the top 10 percent of their high school class. This year's class is also more diverse than ever.

Carolina leads the nation in access and affordability. Through several key policy decisions, Carolina has become more affordable to a larger number of North Carolinians than ever before. ***Kiplinger's Personal Finance*** magazine has concluded six consecutive times that we are the best academic value in public higher education.

Strengthening Faculty Resources

We have improved how we pay, recruit and retain faculty, this University's number one priority. Our goal is to take average faculty salaries up to the 80th percentile of our peers. We are roughly at the 50th percentile, and we may reach the 80th percentile as early as next year. State appropriations helped slash the gap between current salaries and the 80th percentile from about $21 million last year to $11 million this year for all tenure and tenure-track faculty. This is real progress.

More competitive salaries are helping recruitment and retention. Last year we retained 72 percent of faculty who received outside offers to whom we made counter offers. We received almost $1 million from the recruitment and retention fund created by the Legislature at President Bowles' request. Those dollars helped attract nine nationally known scholars and keep six of our strongest faculty who received outside offers.

Nurturing Research and Creativity

Total grants and contracts grew by 2.9 percent in 2007 to over $610 million — more than double where we were a decade ago. These gains came even as funding from the National Institutes of Health began to shrink after its budget doubled in the 1990s. Our strategy of investing in big ideas, pulling together our strongest programs across the campus, has worked. This approach has paid big dividends in genomics, advanced material science and nanotechnology.

Creating the Margin for Excellence

The Carolina First Campaign, the most successful fund-raising effort in University history, ends in December 2007 well over the $2 billion goal. We exceeded that goal last February when we recorded the largest single pledge in UNC history, the $50 million commitment to the School of Public Health by Dennis and Joan Gillings. Our campaign total does not include the magnificent $100 million gift to the John Motley Morehead Foundation from the Gordon and Mary Cain Foundation, nearly doubling its endowment.

The American Society of Landscape Architects selected Carolina as one of the most beautifully landscaped spots in the country. That listing is among the praise affirming the charm of mighty oaks, majestic quadrangles, brick sidewalks and other landscaping synonymous with the UNC campus.

The campaign has exceeded its goal of creating 200 new endowed professorships. For students, our donors have established 544 undergraduate scholarships and 188 graduate fellowships. Our endowment has surpassed $2 billion, over twice what it was seven-and-a-half years ago, a result of gifts and successful endowment management.

Chancellor Moeser reads to a third-grade class during an elementary school visit. Through visits across the state as part of his "Carolina Connects" initiative, the chancellor has been highlighting and enhancing the University's focus on education, health and economic development — the issues identified as the most important by state citizens during listening sessions conducted by the University.

Transforming the Physical Campus

Our massive building program is adding 6 million square feet to the main campus. This program is grounded in core values of architectural quality and sustainability. The 2000 Higher Education Bonds brought $515 million for new buildings and renovations, and we more than kept our promise to triple this investment by North Carolina taxpayers. We have completed nearly 80 percent of those 49 bond projects and expect to finish in January 2009 within two months of our original projection — and on budget.

The total $2.1 billion building program, including projects funded by gifts, research grants and our own revenues, is giving the campus community the physical space in which to excel in ways we have never been able before. One of America's most beautiful campuses is becoming even more beautiful.

Through the successful renovation of Memorial Hall, planning for the Arts Common and a reorganized management model for the arts, the University has positioned itself as a performing arts destination for patrons and an excellent cause for donors to support. The Memorial Hall renovation was made possible by the state bond referendum and gifts. Progress on the Arts Common is now highly visible, with renovations under way for Person and Gerrard halls, along with Old Playmakers, a National Historic Landmark, and with construction on a new music building.

Carolina Connects: Serving North Carolina

Carolina has a long and cherished tradition of service to North Carolina, but we can and must do more. Our ongoing work on this campus ties in naturally with the University of North Carolina Tomorrow Commission created by the Board of Governors and led by President Bowles. We are continuing our "Carolina Connects" initiative, launched in 2004, to listen to the people, to understand their needs, and to show what this University, with its statewide mission, is doing or ought to be doing to serve them. Our focus is on how this University touches people's lives in all 100 counties of North Carolina in the issues that matter most to them — their health, the education of their children, and the economic prosperity of their region.

Advancing Carolina North: Our Future

Carolina North will be critical to our ability to help build the 21st Century economy for North Carolina. Finally, after years of study and conversation, we are ready to begin. The Board of Trustees has approved our plan for Carolina North. Next is formal submission of that plan to the Town of Chapel Hill. We have identified our first building for Carolina North — an Innovation Center, where fledgling companies, using intellectual capital drawn from faculty research, can take their very first steps toward full viability. At Carolina North, we will create strategic private-sector partnerships that will enable this University to be a more powerful force in the state's economy.

Bringing the World to North Carolina

The University has taken some critical steps toward becoming a great global university, bringing the world to North Carolina and taking North Carolina to the world. This fall, we dedicated the FedEx Global Education Center and convened for the first time the Global Leadership Circle, a task force of visionary alumni and friends, to help us develop a strategic vision for global engagement.

Ultimately, achieving our global objectives may be one of the most important things we do for our state. North Carolina's competition is not South Carolina or Georgia. It is Singapore, China and India. This University must be a presence in the world so that North Carolina can compete in the world.

Stepping Down But Not Leaving Carolina

During my State of the University speech in September, I announced my decision to step down as chancellor on June 30, 2008, the end of the fiscal year. This timing gives the Board of Trustees the opportunity to complete a search for my successor. This is not a retirement. After a research leave, I will return to hold the most exalted title this University can confer: professor. The state of the University is excellent, and the time is right for change. Susan and I have come to love Carolina with every fiber of our being. We understand the strong pull that Chapel Hill has on the hearts of students and their families that lasts a lifetime. My focus this year is on working hard to keep the University's momentum strong.

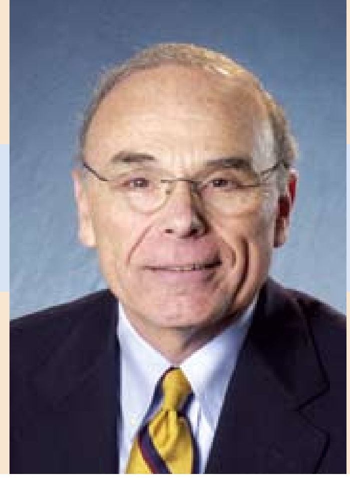
Conclusion

2006–2007 was one of the best years ever for this University. We made remarkable progress toward University priorities. The North Carolina General Assembly provided exceptional support, recognizing the role this University and public higher education plays in advancing the state's interests. Our alumni and friends generously supported the Carolina First Campaign to promote future excellence in Chapel Hill. We also remain committed to accountability — to our legislators and the taxpayers — in all that we do.

Sincerely,

JAMES MOESER

07 LETTER OF TRANSMITTAL



December 7, 2007

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, 2007, as well as other useful information that helps ensure the University's accountability to the public. Responsibility for the accuracy of the information and for the completeness and fairness of its presentation, including all disclosures, rests with the University's management. We believe the information is accurate in all material respects and fairly presents the University's financial position, revenues, expenses, and other changes in net assets. We believe our system of internal controls is sound and sufficient to disclose material deficiencies in controls to the auditors and the Audit and Finance Committee. The *Comprehensive Annual Financial Report* includes all disclosures necessary for the reader to gain a broad understanding of the University's financial position and results of operations for the fiscal year ended June 30, 2007.

The accompanying financial statements present all funds belonging to the University and its component units. While the multi-campus University of North Carolina System's Board of Governors has ultimate responsibility, the chancellor, the University's 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.

The financial reporting entity for the financial statements is comprised of the University and 11 component units. Eight of these, although legally separate, are reported as if they were part of the University. These include The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund), UNC Investment Fund, LLC (System Fund), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc., The Kenan-Flagler Business School Foundation, The School of Social Work Foundation, Inc., The School of Education Foundation, Inc., and U.N.C. Law Foundation, Inc.

The Investment Fund supports the University by operating an investment fund for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The System Fund was organized to allow the University, the University of North Carolina and its constituent institutions (UNC System), affiliated foundations, associations, trusts, as well as endowments that support the University and the UNC System to pool their resources and invest collectively in investment opportunities identified, structured and arranged by the Management Company. The Investment Fund contributed and assigned all of its assets to the System Fund in exchange for membership interest in the System Fund. At year end, the Investment Fund membership interest was approximately 91.8 percent of the System Fund total membership interest.

The Management Company is organized and operated exclusively to support the educational mission of the University. The Management Company also provides investment management services to the University, UNC System, and affiliated tax-exempt organizations. The purpose of the UNC-CH Foundation, Business School Foundation, Social Work Foundation, School of Education Foundation, and U.N.C. 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, System Fund, Management Company, UNC-CH Foundation, Business School Foundation, Social Work Foundation, School of Education Foundation, and U.N.C. Law Foundation have been blended with those of the University.

Separate financial statements for three other component units are reported based on Governmental Accounting Standards Board (GASB) Statement No. 39. The Medical Foundation of North Carolina, Inc., The Educational Foundation Scholarship Endowment Trust, and The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. are legally separate, non-profit, tax-exempt organizations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements. The University of North Carolina at Chapel Hill is a constituent institution of the multi-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

In 2006, the North Carolina economy grew more rapidly than the national average for the second consecutive year. This used to be a normal trend except during national recessions, but the state's growth pace trailed the national average from 1999–2004.

According to a June 7, 2007, release from the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce, the state's real gross domestic product ("real GDP," the total value of all the goods and services produced within North Carolina after adjusting for price changes) was a record $323.2 billion in 2006, an increase of 4.2 percent from 2005. This was 2.9 percent of the U.S. total of $11.3 trillion, an increase of 3.4 percent from 2005. North Carolina's output ranked 11th among all states. It was just below Georgia's $331.1 billion and just above Virginia's $318.7 billion.

Per capita real GDP was a record $36,489 in North Carolina in 2006. This ranked 20th in the U.S. between Texas at $36,920 and Nebraska at $36,441. It was 97 percent of the national average of $37,714. Delaware was first at $59,288 and Mississippi was last at $24,062. South Carolina was 45th at $29,642.

On September 20, 2007, the BEA reported that personal income in North Carolina in the second quarter was running at a record seasonally adjusted annual rate of $304.7 billion. That was an increase of 7.3 percent from the second quarter of 2006. This was above the national average increase of 6.4 percent for the same period.

The U.S. Census Bureau estimated the total population of North Carolina at 8.9 million people in 2006. That was an increase of 10.1 percent since 2000, well above the national average of 6.4 percent.

Non-farm payroll employment has finally returned to strong growth after being below the January 2001 peak of more than 3.9 million jobs until November 2005. According to a Bureau of Labor Statistics (BLS) release of September 25, 2007, there were over 4 million such jobs in North Carolina in August 2007. That was an increase of 66,700 jobs or 1.65 percent from a year earlier.

Total employment, which includes agricultural workers and the self-employed, reached 4.3 million in August. That was up 32,700 people, or 0.8 percent from a year earlier.

All of these people employed and the record levels of income have been reflected in the North Carolina budget. After a surplus of $1.1 billion in fiscal 2006, the increase in revenues to $19.5 billion in fiscal 2007 resulted in a budget surplus of $1.3 billion.

All the concern about subprime mortgage defaults and rising foreclosures in the national media are not very relevant to North Carolina. We have much less expensive housing than the national average and a far higher proportion of people paying their mortgages as agreed. The declines in interest rates should help North Carolina again grow faster than the national average in calendar year 2008.

PROGRESS AND MAJOR INITIATIVES

Carolina's progress, priorities, and major initiatives during fiscal 2006–2007 reflected the University's vision of becoming the nation's leading public university. Following this letter are recent highlights.

FINANCIAL INFORMATION

INTERNAL CONTROL STRUCTURE

The University's Finance and Administration Division establishes and maintains an effective system of internal control. One objective of an internal control structure is to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. Another objective is to ensure 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. 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.

The University determined a course of action as part of higher education's response to the Sarbanes-Oxley Act and has implemented practices to enhance the internal control structure. The University's focused effort on financial controls provides a more proactive and broader approach in identifying and resolving potential limitations on sound internal control through a self-assessment process, development of a professional code of ethics, targeted campus training sessions, special reviews, improved documentation of internal controls, and timely and useful responses to questions from campus units. A financial controls manager leads efforts to strengthen and maintain sound internal controls. The Audit and Finance Committee of the Board of Trustees maintains an Audit Committee charter consistent with higher education standards.

BUDGETARY CONTROLS

The University is responsible for controlling its budget and using the funds to fulfill its educational, research, and public service missions. It is also responsible for planning, developing, and controlling budgets and expenditures within authorized allocations 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, and as further directed by the Board of Governors. 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 to the state. 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 financing needs for its capital investments within the framework of portfolio management practices.

To fulfill its mission, the University makes capital investments, driving capital decisions that affect 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's 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 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 rating 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 strategic objectives. The University will limit its overall debt to a level that will maintain an acceptable credit rating with the bond rating agencies.

In meeting these objectives, the University has adopted strategies and procedures for the management of its debt. These strategies include the following:

- ***Mission-based capital planning.*** Provide framework with a link to mission to evaluate and prioritize debt-eligible projects.
- ***Core ratios.*** Adopt a set of core ratios to guide capital planning and ensure central oversight of University-wide leverage levels.
- ***Financial instruments.*** Provide management with appropriate debt vehicles based on borrowing needs.
- ***Asset/Liability management.*** Manage outstanding debt and future debt-financing needs within the framework of sound portfolio management practices.

The University has $785,306,805 of outstanding long-term bonds and $192,414,000 of commercial paper at June 30, 2007. The bonds were issued to finance the construction and/or renovation of many campus facilities including essential new research buildings, major new cultural facilities that will benefit the local community and state, undergraduate residence halls, student family housing, parking facilities, and utilities infrastructure. Principal and interest for the bonds are payable from the general revenues of the University — excluding state appropriations, tuition, restricted gifts and restricted income from endowment investments — and net revenues generated by the operations of the debt-financed facilities.

The UNC-CH Foundation, which is part of the University's financial reporting entity, also adheres to a debt policy that maximizes the utility of the foundation's financial resources to continue to provide current and future support to the University.

CASH MANAGEMENT

The cash management plan of the University provides guidance to ensure control and deposit of receipts, appropriate management of disbursements, and investment of funds to maximize earnings on the investment of cash and minimize non-productive cash balances. State law requires that state-appropriated funds be deposited and invested 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. These funds, except for fees from services of health care clinics, must be deposited and invested with the State Treasurer with investment earnings accruing to the University. Endowment, debt service, fees from services of health care clinics, and other designated 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 no less than the State Treasurer. Earnings are distributed to participating funds.

The objective in managing disbursements is to maintain funds in interest-bearing accounts for the longest appropriate period of time while ensuring that payments for goods and services are made timely. Disbursement cycles are established to coincide with this objective. 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. Other electronic processes have been developed for the receipt and disbursement functions to provide efficient and effective processes.

RISK MANAGEMENT

Risk has traditionally been viewed as something to be avoided or eliminated with only a negative outcome. Increasingly in today's environment, there is greater awareness that responsible risk taking leads to a competitive advantage and can maximize stakeholder value.

To optimize the benefits of risk and minimize their costs, the University has taken a more enterprise-wide approach to its risk management programs by holistically addressing its operational, financial, compliance, strategic and reputation risks. This enterprise risk management ensures that decisions that trade value and risk are made on an informed basis and are aligned with our risk tolerance and strategy. The risks we face constantly change so our strategies must remain fluid. This ongoing process allows us to prioritize and efficiently use our risk management resources.

Included within this enterprise risk management framework is our responsibility to mitigate any business interruption that adversely affects our education, research and public service missions. An effective campus-wide Business Continuity Plan is central to this responsibility. The University employs a full-time business continuity officer position to lead this campus-wide planning process and develop a more formal program.

Insurable 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 15 of the Notes to the Financial Statements for more detailed information concerning the University's insurance programs.

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. The University's internal auditors also perform fiscal, compliance, and performance audits. The reports resulting from these audits are shared with University management. Internal and external audit reports are provided to the Audit and Finance Committee of the Board of Trustees.

The audit of the University's federal financial assistance programs is performed by the Office of the State Auditor in conjunction with the statewide Single Audit. The accounting and financial records of The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc., The University of North Carolina at Chapel Hill Foundation, Inc., UNC Investment Fund, LLC, UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, The School of Social Work Foundation, Inc., The School of Education Foundation, Inc., The U.N.C. Law Foundation, Inc., the University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc., The Medical Foundation of North Carolina, Inc., the Educational Foundation Scholarship Endowment Trust, WUNC Radio, and the Athletic Department are each audited by a public accounting firm in addition to the State Auditor review. All 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 for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the 12th consecutive year that the University has been honored with this prestigious award. To receive 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.

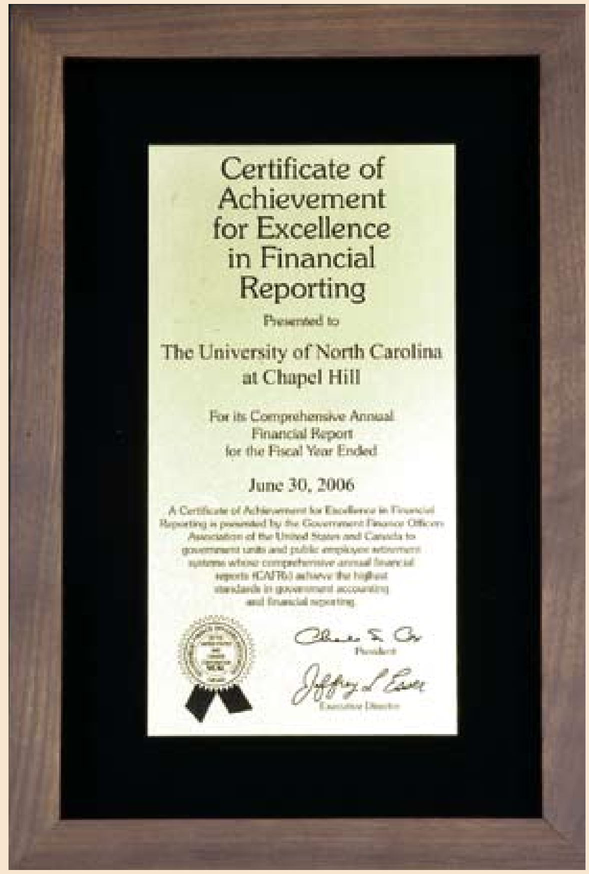
A Certificate of Achievement is valid for one year. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 Office of the Executive Vice Chancellor and Provost, Research and Economic Development, 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.

Richard L. Mann

RICHARD L. MANN
Vice Chancellor for Finance and Administration



The University of North Carolina at Chapel Hill has received the award for reporting excellence for the past twelve years.

07 PROGRESS AND MAJOR INITIATIVES

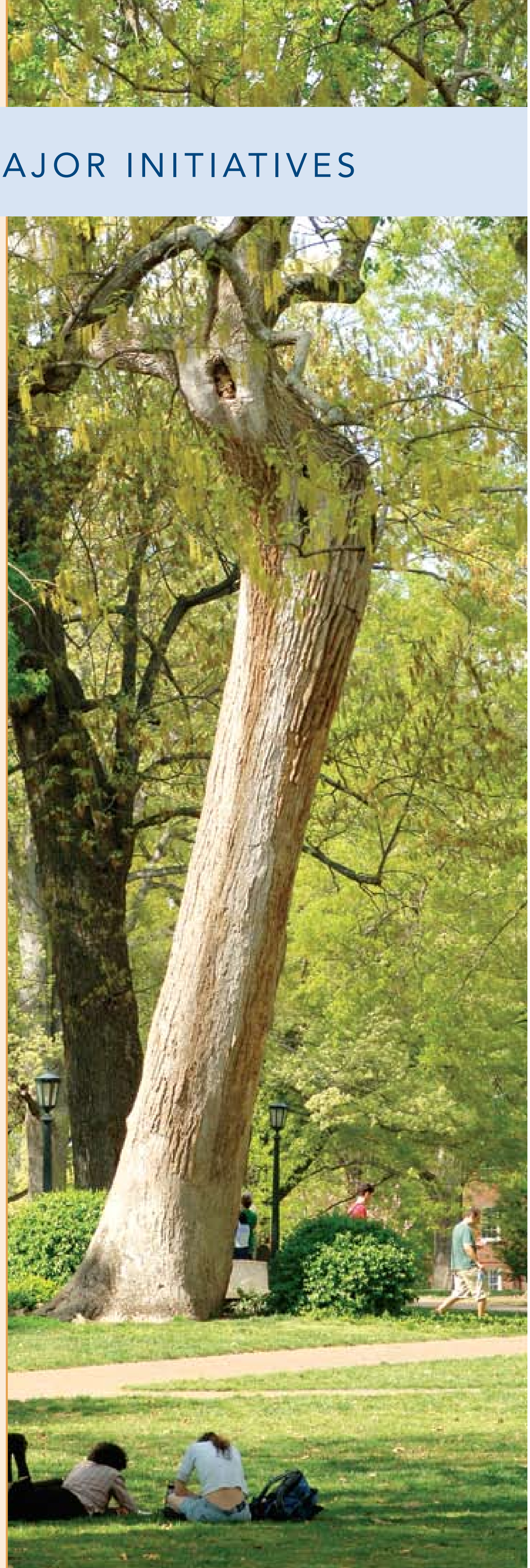
FISCAL 2006–2007

CAROLINA

MAKING MAJOR ACCOMPLISHMENTS

Carolina keeps making major progress with key priorities in aspiring to become the nation's leading public university. The first class of Carolina Covenant Scholars is poised to graduate in May 2008. Students, faculty and staff are achieving excellence through teaching, research and public service. Faculty research funding continues to rise. The physical campus is undergoing an unprecedented transformation. The generosity of alumni and friends put the Carolina First Campaign over its $2 billion goal 10 months ahead of schedule. And the University is demonstrating outstanding leadership in American higher education and life-changing public service to the people of North Carolina.

Following are a sampling of recent highlights demonstrating significant progress across several areas of the University during fiscal 2006–2007.



CAROLINA COVENANT

HELPING DESERVING LOW-INCOME STUDENTS

Carolina offers talented students the opportunity to learn in a high-quality academic environment. Through the Carolina Covenant and an excellent overall financial aid program, the University is making college possible for qualified students regardless of their financial means. The University's policies and practices protect access and affordability — core values at Carolina that have long benefited North Carolina and its citizens.

Under the Carolina Covenant, announced in 2003, qualified low-income students admitted under regular admissions standards become eligible to graduate debt-free.

The Carolina Covenant, a first for a major public university, provides a debt-free education for qualified low-income students. To date, about 1,400 students have benefitted from the program, which sparked a national movement in U.S. higher education.

This concept began a movement in U.S. higher education. Other universities and at least two states have begun about 40 similar initiatives. These campuses include Brown, Harvard, MIT and Stanford, as well as Michigan and Virginia. Many of these programs, like Carolina's, respond to rapidly changing demographics and social needs, such as rising high school dropout and poverty rates.

The University will graduate its first class of Carolina Covenant Scholars next May. To date, about 1,400 students have benefited from the program, which includes a mentoring component featuring volunteer faculty and older Covenant students.

The Honors Program provides students with a rich academic experience through special seminars and undergraduate course sections. The Carolina First Campaign recently received a $5 million gift creating five endowed professorships in the College of Arts and Sciences, helping to expand the Honors Program.

Eligible Covenant students agree to work on campus 10 to 12 hours weekly in a federal work-study job, and UNC meets their remaining needs through federal, state, University and other privately funded grants and scholarships. Beginning in fall 2005, students and their families had to be at or below 200 percent of the federal poverty level to be eligible for the program. That currently covers a family of four with an annual income of about $40,000.

In fall 2006, the University hosted a conference, "The Politics of Inclusion: Higher Education at a Crossroads," seeking national solutions to the complex issues surrounding access and affordability. More than 150 state and federal policymakers, economists, researchers, foundation and business leaders and educators from across the country exchanged ideas intended to help shape national policy and practice. The Carolina Covenant has been a springboard for two innovative programs funded by the Jack Kent Cooke Foundation to help low-income students in community college and high school settings. North Carolinians are directly benefiting from both efforts.

CAROLINA FIRST

SURPASSING $2 BILLION AHEAD OF SCHEDULE

The Carolina First Campaign is a comprehensive, multi-year private fund-raising campaign — the largest and most successful in the University's history — to support the vision of Carolina becoming the nation's leading public university. Each year, private funding and investment income provide some 20 percent of the University's budget — creating Carolina's margin of excellence.

As of September 2007, Carolina First had raised more than $2.23 billion, surpassing its final $2 billion goal 10 months early. Alumni and friends have exceeded the goal

Newly graduated Carolina students take in the excitement of the traditional Commencement ceremony in Kenan Stadium. The University awards nearly 7,000 bachelor's, master's, doctoral and professional degrees each year.

of creating 200 new distinguished professorships, as well as 544 new undergraduate scholarships and 188 new graduate student fellowships (toward a goal of 1,000). The push for student scholarships includes a new emphasis on merit-based awards. The campaign, which ends in December 2007 and is led by volunteer alumni, also supports research, strategic initiatives, facilities and the University's endowment. As the campaign winds down, one goal is to meet a special $100 million target set for faculty resources last February.

The campaign has consistently exceeded projections, raising a record $241.2 million in private gifts during fiscal

From left, Paul Fulton, Chancellor Moeser, Joan Gillings, Dennis Gillings and Charlie Shaffer applaud after the cutting of a ceremonial cake that marked passing the Carolina First Campaign's $2 billion goal in February 2007. Joan and Dennis Gillings committed $50 million — the single largest pledge in the University's history — to the School of Public Health. Fulton, a trustee, and Shaffer are two of the volunteer co-chairs for the campaign.

2006. That was the first time that the University had raised more than $200 million in a single year. The University has had three consecutive years of record-setting support, topping $192.5 million in 2005 and $192 million in 2004.

A $50 million commitment from Dennis and Joan Gillings to support the School of Public Health put Carolina First over the $2 billion goal in February 2007. That marked the single largest commitment in University history. Dennis Gillings is the chairman and chief executive officer of Quintiles Transnational Corp., a Research Triangle Park-based pharmaceutical services company. Joan Gillings has had careers in public health and commercial real estate.

Other 2007 highlights included a $21.3 million grant from the Bill & Melinda Gates Foundation to develop effective, inexpensive drugs to treat late-stage African sleeping sickness and visceral leishmaniasis.

Commitments supporting students included a donation from High Point businessman Earl N. "Phil" Phillips Jr. to create study-abroad-in-Asia scholarships for up to 50 undergraduates annually in the College of Arts and Sciences, as well as $4 million from the William R. Kenan Jr. Charitable Trust to create four scholarships for undergraduate music students each year in the college.

And, in a move to help more high school students realize their ambition to attend college, Carolina was one of 10 higher education institutions joining the Jack Kent Cooke Foundation in a $10 million partnership to create advising programs to help low-income students enroll in college. The network of programs created through the partnership will be headquartered at UNC-Chapel Hill, which will receive $1 million over four years to create the Carolina College Advising Corps. This effort is placing recent Carolina graduates as college advisers in 18 partner high schools across the state.

Along with creating music scholarships, the Kenan trust gave $4 million to support a new College of Arts and Sciences music building now under construction on Columbia Street between Hanes Art Building and Abernethy Hall. Commitments to building projects also included $5 million to the college from alumnus Max Carrol Chapman Jr., a Wall Street businessman, to help fund a new building in the Carolina Physical Science Complex.

Commitments in 2007 helped the University create 18 endowed professorships, as well as 114 undergraduate scholarships and graduate fellowships.

CAMPUS MASTER PLAN

GUIDING UNPRECEDENTED GROWTH

Today, the campus is undergoing an unprecedented physical transformation made possible in part by North Carolinians' overwhelming approval of the $3.1 billion bond referendum for higher education. The referendum, approved in November 2000, was the nation's largest higher education bond package.

The bonds have meant more than $515 million for renovations and new buildings so 21st century students at Carolina can learn in a 21st century environment. Also guided by a visionary campus master plan for growth now rapidly coming to life, the University is investing funds from non-state sources, including private gifts and overhead receipts from faculty research grants, for other buildings essential to excellence. The resulting capital campaign exceeding $2.1 billion is among the largest at any major American university.

As of September 2007, the University had completed 72 projects, or 37 percent of the total capital program since 2000. Another 38 projects were under construction and 55 other projects were in design.

The Higher Education Bond Referendum portion of the building program includes 49 projects. Thirty-six have been completed, 12 are under construction and one is in design. This program is scheduled to be completed in January 2009 — within two months of the original schedule.

Recently completed projects include:

W. Lowry and Susan S. Caudill Laboratories and ***Max C. Chapman Jr. Hall*** — the first phase of the Carolina Physical Science Complex. The $205 million complex is the largest construction project in the University's history. It is replacing outdated, deteriorating buildings with state-of-the-art facilities. The goal is to provide an innovative learning atmosphere for students and open the door for integrated collaboration among Carolina's world-renowned scientists.

FedEx Global Education Center, which brings several key international activities under one roof and advances a major academic priority. The building is creating a vibrant hub of

At left, beams stand out in the foreground as workers take the next steps toward making progress with a new construction project. At right, students enjoy new gathering spaces to study and relax in the FedEx Global Education Center, one of the newest buildings to open on campus. The building program is adding 6 million square feet to the main campus.

international studies, academic services, research, public service and cultural exchange. It was completed in spring 2007 and was dedicated Oct. 12, 2007, University Day.

Projects under construction include:

North Carolina Cancer Hospital, which will become a world-class hospital for cancer patients and their families from North Carolina and beyond. The new hospital, part of the UNC Health Care System, will bring complete cancer care for patients and research facilities into one building and serve as the new clinical home for the UNC Lineberger Comprehensive Cancer Center, one of only 38 such National Cancer Institute-designated centers in the United States. The North Carolina General Assembly approved $180 million in funding for the new hospital to replace a facility originally built in the 1950s as a tuberculosis sanatorium.

Carolina's recent successes include nurturing growth in faculty research funding — by almost 3 percent in fiscal 2007 to exceed $610 million. Faculty attract federal and private research dollars to support efforts to cure diseases, improve technology, bring innovation to industries such as biotechnology and spin off new businesses that create jobs and diversify the state's economy.

Tentatively scheduled to open in late 2009, the hospital will provide North Carolinians with complete clinical cancer care and research facilities in one building.

Genetic Medicine Building, which will become one of the largest facilities on campus. The building represents a cooperative effort between the schools of pharmacy and medicine to offer unique opportunities for interdisciplinary collaboration. Among these are projects to develop novel approaches to deliver gene therapy. The seven-story structure will contain five laboratory floors and will house researchers from pharmacy and three medical school departments: pharmacology, genetics, and biochemistry and biophysics.

Using sustainable practices is a key component of the capital program. For example, the School of Nursing achieved Leadership in Energy and Environmental Design (LEED) certification from the U.S. Green Building Council in 2007. The school's ***Carrington Hall*** addition was the first project in the UNC system to register for LEED certification. Features include a "green" roof surrounding a small patio where plantings capture 70 percent of the stormwater.

FACULTY RESEARCH

FINDING SOLUTIONS

Faculty attract federal and private research dollars to support efforts to cure diseases, improve technology, bring innovation to industries such as biotechnology and spin off new businesses that create jobs and diversify North Carolina's economy.

Total research grants and contracts rose by almost 3 percent in fiscal 2007 to exceed $610 million — more than double the level from a decade ago.

Cancer is a major area of emphasis enhanced with the construction of the North Carolina Cancer Hospital, which will provide a clinical home for the Lineberger Comprehensive Cancer Center. The North Carolina General Assembly recently created a new fund for cancer research for the University at a permanent level of $50 million annually. Last year, Chancellor Moeser set a goal for the University to reach $1 billion in sponsored research by 2015.

In October 2007, Oliver Smithies, Excellence Professor of Pathology and

Laboratory Medicine, was named a co-recipient of this year's Nobel Prize in Physiology or Medicine. Smithies was cited for his role in introducing gene modifications in mice using embryonic stem cells. According to the Nobel committee, "gene targeting in mice has pervaded all fields of biomedicine. Its impact on the understanding of gene function and its benefits to mankind will continue to increase over many years to come." Smithies is the first full-time UNC faculty member to win a Nobel Prize.

Oliver Smithies, Excellence Professor of Pathology in the School of Medicine, became the first full-time Carolina faculty member to win a Nobel Prize in 2007. He was one of three recipients of the Nobel Prize in Physiology or Medicine for his role in introducing gene modifications in mice using embryonic stem cells. The resulting techniques led to Smithies' lab producing the first animal model of cystic fibrosis.

Other ongoing research initiatives at Carolina include efforts to tackle challenges such as genome sciences, which is unraveling the mysteries of DNA and the human genome. Carolina has committed at least $245 million over a decade to be at the forefront of the genomics revolution. Since 2000, the University has maintained a strategy of targeted investment in "big idea" research themes, knitting together existing strengths in various areas to create broad, interdisciplinary new thrusts.

Recent examples of key new interdisciplinary initiatives include:

■ The ***"Roadmap for Medical Research"*** initiative, intended to focus future National Institutes of Health funding in 21 broad areas of concentration. The University established a Roadmap Office to position the campus for the highest level of success with this NIH initiative, which encourages researchers to attack difficult problems using interdisciplinary collaboration and sophisticated computational techniques to create quick translations to patient care.

As a result of the work of the Roadmap Office and the strength of Carolina's faculty and their interdisciplinary work, Chapel Hill received 11 grants in the 2006 competition, the highest number to date. Carolina's efforts with this program are among the most successful in the country. Previous projects funded include the Carolina Center of Nanotechnology Excellence, which marries expertise in nanotechnology with patient research at the Lineberger Comprehensive Cancer Center.

The ***Renaissance Computing Institute (RENCI)*** addresses problems spanning the sciences and engineering, the arts, the humanities and commerce. RENCI brings together technologies and communities to respond to disasters — from storm surges, hurricanes and floods in eastern North Carolina to landslides in the mountains — that require responses no one organization can address alone. RENCI was established in partnership with Duke and N.C. State universities. Its work fosters collaborations across the state, including with other UNC system campuses and state government.

■ The ***Carolina Entrepreneurial Initiative***, funded with a five-year, $3.5 million grant from the Ewing Marion Kauffman Foundation is being matched two-to-one by the University. Carolina is one of seven Kauffman Foundation-designated "Entrepreneurial Universities," chosen through a national competition. UNC is deploying new programs to create a surge of entrepreneurship among students, faculty

The Renaissance Computing Institute is testing the unmanned aerial vehicle shown below. Equipped with a digital camera and programmed to receive transmissions from low-power sensors in remote locations, the vehicle can gather data from areas too dangerous or remote to be reached by humans. It can compile sensor data to pinpoint the location of flood damage or mudslides.

and staff, including a new minor in entrepreneurship in the College of Arts and Sciences. The program is led by a team managed by the Frank Hawkins Kenan Institute of Private Enterprise.

Data that reflect the current economic impact of technological developments resulting from faculty research include the number of patents, spin-off companies, jobs and licensed technology. In 2006, UNC was awarded 21 patents; started five new companies, bringing the total to 36; licensed 43 inventions; and received about $2.2 million in revenue generated by licensed technology.

Students study amid the beauty of the Carolina campus. The Class of 2011 — 3,895 students — comes from 94 North Carolina counties, 45 states and 22 countries. More than 87 percent graduated with a grade-point average of 4.0 or higher. Nearly 77 percent were in the top 10 percent of their high school class, 40 percent were among the top 10 students and 12 percent were valedictorians or salutatorians. The average SAT score was 1302.

Spin-off companies resulting from UNC discoveries include Liquidia Technologies, a 2004 start-up to commercialize inventions from the laboratories of Joe DeSimone, William R. Kenan Jr. distinguished professor of chemistry and chemical engineering at Carolina and N.C. State. Liquidia has used a silicon wafer to create molds for making nanoparticles for drug delivery. Possibilities include developing custom nanoparticles for targeted delivery of anticancer drugs. Liquidia's technology also helped the University land one of eight NIH "nanocancer" grants.

CAROLINA NORTH

PLANNING FOR FUTURE GROWTH

The University's future contributions to the North Carolina economy one day will include Carolina North, to be built on about 900 acres of UNC-owned land less than two miles from main campus. Carolina North is envisioned as a vibrant, compact, mixed-use academic campus.

The primary driver for Carolina North is the University's mission — education, research, public service — and a responsibility to help meet the state's economic development needs. Carolina North will be a "growth campus," one that can provide space for University activities that no longer fit on the main campus and to develop partnerships with the private sector to accelerate economic development.

An ecological assessment is helping guide the University's efforts toward sustainability principles and goals at Carolina North. Other input includes a report from the Leadership Advisory Committee, which included community representatives, that made recommendations for guiding principles for development. That report guided a series of draft concept plans presented to the local community in meetings from March to September 2007.

The University's Board of Trustees approved a final draft concept plan in September 2007, setting the stage for the University's submission of a plan for Carolina North to local governments.

The University has identified the first building for Carolina North — an Innovation Center, where fledgling companies, using intellectual capital drawn from faculty research, can take their very first steps toward full viability.

The 85,000-square-foot Innovation Center will provide much-needed space and resources for researchers who have intellectual property with commercial potential to turn those ideas into products and businesses.

The Innovation Center will be built as a partnership with a private developer, Alexandria Real Estate Equities of Pasadena, California, which specializes in this type of business accelerator. Although the center will be located on University-owned land at Carolina North, the building will be privately owned and will pay taxes to the local community.

ACADEMIC REPUTATION

HIGHLIGHTING QUALITY

Several national publications regularly publish rankings that listed Carolina prominently in categories ranging from academic quality to affordability to international presence. Recent highlights include:

■ 1st among the 100 best U.S. public colleges and universities that offer the best combination of top-flight academics and affordable costs as ranked by ***Kiplinger's Personal Finance*** magazine. 1st for six consecutive times since Kiplinger's began these periodic surveys in 1998. Kiplinger's analysis stressed academic quality, as well as cost and financial aid offerings, and cited the success of the Carolina Covenant program, which provides a debt-free education to qualified low-income students. Only school in Kiplinger's survey that meets 100 percent of each student's financial need.

- 5th best public university in ***U.S. News & World Report's*** 2008 ***"Best Colleges"*** guidebook for the seventh consecutive year. 1st among public campuses for the third consecutive year. 9th overall in "Great Schools, Great Prices," based on academic quality and the net cost of attendance for a student who received the average level of need-based financial aid.
- One of 6 public universities ranking in the top 25 for all nine measures used in ***"The Top American Research Universities,"*** produced in 2007 by ***The Center for Measuring University Performance*** at Arizona State University. Evaluates top research universities with at least $20 million in annual federal research funding using quantitative measures such as endowment assets, private giving, faculty awards, doctorates granted and SAT/ACT range. In the seven years of these studies, UNC is one of four universities (with Berkeley, UCLA and Michigan) in the top 25 on all nine measures.
- Among 25 "New Ivy" campuses in the ***2007 Kaplan/Newsweek "How to Get into College Guide."*** Includes schools with first-rate academic programs fueling their rise in national stature. Based on admissions statistics and interviews with administrators, students, faculty and alumni. Reports ***Newsweek***: "If a moviemaker needs an idyllic setting for a film about college life, Chapel Hill might just take the prize."

In 2006, the University set new goals for four- and six-year graduation rates. Those goals were to match the six-year rates of Berkeley, UCLA and Michigan by 2010. Last year, theirs stood at 87 percent compared to UNC's 84 percent. The four-year goal is to improve from 71 percent to 75 percent by 2010. This year, that rate rose by nearly 2 percentage points to 73 percent.

- A "best value" among 81 schools chosen for ***"America's Best Value Colleges, 2006 Edition" by The Princeton Review/Random House*** for outstanding academics, relatively low costs and generous financial aid packages. 2nd appearance in a row for UNC.
- 1st among major U.S. universities — for the 6th time in 8 years — in the percentage of African-American students in the first-year class, according to ***The Journal of Blacks in Higher Education.*** The 470 black first-year students enrolled at UNC in fall 2006 marked a 13 percent increase from 2005. At 12.3 percent of the total class, this was the second-highest percentage reported by the Journal since its annual survey began in 1993.
- 2nd among top public research universities recording the highest rate of undergraduates studying abroad in 2004-2005, according to a report published by the ***Institute of International Education.***
- 8th among U.S. universities for the number of alumni volunteering for the ***Peace Corps*** in 2006 — up from 11th the previous year. Seventy-seven UNC graduates are representing the United States abroad. Since the inception of the Peace Corps, 966 alumni have joined its ranks, making UNC the 25th largest producer of volunteers all time.
- Degree programs or specialty areas from several schools and the College of Arts and Sciences appeared prominently in the 2008 ***U.S. News and World Report's "America's Best Graduate Schools"*** issue. Highlights included: School of Public Health, tied for 2nd, master's and doctoral programs; School of Medicine, 2nd overall for primary care, 20th for research; nursing master's programs in the School of Nursing and School of Public Health, 5th and tied for 12th, respectively; and Kenan-Flagler Business School's master of business administration degree program, tied for 18th.
- Kenan-Flagler Business School ranked 15th in ***BusinessWeek*** magazine's list of the best undergraduate business programs. That was 5th best among programs at public universities and included ratings of 7th for academic quality, 10th for student satisfaction and straight "A+" grades in teaching quality, facilities and services, and job placement.
- Kenan-Flagler appeared in several other best MBA program lists: The ***Wall Street Journal***, 8th based on a survey of corporate recruiters; ***BusinessWeek*** (17th); ***Forbes*** magazine (14th); ***The Princeton Review*** and ***Forbes.com***, 1st for fostering entrepreneurship campuswide; ***BusinessWeek***, executive MBA program 5th; ***Financial Times***, executive education programs 12th in the United States and 21st in the world.

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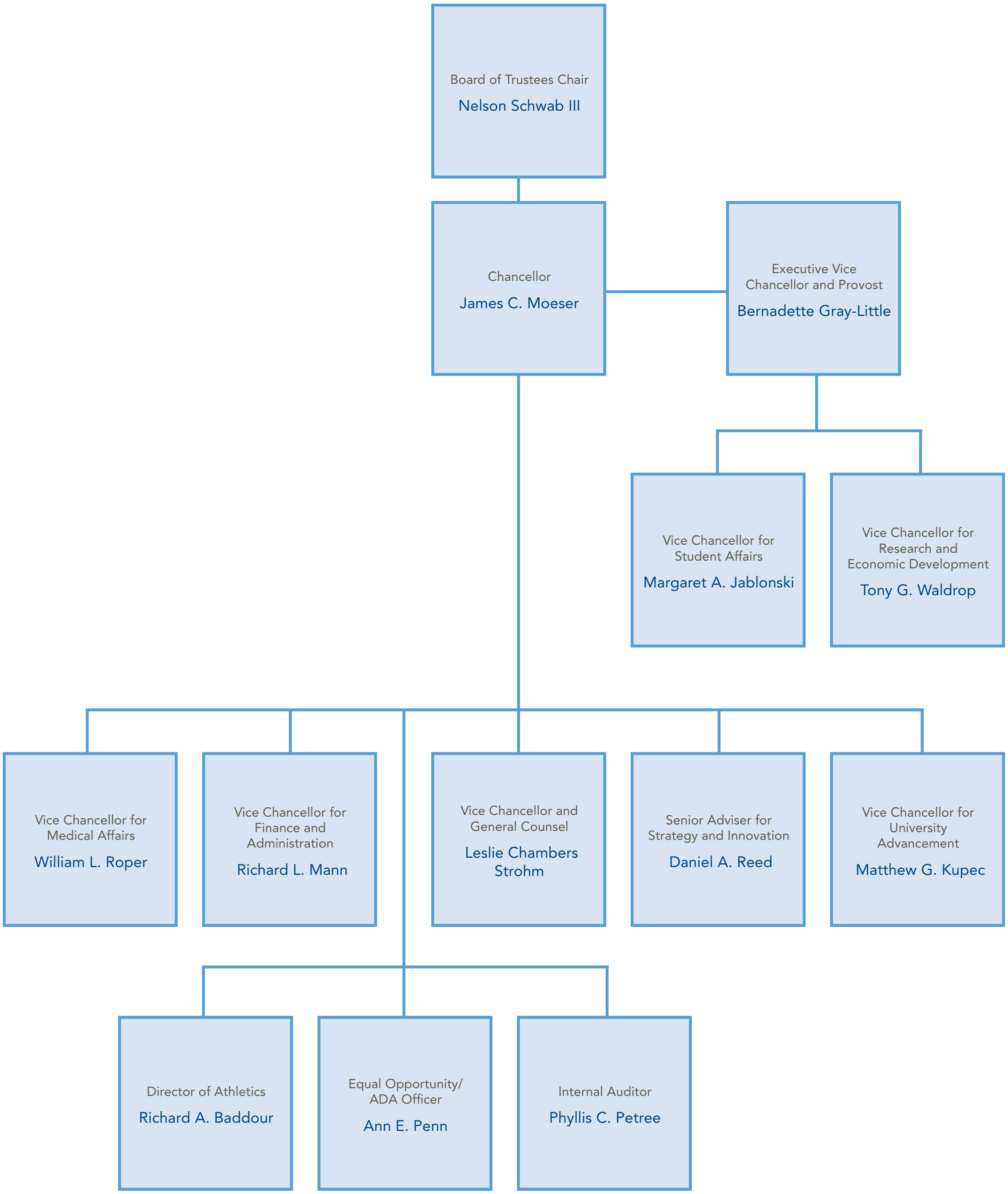
07 THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL
ORGANIZATION CHART



FINANCIAL
SECTION

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Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The University of North Carolina at Chapel Hill, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The University of North Carolina at Chapel Hill's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Medical Foundation of North Carolina, Inc., The Educational Foundation Scholarship Endowment Trust, nor the University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc., the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

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. The financial statements of The Medical Foundation of North Carolina, Inc., The Educational Foundation Scholarship Endowment Trust, and the University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Chapel Hill and its discretely presented component units as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and compliance 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, as listed in the table of contents, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

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

Leslie Merritt

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

December 7, 2007

07 MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

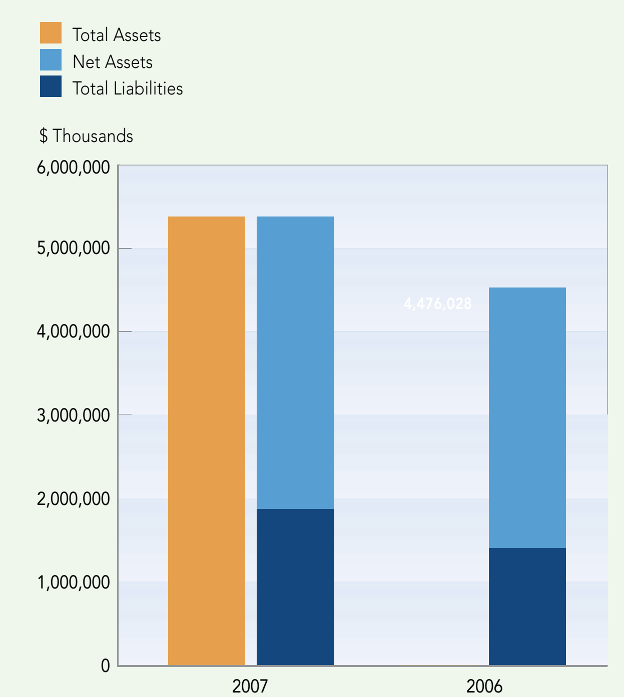
Management's discussion and analysis provides an overview of the financial position and activities of The University of North Carolina at Chapel Hill (the "University") for the fiscal year that ended June 30, 2007, with comparative information for the fiscal year ended June 30, 2006. Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying note disclosures.

The University is a constituent institution of the multi-campus University of North Carolina System (UNC System), a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*. The financial reporting entity for the financial statements is comprised of the University and 11 component units. Eight component units are reported as if they were part of the University, and three are reported as discretely presented component units based on the nature and significance of their relationship to the University. The reader may refer to Note 1A for detail information on the financial reporting entity.

FINANCIAL HIGHLIGHTS

The University's financial position at June 30, 2007, remained solid with total assets of $5.3 billion. Net assets, which represent the residual interest in the University's assets after deducting liabilities, were $3.4 billion at June 30, 2007. The University's net assets increased by $487.9 million in fiscal 2006–2007, when operating, non-operating, and other changes are included. A comparison of the total assets, liabilities, and net assets at June 30, 2007, and June 30, 2006, and a comparison of the major components of the changes in net assets for the two fiscal years are presented below:

STATEMENT OF NET ASSETS



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Net assets increased 16.7 percent on June 30, 2007, over the prior year. Total assets increased 18.3 percent and total liabilities rose 21.5 percent for the same period. Operating revenues increased at a lower rate than operating expenses in 2006–2007 over the prior year, 5.1 percent and 8.1 percent, respectively. Net non-operating revenues and expenses increased 21.7 percent in 2006–2007 over the prior year. The growth in state appropriations — 11.9 percent — was significant. Investment income growth remained substantial with a 53.5 percent increase in 2006–2007 over the prior year. Research funding, fund raising for operational and capital needs, and construction funding through the North Carolina Higher Education Bond Referendum of 2000 continued to be positive factors in the sustained financial well-being of the University.

USING THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the University as a whole. The full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

The University's *CAFR* includes the following three financial statements.

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

Management's discussion and analysis provides information regarding each of these financial statements.

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 non-current components. Net assets represent the difference between total assets and total liabilities and are one indicator of the University's current financial condition. The following table summarizes the University's assets, liabilities, and net assets on June 30, 2007, and June 30, 2006.

ASSETS, LIABILITIES, AND NET ASSETS

(DOLLARS IN THOUSANDS)	2007	2006	PERCENT CHANGE
Assets			
Current assets	$1,007,274	$912,751	10.4
Non-current assets			
Endowment investments and restricted investments	2,001,979	1,604,529	24.8
Capital assets, net	2,082,829	1,874,486	11.1
Other non-current assets	205,236	84,262	143.6
Total Assets	5,297,318	4,476,028	18.3
Liabilities			
Current liabilities	471,718	391,685	20.4
Non-current liabilities			
Funds held in trust for pool participants	588,099	326,419	80.2
Long-term liabilities	789,568	797,852	(1.0)
Other non-current liabilities	32,064	32,070	0.0
Total Liabilities	1,881,449	1,548,026	21.5
Net Assets			
Invested in capital assets, net of related debt	1,211,805	1,119,040	8.3
Restricted	1,586,491	1,283,449	23.6
Unrestricted	617,573	525,513	17.5
TOTAL NET ASSETS	$3,415,869	$2,928,002	16.7

Current Assets and Liabilities

The Statement of Net Assets shows that working capital, which is current assets less current liabilities, was $535.6 million at June 30, 2007, an increase of 2.8 percent, or $14.5 million, over the previous year. The Statement of Net Assets details the current asset and current liability categories.

Endowment and Restricted Investments

Endowment investments increased 21.5 percent during 2006–2007, and were $1.39 billion at June 30, 2007, and $1.15 billion at June 30, 2006, 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 $1.37 billion at June 30, 2007, and $1.12 billion for the prior year.

The endowment assets are invested with The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. ("Investment Fund"), which is reported as a governmental external investment pool in the financial statements. The Investment Fund is a 501(c)(3) non-profit corporation established to support the University by operating an investment pool for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University.

The investment objective is to earn an average real total return of at least 5.5 percent per year, net of all fees, over rolling five- and 10-year periods. The 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 investments. The earnings distribution rate was established at 5 percent of the previous year's market value, with annual increases based on inflationary factors. Each year's distribution is subject to a 4 percent floor and a 7 percent cap based on estimated fiscal year-end market value.

Restricted investments of $609.9 million at June 30, 2007, include funds of $565.9 million of affiliated entities that are neither part of the University's reporting entity nor reported discretely but do invest through the System Fund. The remaining component is bond reserves and related funds of $44 million.

Most of the University's endowment investments are currently managed within the System Fund, a pooled investment fund vehicle. The System Fund is designed to provide long-term, stable rates of return on the invested assets through the use of a highly diversified portfolio strategy. As reported by UNC Management Company, Inc., the investment return on the endowment assets invested in the System Fund for fiscal 2006–2007 was 23.4 percent. The investment return for fiscal 2005–2006 was 19.2 percent. The System Fund return of 23.4 percent for 2006–2007 significantly outperformed the Strategic Investment Policy Portfolio ("SIPP") return of 16.7 percent. The System Fund's return also exceeded the 70 percent S&P 500 / 30 percent Lehman Brothers Bond Index ("70/30") return of 16.1 percent for the year.

The continuing strong investment performance has increased the three-year annualized return to 19.3 percent at June 30, 2007. This three-year return measure compares well with the corresponding measure of 14.9 percent for the SIPP and 9.4 percent for the 70/30. For the five years ended June 30, 2007, the System Fund earned a 15.3 percent annualized return compared to 12.3 percent for the SIPP and 9 percent for the 70/30.

The System Fund has also outperformed its long-term objective of real return, after inflation, of 5.5 percent for each of the periods noted above as well as for longer time periods. For the 10-, 15-, and 20-year time periods ended June 30, 2007, the System Fund returned 12.1 percent, 12.7 percent, and 12.1 percent respectively. Comparatively, the CPI plus 5.5 percent has been 8.3 percent, 8.3 percent, and 8.7 percent respectively for the corresponding time periods. The System Fund is very well positioned in the current environment and remains invested according to the approved investment policy that is designed to capture a significant portion of the upside returns during bull markets while protecting the down side during bear markets.

Capital Assets and Debt Management

An essential aspect for enhancing and maintaining the University's academic, research, and service programs and its residential life is the development and renewal of its capital assets. The University Board of Trustees approved the campus master plan in March 2001 to guide the University's physical development in the 21st Century. The master plan and subsequent modifications mesh the critical pieces needed for smart growth in the 21st Century — transportation, parking, housing, utilities, and sustainability — with the program needs of a growing campus. The master plan combines the practical requirements of a research university with the beauty that inspired its founders. The University expects continued growth in the future, including advancing plans for Carolina North, a satellite campus on property about two miles north of main campus.

A summary of changes in capital assets is disclosed in Note 5. Capital assets, net of accumulated depreciation, at June 30, 2007, and June 30, 2006, were as follows:

CAPITAL ASSETS

(DOLLARS IN THOUSANDS)	2007	2006	PERCENT CHANGE
Capital Assets			
Construction in progress	$535,332	$585,216	(8.5)
Land and other non-depreciable assets	97,030	93,980	3.2
Buildings	1,156,417	910,763	27.0
General infrastructure	191,413	190,898	0.3
Machinery and equipment	102,637	93,629	9.6
TOTAL	$2,082,829	$1,874,486	11.1

The University is engaged in a $2.1 billion capital construction program that began in 2000 and will continue through the next several years. The 165 projects in the capital program include major capital renewal of existing buildings and infrastructure to address both deferred maintenance and programmatic needs. The 72 completed projects total $764 million, or 37 percent of the $2.1 billion capital construction program. The 38 projects under construction total $614 million or 30 percent, and the 55 projects under design represent $683 million or 33 percent. Capital funds resulting from North Carolina Higher Education Bonds continue to provide essential resources for construction. The University is directly investing in its capital construction program using a variety of other funding sources including general revenue bonds, cost reimbursements from research grants, internal reserves, and private gifts.

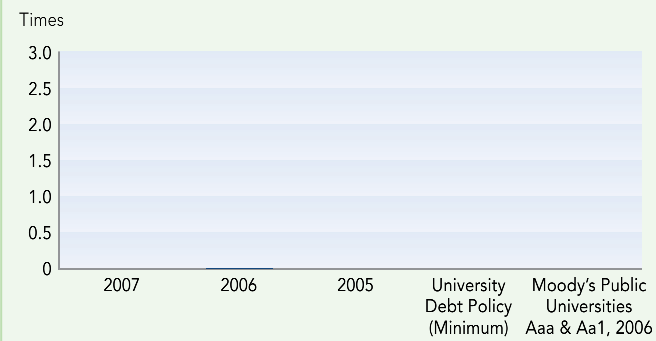
The University continues to use its commercial paper program to provide low-cost bridge financing for capital projects until gifts are received or in anticipation of an external bond issue. Commercial paper debt was $192.4 million at June 30, 2007, and $117.4 million at June 30, 2006. The University is currently planning to issue a long-term bond in December 2007, to refund a significant portion of outstanding commercial paper and to provide additional funds for capital projects.

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.

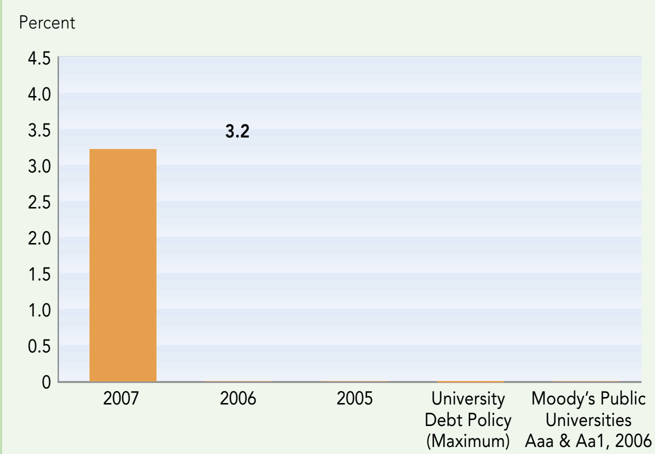
The University maintains a combination of variable and fixed rate debt, consistent with its debt management policy. The effective, combined interest rate for variable and fixed rate debt was 4.72 percent for fiscal 2006–2007 and 4.65 percent for fiscal 2005–2006. The interest rate on the commercial paper program for fiscal 2006–2007 was 3.6 percent and for fiscal 2005–2006 was 3 percent. Interest rates on the University's variable rate, long-term bonds were 3.59 percent for fiscal 2006–2007 and 2.93 percent for fiscal 2005–2006. Interest rates on fixed rate, long-term bonds are disclosed in Note 8B of the financial statements. The University's financial strength allowed it to achieve ratings of AA+/Aa1 by the national rating agencies.

The University's debt policy uses two key ratios to measure debt capacity, financial health, and credit quality. The *expendable resources to debt ratio* measures the availability of expendable assets to cover long-term obligations should the University be required to repay all of its obligations immediately. The *debt service to operations ratio* measures the University's ability to repay annual principal and interest associated with all outstanding debt and its impact on the overall budget. Each ratio is compared to the University's debt policy standard and the appropriate peer group comparison for fiscal 2005-2006 (the latest available numbers). The debt policy floor for expendable resources to debt is 1.5 times, and the metrics indicate the University has sufficient expendable resources to pay its long-term debt obligations. The debt policy ceiling for debt service to operations is 4 percent, and the metrics indicate the University's annual debt service requirements are a reasonable proportion of the operating budget.

EXPENDABLE RESOURCES TO DEBT



DEBT SERVICES TO OPERATIONS



Other Non-current Assets

Other non-current assets were $205.2 million at June 30, 2007, and $84.3 million at June 30, 2006, a 143.6 percent increase. The change in other non-current assets from the prior year included a $58.4 million increase in restricted resources due from the primary government. Restricted resources due from the primary government include receivables for designated capital construction projects funded from proceeds from statewide higher education bonds and other state resources. The increase resulted from $59.6 million additional resources in statewide higher education bonds due for capital construction projects.

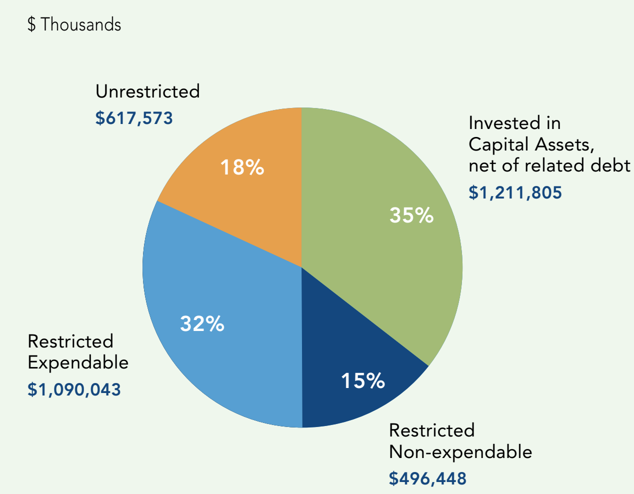
Non-current Liabilities

Non-current liabilities were $1.4 billion at June 30, 2007, and $1.2 billion at June 30, 2006, and include funds held in trust for the University's affiliated foundations and other campuses in the UNC System and their affiliates of $588.1 million and $326.4 million, respectively. These entities are not part of the University's financial reporting entity and are not discretely presented, but the entities do invest through the System Fund. The increase in funds held in trust of 80.2 percent over the prior year resulted from strong investment performance, participant contributions, and new participants in the System Fund.

Net Assets

Net assets represent the value of the University's assets after liabilities are deducted. The University's net assets were $3.4 billion at June 30, 2007, an increase of $487.9 million over the prior year. Net assets invested in capital assets, net of related debt, 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. Non-expendable restricted net assets include endowment and similar 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. Expendable restricted net assets include resources in which the University is legally obligated to spend the resources in accordance with restrictions provided by external parties. Unrestricted net assets are not subject to externally imposed stipulations; however, most of these resources have been designated for particular academic, research, or other programs, as well as capital projects.

2007 NET ASSETS: $3,415,869



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

The Statements of Revenues, Expenses, and Changes in Net Assets present the University's results of operations. The statements for the fiscal year ended June 30, 2007, and the prior year are summarized as follows:

UNIVERSITY OPERATIONS

(DOLLARS IN THOUSANDS)	2007	2006	PERCENT CHANGE
Operating Revenues			
Student tuition and fees, net	$210,651	$195,882	7.5
Grants and contracts	566,887	554,047	2.3
Sales and services, net	521,653	485,627	7.4
Other	5,253	5,955	(11.8)
Total Operating Revenues	1,304,444	1,241,511	5.1
Total Operating Expenses	1,948,282	1,802,432	8.1
Operating Loss	(643,838)	(560,921)	14.8
Non-operating Revenues (Expenses)			
State appropriations	492,471	440,070	11.9
Non-capital gifts and grants	136,960	136,212	0.5
Investment income	318,442	207,423	53.5
Other net non-operating	(43,010)	(40,151)	7.1
Income Before Other Changes	261,025	182,633	42.9
Capital grants and appropriations	171,738	68,053	152.4
Capital gifts	15,662	13,368	17.2
Additions to permanent endowments	39,442	56,069	(29.7)
Increase in Net Assets	487,867	320,123	52.4
Net Assets – July 1	2,928,002	2,607,879	12.3
NET ASSETS – JUNE 30	$3,415,869	$2,928,002	16.7

Fiscal year 2006-2007 revenues and other changes total $2,479,159 and expenses total $1,991,292. Fiscal year 2005-2006 revenues and other changes total $2,162,706, and expenses total $1,842,583..

Operating Revenues

The operating revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions. Student tuition and fees are reported net of the scholarship discount, which was $51.1 million for fiscal 2006–2007 and $45.3 million for the prior year. Total net revenues from student tuition and fees increased 7.5 percent over the prior year. The 2006–2007 tuition rates increased 7.8 percent for undergraduate resident students, 6.5 percent for undergraduate non-residents, 13.8 percent for graduate residents, and 2.8 percent for graduate non-residents.

Operating revenues from grants and contracts increased 2.3 percent over the prior year as reflected in the financial statements. Discussion of grants and contracts in terms of awards provides another useful perspective. The University is among the nation's leading public research universities, with a diversified portfolio of research that attracted more than $610 million in sponsored program funding during fiscal 2006–2007, a 2.9 percent increase over the previous year. As federal funding for research stalls and competition for investment from other sources increases, the University was able to sustain growth in awards.

While competition for funding from the National Institutes of Health (NIH) funding has increased significantly, the University share of those funds improved 6.6 percent to $314 million. Health-related research continues to receive the bulk of research dollars, with the medical school bringing in $298 million in 2006–2007, almost two-thirds from the NIH. The School of Public Health received $115 million, and the College of Arts and Sciences received $95 million. Interdisciplinary research centers, institutes and other units that do not fall under one particular school accounted for $138 million. The University averages 120 technology transfer agreements each fiscal year, providing resources of $2.5 to $4 million in royalties. The University is ranked 10th in the nation in patent strength.

Sales and services include the revenues of campus auxiliary operations such as student housing, student stores, student health services, the utilities system, and parking and transportation, as well as revenues from patient services provided by the professional health-care clinics. Other revenues represent operating resources not separately identified and include, for example, an assessment to the Investment Fund to support administrative services.

Operating Expenses

The University's operating expenses were $1.9 billion for the fiscal year ended June 30, 2007, an increase of 8.1 percent over the prior year. The operating expenses are reported by natural classification in the financial statements and by functional classification in the notes to the financial statements (Note 12). The following table illustrates the University's operating expenses by functional classification and by natural classification:

OPERATING EXPENSES BY FUNCTION

(DOLLARS IN THOUSANDS)	2007	2006	PERCENT CHANGE
Instruction	$624,128	$595,319	4.8
Research	312,160	285,646	9.3
Public Service	90,025	85,330	5.5
Academic Support	97,776	86,229	13.4
Student Services	25,865	23,957	8.0
Institutional Support	76,188	71,609	6.4
Operations and Maintenance of Plant	124,991	111,720	11.9
Student Financial Aid	56,662	54,105	4.7
Auxiliary Enterprises	459,660	424,042	8.4
Depreciation	80,827	64,475	25.4
TOTAL OPERATING EXPENSES	$1,948,282	$1,802,432	8.1

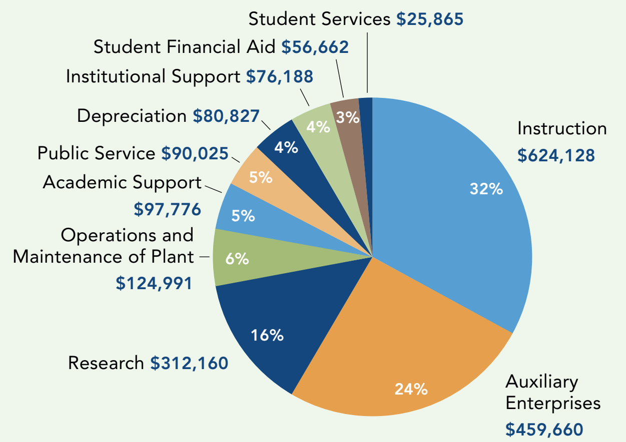
OPERATING EXPENSES BY NATURE

(DOLLARS IN THOUSANDS)	2007	2006	PERCENT CHANGE
Salaries and Benefits	$1,122,269	$1,042,452	7.7
Supplies and Materials	165,704	152,911	8.4
Services	462,093	432,212	6.9
Scholarships and Fellowships	56,662	54,105	4.7
Utilities	60,727	56,277	7.9
Depreciation	80,827	64,475	25.4
TOTAL OPERATING EXPENSES	$1,948,282	$1,802,432	8.1

The following graph illustrates the University's operating expenses by function.

2007 OPERATING EXPENSES BY FUNCTION: $1,948,282

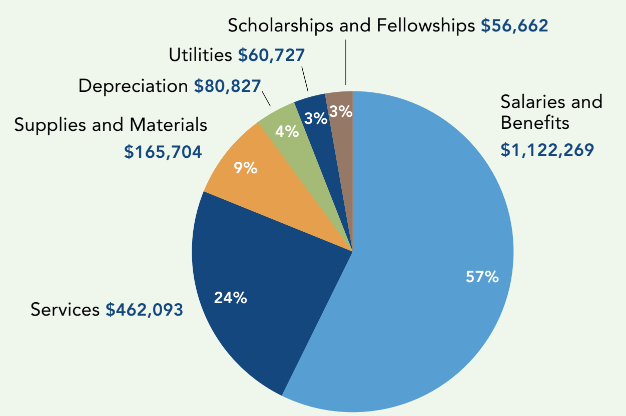
$ Thousands



The following graph illustrates the University's operating expenses by the natural classification.

2007 OPERATING EXPENSES BY NATURE: $1,948,282

$ Thousands



Operating expense categories reported by natural classification generally increased at a comparable rate to total operating expenses. The 25.4 percent increase in depreciation expenses in 2006–2007 over the prior year resulted from the completion of several major buildings. The $2.1 billion capital construction that began in 2000 has resulted in an increased depreciable capital asset base of $2.3 billion at June 30, 2007, an increase of 76.7 percent from five years earlier. Operations and maintenance of plant expenses increased 11.9 percent to keep pace with additional facilities. Academic support expenses increased 13.4 percent in large part from additional resources provided for information technology needs.

Non-operating Revenues and Expenses

State appropriations, non-capital gifts and grants, and investment income are considered non-operating 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.

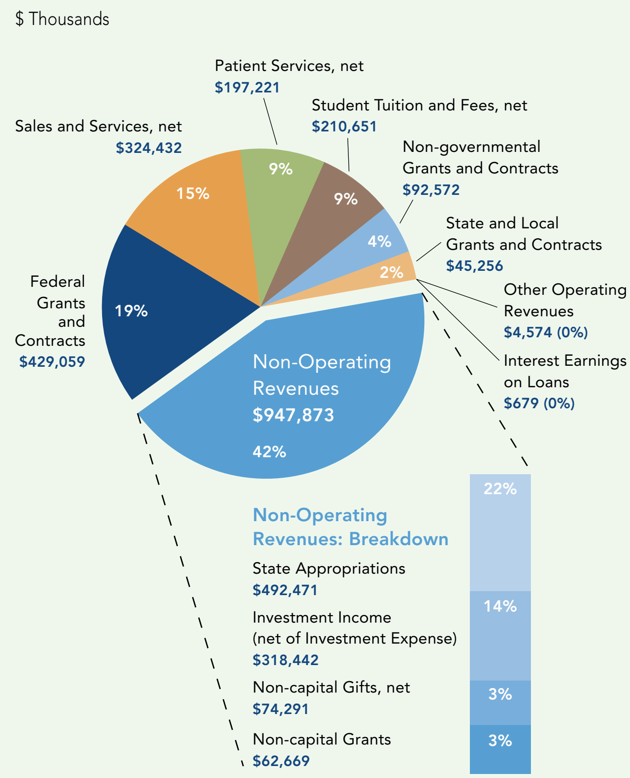
State appropriations were $492.5 million for fiscal 2006–2007, an 11.9 percent increase. The University received budget increases totaling $25.9 million to fund salary and benefit increases, $10.9 million for enrollment increases and program enhancements, $8.5 million for operating costs for new facilities, $5.9 million for the Renaissance Computing Institute, and $1.2 million for other purposes.

Non-capital gifts and grants remained stable and include expendable gifts and federal awards that are not considered to be operating revenues. Net investment income of $318.4 million, an increase of 53.5 percent over 2005–2006, includes income and realized and unrealized gains and is net of realized and unrealized losses and investment management fees. An investment return of 23.4 percent by the System Fund, a 21.5 percent increase in endowment investments, and increased levels of short-term investments contributed to the higher level of revenues. For detail discussion, the reader may refer to the Endowment and Restricted Investments section of the Management's Discussion and Analysis.

Total Operating and Non-operating Revenues

Operating and non-operating revenues such as state appropriations, non-capital grants, non-capital gifts, and investment income are used to fund University operations. The following chart illustrates the University's operating and non-operating revenues, which total $2.3 billion for fiscal year 2006–2007.

2007 TOTAL REVENUES BY SOURCE: $2,252,317



Other Changes in Net Assets

Capital grants and appropriations of $171.7 million for fiscal 2006–2007 and $68.1 million for fiscal 2005–2006 are from statewide higher education bond proceeds and state appropriations for capital construction projects. Capital gifts of $15.7 million for fiscal 2006–2007 and $13.4 million for the prior year resulted from fund-raising efforts and also provided funding for construction projects. Non-expendable gifts and funds from the state's program to match gifts for distinguished professorship endowments resulted in additions to permanent endowments of $39.4 million during fiscal 2006–2007 and $56.1 million during fiscal 2005–2006.

ECONOMIC OUTLOOK

Management believes the University is financially well-positioned for the future and will continue to maintain and generate sufficient resources to successfully fulfill its teaching, research, and service missions. The fiscal improvement during 2006–2007 enhanced the University's solid financial foundation. The University's tuition levels are appealing to prospective students and provide important resources for key University priorities including salaries and graduate teaching assistant stipends. The University's support from the state continues to improve, sponsored awards are a proven and reliable source in support of the University's research mission, philanthropic efforts have demonstrated outstanding success, and investment returns provide a stable stream of earnings. The University's strong debt credit ratings of Aa1 and AA+ allow it to obtain competitive financing for capital construction.

Tuition rates increased for fiscal 2007–2008 by 7.2 percent for undergraduate residents, 6.9 percent for undergraduate non-residents, 12.2 percent for graduate residents, and 2.8 percent for graduate non-residents. The University's academic standing allows it to continuously attract top students. The University's *CAFR* Statistical Section includes historical data for important metrics including the ratio of *accepted applications as a percentage of total applications* and the ratio of *enrolled students as a percentage of accepted applications.*

The Governor and the General Assembly of North Carolina have continued to demonstrate strong financial support for higher education. The budgeted funding level for state appropriations for fiscal 2007–2008 totals $539.7 million, which represents an increase of 9.6 percent over fiscal 2006–2007 actual state appropriations. This level of state appropriation funding includes faculty and staff pay and benefit increases of $26.4 million. The fiscal 2007–2008 pay increase of 4 percent for faculty and staff is the fourth consecutive year of base salary increases for all employees. An additional 1 percent pay increase was authorized as incentive funding tied to the University's strategic goal of competing with peer campuses to improve competitive salary levels for faculty. Other budget changes included $20.9 million for enrollment increases and program enhancements, $9.7 million for operating costs for new facilities, and $9.8 million in net budget reductions. Additional budget reductions are not anticipated for fiscal 2007–2008.

External funding from contracts and grants increased to $610 million in fiscal 2006–2007. The growth in research occurs as the University continues to work with the local community on plans for Carolina North, the research campus to be located near the main campus. The first component of Carolina North will be the Innovation Center. More than an incubator, the facility will provide space for research start-ups and capital management teams to attract seed capital and accelerate research into the marketplace. In 2008, the University also plans to open a Nutrition Research Institute as part of the North Carolina Research Campus, a public-private partnership, in Kannapolis, N.C.

The General Assembly made a major commitment to research by creating the University Cancer Research Fund, which will invest $25 million in 2007–2008, $40 million the following year and then an annual investment of $50 million. The funds will support cancer research and patient care through the School of Medicine, Lineberger

Comprehensive Cancer Center, and the UNC Health Care System, which is currently building the North Carolina Cancer Hospital.

State appropriations and tuition are key resources for faculty salaries. The University's goal is to take average faculty salaries, now at approximately the 50th percentile of the peer group of institutions, to the 80th percentile, possibly as soon as fiscal 2008–2009. Faculty retention is essential to the objective of maintaining the quality of education at the University. Faculty attrition through retirements or resignations is a key challenge. Other challenges will require resources as well. For the fall semester of fiscal 2007–2008 and for the first time in the University's history, student enrollment exceeded 28,000.

Resources to meet these important needs will be a key factor, and the University's diverse revenue base will be invaluable. It is the University's goal to secure $1 billion in external research funding by 2015. Management believes the investment performance of its endowment fund will continue to earn attractive returns and provide important resources for University operations. The University's investment management operation is separately organized as the UNC Management Company, Inc., the non-profit corporation organized and operated as a 501(c)(3) entity, to provide investment management services and administrative services to the University and to the other campuses of the UNC System and their affiliated non-profit foundations as appropriate. Management believes this structure will continue to enhance the ability to attract and retain investment professionals and increase the pool of funds and resulting investment returns.

The Carolina First Campaign is the largest fund-raising drive in University history to support the vision to become the nation's leading public university. The campaign will conclude December 31, 2007, and surpassed its $2 billion goal on February 21, 2007. Private gifts and grants, along with state matching funds, exceeded $250 million in fiscal 2006–2007, marking the fourth consecutive year that the University surpassed its previous high. New gifts, pledges, and other commitments raised the campaign total to $2.17 billion. The goal of the Carolina First Campaign, which began in July 1999, was increased to $2 billion in October 2005 from the initial goal of $1.8 billion.

The University's diverse and sound revenue streams, its endowment, and its capital asset base provide a strong financial foundation and provide resources to continue the excellent teaching, research, and public service endeavors provided to students, citizens, and other constituents. Support from the State of North Carolina, the ability to attract top prospective students, vibrant research funding, superior investment performance, a dynamic capital construction program, and an exceptional fund-raising campaign all contribute to a positive outlook for the University. The University's commitment to sound financial and budgetary planning, protection and enhancement of its endowed and physical assets, as well as its observance of compliance and control standards, support a solid financial future for the University.

STATEMENT OF NET ASSETS June 30, 2007

ASSETS	
Current Assets	
Cash and cash equivalents	$168,157,134
Restricted cash and cash equivalents	399,669,945
Short-term investments	164,752,029
Restricted short-term investments	103,568,237
Receivables, net (Note 4)	145,707,432
Due from State of North Carolina component units	2,712,529
Inventories	19,505,876
Notes receivable, net (Note 4)	3,200,439
Total current assets	**1,007,273,621**
Non-current Assets	
Restricted cash and cash equivalents	79,492,910
Receivables, net (Note 4)	23,672,776
Restricted due from primary government	61,645,345
Endowment investments	1,392,068,332
Restricted investments	609,911,090
Notes receivable, net (Note 4)	32,106,309
Investment in joint venture	8,318,917
Capital assets, non-depreciable (Note 5)	632,361,431
Capital assets, depreciable, net (Note 5)	1,450,467,489
Total non-current assets	**4,290,044,599**
Total assets	**5,297,318,220**
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities (Note 6)	96,318,357
Due to primary government	94,172
Due to State of North Carolina component units	4,226,441
Deposits payable	1,681,775
Funds held for others	5,178,573
Unearned revenue	54,659,696
Interest payable	4,330,711
Short-term debt (Note 7)	192,414,000
Long-term liabilities — current portion (Note 8)	112,814,609
Total current liabilities	**471,718,334**
Non-current Liabilities	
U. S. government grants refundable	32,064,079
Funds held in trust for pool participants	588,098,709
Long-term liabilities (Note 8)	789,568,351
Total non-current liabilities	**1,409,731,139**
Total liabilities	**1,881,449,473**
Total assets less liabilities	**$3,415,868,747**
NET ASSETS	
Invested in capital assets, net of related debt	$1,211,804,330
Restricted for:	
Non-expendable (Note 10)	496,448,465
Expendable (Note 10)	1,090,042,641
Unrestricted	617,573,311
Total net assets	**$3,415,868,747**

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS For the fiscal year ended June 30, 2007

REVENUES	
Operating Revenues	
Student tuition and fees, net (Note 11)	$210,651,518
Patient services, net (Note 11)	197,221,518
Federal grants and contracts	429,058,855
State and local grants and contracts	45,255,927
Non-governmental grants and contracts	92,571,877
Sales and services, net (Note 11)	324,431,513
Interest earnings on loans	679,573
Other operating revenues	4,573,793
Total operating revenues	**1,304,444,574**
EXPENSES	
Operating Expenses	
Salaries and benefits	1,122,269,124
Supplies and materials	165,703,903
Services	462,092,772
Scholarships and fellowships	56,662,461
Utilities	60,727,000
Depreciation	80,826,849
Total operating expenses	**1,948,282,109**
Operating loss	**(643,837,535)**
NON-OPERATING REVENUES (EXPENSES)	
State appropriations	492,471,029
Non-capital grants	62,668,734
Non-capital gifts, net (Note 11)	74,291,599
Investment income (net of investment expense of $4,595,146)	318,441,609
Interest and fees on capital asset related debt	(42,926,147)
Other non-operating expenses	(84,091)
Net non-operating revenues	**904,862,733**
Income before other revenues	**261,025,198**
Capital appropriations	52,887,775
Capital grants	118,849,967
Capital gifts	15,661,798
Additions to endowments	39,441,876
Increase in net assets	**487,866,614**
NET ASSETS	
Net assets — July 1, 2006	**2,928,002,133**
Net assets — June 30, 2007	**$3,415,868,747**

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

STATEMENT OF CASH FLOWS For the fiscal year ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	$1,306,740,163
Payments to employees and fringe benefits	(1,111,960,376)
Payments to vendors and suppliers	(701,767,039)
Payments for scholarships and fellowships	(56,662,461)
Loans issued	(8,907,039)
Collection of loans	7,906,231
Other payments	(5,691,002)
Net cash used by operating activities	**(570,341,523)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State appropriations	492,471,029
Non-capital grants	64,163,318
Non-capital gifts	74,695,006
Additions to endowments	39,441,876
Related activity agency receipts	266,636,823
Net cash provided by non-capital financing activities	**937,408,052**
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	76,180,965
Capital grants	60,415,641
Capital appropriations	52,887,775
Capital gifts	13,003,044
Acquisition and construction of capital assets	(301,452,335)
Principal paid on capital debt and leases	(43,344,021)
Interest and fees paid on capital debt and leases	(43,675,710)
Net cash used by capital financing and related financing activities	**(185,984,641)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	944,361,874
Investment Income	70,176,913
Purchase of investments and related fees	(1,062,535,927)
Net cash used by investing activities	**(47,997,140)**
Net increase in cash and cash equivalents	**133,084,748**
Cash and cash equivalents, July 1, 2006	**514,235,241**
Cash and cash equivalents, June 30, 2007	**$647,319,989**

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

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	($643,837,535)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation expense	80,826,849
Allowances, write-offs, and amortizations	90,404
Changes in assets and liabilities	
Receivables, net	(21,797,719)
Inventories	(2,078,379)
Notes receivable, net	(1,688,719)
Accounts payable and accrued liabilities	(5,854,779)
Due to primary government	(96,536)
U.S. government grants refundable	(5,699)
Unearned revenue	19,095,916
Compensated absences	5,004,674
Net cash used by operating activities	**($570,341,523)**

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Assets acquired through assumption of a liability	$966,892
Assets acquired through a gift	$2,658,754
Change in fair value of investments	$143,345,326

RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Current Assets	
Cash and cash equivalents	$168,157,134
Restricted cash and cash equivalents	399,669,945
Non-current assets	
Restricted cash and cash equivalents	79,492,910
Total cash and cash equivalent — June 30, 2007	**$647,319,989**

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

COMPONENT UNITS

STATEMENT OF FINANCIAL POSITION June 30, 2007

	UNC-CH ARTS AND SCIENCES FOUNDATION, INC.	THE EDUCATIONAL FOUNDATION SCHOLARSHIP ENDOWMENT TRUST	THE MEDICAL FOUNDATION OF NORTH CAROLINA, INC.
ASSETS			
Current assets			
Cash and cash equivalents	$9,781,745	$9,116,463	$40,889,829
Investments		176,385,349	123,760,320
Unconditional promises to give, net	8,381,433	8,160,296	5,329,213
Contributions receivable from remainder trusts		4,083,169	
Accounts receivable	460,369		
Funds held in trust	207,296		
Accrued income receivable	41,461		239,969
Prepaid expenses			119,688
Miscellaneous receivables			244,069
Total current assets	**18,872,304**	**197,745,277**	**170,583,088**
Property and equipment			
Building			549,641
Furniture and equipment	650,324		406,646
Leasehold interest — building	3,750,483		
Vehicle	8,930		
	4,409,737		956,287
Less: allowance for depreciation	(305,078)		(330,019)
Total property and equipment	**4,104,659**		**626,268**
Other assets			
Investments	127,941,398		52,310,810
Unconditional promises to give,net	18,435,542		10,242,668
Restricted cash	3,474,660		62,080
Split-interest agreements	1,518,748		
Restricted investments			545,182
Real estate interests held for investment	49,500		
Student loans receivable			48,049
Cash surrender value of life insurance		2,073,802	392,632
Total other assets	**151,419,848**	**2,073,802**	**63,601,421**
Total assets	**$174,396,811**	**$199,819,079**	**$234,810,777**
LIABILITIES AND NET ASSETS			
Current liabilites			
Accounts payable	$296,394		$405,640
Annuities payable		$117,367	
Accrued expenses	152,494		291,660
Total current liabilities	**448,888**	**117,367**	**697,300**
Long-term debt	2,100,000		
Total other liabilities	**2,100,000**		
Total liabilities	**2,548,888**	**117,367**	**697,300**
Net assets			
Unrestricted	15,592,993		13,033,948
Temporarily restricted	84,768,974	108,021,706	168,768,719
Permanently restricted	71,485,956	91,680,006	52,310,810
Total net assets	**171,847,923**	**199,701,712**	**234,113,477**
Total liabilities and net assets	**$174,396,811**	**$199,819,079**	**$234,810,777**

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

COMPONENT UNITS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the fiscal year ended June 30, 2007

	UNC-CH ARTS AND SCIENCES FOUNDATION, INC.	THE EDUCATIONAL FOUNDATION SCHOLARSHIP ENDOWMENT TRUST	THE MEDICAL FOUNDATION OF NORTH CAROLINA, INC.
SUPPORT AND REVENUE			
Support			
Contributions	$21,448,195	$10,400,567	$19,294,750
Development assessment fee	1,575,000		
Change in value of split-interest agreements	185,590		
Donated facilities	40,000		
Actuarial adjustment of annuities payable		70,501	
Endowment investment return designated for current operations		6,202,071	
Total support	**23,248,785**	**16,673,139**	**19,294,750**
Revenue			
Interest and dividend income			9,072,890
Net unrealized and realized gains (losses) on investments	21,515,964		23,363,640
Investment income	3,586,033		
Gain on sale of real estate investments			18,120
Loss on sale of property and equipment			(7,084)
Other income	22,375		785,444
Total revenue	**25,124,372**		**33,233,010**
Total support and revenue	**48,373,157**	**16,673,139**	**52,527,760**
EXPENSES			
Program services			
Grants	8,281,289		15,409,135
Scholarship expense distribution		6,190,200	
Annuity payments		11,871	
Other expenses		234,300	
Total program services	**8,281,289**	**6,436,371**	**15,409,135**
Supporting services			
Fundraising expenses	2,027,874		1,360,198
Management and general	911,092		1,364,698
Total supporting services	**2,938,966**		**2,724,896**
Total expenses	**11,220,255**	**6,436,371**	**18,134,031**
Change in net assets from operations	**37,152,902**	**10,236,768**	**34,393,729**
TRANSFERS			
Transfers to UNC-CH Foundation	(356,669)		
OTHER CHANGES			
Investment return in excess of amounts designated for current operations		27,533,904	
Changes in net assets	**36,796,233**	**37,770,672**	**34,393,729**
Net assets — beginning of year	**134,442,602**	**161,931,040**	**200,814,685**
Prior period adjustment	**609,088**		**(1,094,937)**
Net assets — beginning of year as restated	**135,051,690**	**161,931,040**	**199,719,748**
Net assets — end of year	**$171,847,923**	**$199,701,712**	**$234,113,477**

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

07 NOTES TO THE FINANCIAL STATEMENTS June 30, 2007

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 serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Chapel Hill (University) is a constituent institution of the multi-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 delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. The blended component units, although legally separate, are, in substance, part of the University's operations and therefore, are reported as if they were part of the University. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Blended Component Units Although legally separate, The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund), UNC Investment Fund, LLC (System Fund), UNC Management Company, Inc. (Management Company), The University of North Carolina at Chapel Hill Foundation, Inc. (UNC-Chapel Hill Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), The School of Social Work Foundation, Inc. (Social Work Foundation), U.N.C. Law Foundation, Inc. (Law Foundation), and The University of North Carolina at Chapel Hill School of Education Foundation, Inc. (School of Education 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, the vice chancellor for finance and administration, and the vice chancellor for university advancement. The UNC-Chapel Hill Foundation Board may, in its discretion, elect one or two of its at-large members to the Investment Fund Board.

The Investment Fund supports the University by operating an investment fund for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. Because 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 and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The System Fund was organized by the Investment Fund to allow the University, the University of North Carolina and its other constituent institutions (UNC System), affiliated foundations, associations, trusts, and endowments that support the University and the UNC System, to pool their resources and invest collectively in investment opportunities identified, structured and arranged by the Management Company. The membership interests are offered only to government entities or tax-exempt organizations that are controlled by or support the University or UNC System. The Investment Fund contributed and assigned all of its assets to the System Fund effective January 1, 2003, in exchange for its membership interest in the System Fund. Upon such contribution and assignment, and in consideration thereof, the System Fund has assumed all liabilities and obligations of the Investment Fund in respect of such contributed assets. At June 30, 2007, the Investment Fund membership interest was approximately 91.8 percent of the System Fund total membership interests. Because the Investment Fund is the organizer and a predominant member of the System Fund, the financial statements of the System Fund have been blended with those of the University.

The Management Company is a North Carolina non-profit corporation organized and operated exclusively to support the educational mission of the University. The Management Company provides investment management services to the University, UNC System, and institutions and affiliated tax-exempt organizations, and performs other functions for and generally carries out the purposes of the University. The Management Company is governed by five ex-officio directors and one or two additional directors as fixed or changed from time to time by the board, elected by the ex-officio directors. The ex-officio directors consist of the chancellor of the University, the vice chancellor for finance and administration of the University, the chairman of the University's Board of Trustees, the chairman of the Board of Directors of the Investment Fund, and the president of the Management Company. Because members of the Board of Directors of the Management Company are officials or appointed by officials of the University and the Management Company's primary purpose is to benefit the University and other organizations operated primarily to support the University, its financial statements have been blended with those of the University.

The UNC-Chapel Hill 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 University Board of Trustees, the chancellor, the vice chancellor for finance and administration, and the vice chancellor for university advancement (non-voting). In addition, the Board of Trustees elects two ex-officio directors from among its own members as well as three ex-officio directors from the Board of Trustees of the Endowment Fund who have not otherwise been selected. The eight remaining directors are elected as members of the UNC-Chapel Hill Foundation Board of Directors by action of the ex-officio directors. The UNC-Chapel Hill Foundation aids, supports, and promotes teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because members of the Board of Directors of the UNC-Chapel Hill Foundation are officials or appointed by officials of the University and the UNC-Chapel Hill Foundation's sole purpose is to benefit the University, 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), as well as the school's chief financial officer, associate dean of academic affairs, and associate dean for MBA Programs. The remaining directors are elected to the Business School Foundation Board of Directors by action of the ex-officio directors. The Business School Foundation aids, promotes, and supports the Kenan-Flagler Business School at the University. Because 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 two ex-officio directors and eight elected directors. Ex-officio directors include the dean of the School of Social Work and the chairman of the school's Board of Advisors. The remaining eight directors are elected to the Social Work Foundation Board of Directors by action of a majority of board members. The remaining eight directors as of June 30, 2007, were elected by the ex-officio directors based on foundation bylaws in effect prior to 2006–07. The Social Work Foundation fosters and promotes the growth, progress, and general welfare of social work practice and research at the School of Social Work of the University. Because 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. 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 provides support, fosters, and encourages the study and teaching of law at the University's Law School. 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.

The School of Education Foundation is governed by a board consisting of six ex-officio directors and five elected directors. Ex-officio directors include the dean of the School of Education, as well as the school's assistant dean for external relations, assistant dean for administration and finance, director of alumni relations, president of the alumni council, and president-elect of the alumni council. The remaining directors are elected to the School of Education Foundation Board of Directors by action of the ex-officio directors. The School of Education Foundation aids, supports and promotes teaching, research, and service at the School of Education. Because members of the Board of Directors of the School of Education Foundation are officials or appointed by officials of the University, the financial statements of the School of Education Foundation have been blended with those of the University.

Separate financial statements for the Investment Fund, System Fund, the Management Company, 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.

Discretely Presented Component Units The Medical Foundation of North Carolina, Inc. (Medical Foundation), The Educational Foundation Scholarship Endowment Trust (Educational Foundation Trust), and the University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. (Arts and Sciences Foundation) are legally separate, not for profit, tax-exempt organizations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Medical Foundation is governed by a 46-member board of directors, elected annually by its members. Its purpose is to support educational and research efforts of the University's medical school and UNC Hospitals. Historically, the University's medical school has been the major recipient of financial support from the Medical Foundation rather than UNC Hospitals. Although the University does not control the timing or amount of receipts from the Medical Foundation, the majority of resources or income that the Medical Foundation holds and invests is restricted to the University by the donors. Because these restricted resources held by the Medical Foundation can only be used by, or for the benefit of the University, the Medical Foundation is considered a component unit of the University.

The Arts and Sciences Foundation is governed by a board consisting of four ex-officio directors, 30 elected directors and such number of emeritus directors determined from time to time by the board of directors. The 30 elected directors are elected for staggered terms, by the board of directors in office at the time of election. The purpose of the Arts and Sciences Foundation is to promote and support the University's College of Arts and Sciences. Although the University does not control the timing or amount of receipts from the Arts and Sciences Foundation, the majority of resources or income that the Arts and Sciences Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Arts and Sciences Foundation can only be used by, or for the benefit of the University, the Arts and Sciences Foundation is considered a component unit of the University.

The Educational Foundation Trust is governed by The Educational Foundation Scholarship Endowment Trust Agreement which designates the voting members of the Investment Committee of The Educational Foundation, Inc. as trustees. The Investment Committee consists of five members elected from the membership of the Educational Foundation, Inc. The Educational Foundation Trust operates solely to assist the University in providing financial assistance to students at the University. On an annual basis, the Board of Trustees of the Educational Foundation Trust appropriates a portion of the net appreciation on its assets to the Educational Foundation, Inc. in its capacity as agent for the Educational Foundation Trust. The distribution from the Educational Foundation Trust to the Educational Foundation, Inc. is then forwarded by the Educational Foundation, Inc. to the University to provide financial assistance to students at the University. Although the University does not control the timing or amount of receipts from the Educational Foundation Trust, the majority of resources or income that the Educational Foundation Trust holds and invests are restricted to the students of the University by the donors. Because these restricted resources held by the Educational Foundation Trust can only be used for the benefit of the students of the University, the Educational Foundation Trust is considered a component unit of the University.

The Medical Foundation, the Arts and Sciences Foundation, and the Educational Foundation Trust are private, non-profit organizations that report their financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2007, the Medical Foundation, Arts and Sciences Foundation, and the Educational Foundation Trust distributed in total $29,880,624 to the University for both restricted and unrestricted purposes. Complete financial statements for the Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust can be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

B Basis of Presentation

The accompanying financial statements are presented in accordance with 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,* the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C Basis of Accounting

The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Non-exchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D Cash and Cash Equivalents

This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E Investments

This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, certificates of deposit, investment agreements, limited partnerships, real estate, and other asset holdings by the University. The fair values of all debt and equity securities with readily determinable fair market values are based on quoted market prices. Investments for which a readily determinable fair value does not exist include investments in certain commingled funds and limited partnerships. These investments are carried at estimated fair values as provided by the respective fund managers of these investments. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. The net increase or decrease in the fair value of investments is recognized as a component of investment income.

Money market funds, certificates of deposit, investment agreements, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair 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

Receivables consist of tuition and fees charged 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, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and notes receivables 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. 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line over the estimated useful lives of the assets, generally 10 to 40 years for general infrastructure, 10 to 50 years for buildings, and four 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 properties and collections are considered inexhaustible and are therefore not depreciated.

I Restricted Assets

Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. These assets are also classified as non-current since they cannot be used for current operations. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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 2.

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, 2007, is $33,062,216.

L Non-current Long-term Liabilities

Non-current 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 premiums or discounts and deferred losses on refunds. 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 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

When classifying compensated absences into current and non-current, leave is considered taken using a last-in, first-out (LIFO) method.

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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 — Non-expendable Non-expendable 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 for which the University is legally or contractually obligated to spend 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 tracked 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 decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

O Scholarship Discounts

Student tuition and fees revenues 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 non-governmental 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 classifies its revenues and expenses as operating or non-operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

Non-operating revenues include activities that have the characteristics of non-exchange transactions. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered non-operating since these are investing, capital or non-capital financing activities. Capital contributions are presented separately after non-operating revenues and expenses.

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.

R Related Parties

Related parties are non-profit organizations 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 programs and activities. Except as described in Note 1A, 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.

NOTE 2 DEPOSITS AND INVESTMENTS

A Deposits

Unless specifically exempt, the University is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, 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. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $551,690,001, which represents the University's equity position in the State Treasurer's Short-term Investment Fund. The Short-term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. Assets and shares of the Short-term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-term Investment Fund) 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.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2007 was $185,201. The carrying amount of the University's deposits not with the State Treasurer, including certificates of deposit, was $96,444,787 and the bank balance was $22,652,238. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2007, $21,205,508 of the University's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

B Investments

The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 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; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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.

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of the University's component units, UNC-Chapel Hill Foundation, Investment Fund, System Fund, Business School Foundation, Social Work Foundation, Law Foundation, School of Education Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust, are subject to and restricted by G.S. 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.

Investments are subject to the following risks.

Interest Rate Risk Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University does not have a formal policy that addresses interest rate risk.

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

Foreign Currency Risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk.

Temporary Investment Pool (Temporary Pool) This is a fixed income portfolio managed by the UNC Management Company, Inc. (Management Company) and Tanglewood Asset Management LLC. 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 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. The University has elected to invest a portion of the Temporary Pool assets in the University's Investment Fund.

By 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 provided via internet website 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 Management Company and the vice chancellor for finance and administration.

The following table presents the fair value of the Temporary Pool investments by type and investments subject to interest rate risk at June 30, 2007.

TEMPORARY POOL INVESTMENTS		Investment Maturities (in Years)			
	FAIR VALUE	LESS THAN 1	1 TO 5	6 TO 10	MORE THAN 10
INVESTMENT TYPE					
Debt Securities					
U.S. Treasuries	$10,036,140		$10,036,140		
U.S. Agencies	8,151,805	$1,990,628	3,989,892	$2,171,285	
Mortgage Pass Throughs	33,668,282		6,988,105	5,297,003	$21,383,174
Collateralized Mortgage Obligations	149,570,785		1,718,785	6,355,635	141,496,365
State and Local Government	1,440,031		1,440,031		
Asset-Backed Securities	3,455,211				3,455,211
Mutual Bond Funds	7,345,191			7,345,191	
Money Market Mutual Funds	73,257,532	73,257,532			
Domestic Corporate Bonds	7,413,044		4,680,055		2,732,989
Foreign Corporate Bonds	5,000,000		5,000,000		
Total Debt Securities	**299,338,021**	**$75,248,160**	**$33,853,008**	**$21,169,114**	**$169,067,739**
Other Securities					
Certificates of Deposit	1,000,000				
Other Mutual Funds	5,630,560				
Domestic Stocks	30,000				
TOTAL TEMPORARY POOL INVESTMENTS	**$305,998,581**				

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

At June 30, 2007, investments in the Temporary Pool had the following credit quality distribution for securities with credit exposure:

	FAIR VALUE	AAA, Aaa	AA, Aa	A	BBB, Baa	UNRATED
U.S. Agencies	$5,980,520	$5,980,520				
Mortgage Pass Throughs	33,668,282					$33,668,282
Collateralized Mortgage Obligations	149,570,785	58,796,816	$12,056,609	$33,122,272		45,595,088
State and Local Government	1,440,031	1,440,031				
Asset-Backed Securities	3,455,211	317,360	2,056,464	581,387	$500,000	
Mutual Bond Funds	7,345,191			4,862,992		2,482,199
Money Market Mutual Funds	73,257,532			73,257,532		
Domestic Corporate Bonds	7,413,044	1,544,705		5,868,339		
Foreign Corporate Bonds	5,000,000		5,000,000			
TOTAL	**$287,130,596**	**$68,079,432**	**$19,113,073**	**$117,692,522**	**$500,000**	**$81,745,569**

Rating Agencies: Moody's / Standard & Poor's / Fitch

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, 2007 are as follows:

STATEMENT OF NET ASSETS *JUNE 30, 2007*

	AMOUNT
Assets	
Accrued Investment Income	$1,579,923
Investments Fund Equity	48,662,078
Investments	305,998,581
Total Assets	**$356,240,582**
Liabilities	
Deferred Income	$1,222,063
Total Liabilities	1,222,063
Net Assets	
Internal Portion	247,341,402
External Portion	107,677,117
Total Net Assets	355,018,519
TOTAL LIABILITIES AND NET ASSETS	**$356,240,582**

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS *FOR THE FISCAL YEAR ENDED JUNE 30, 2007*

	AMOUNT
Increase in Net Assets from Operations	
Revenues:	
Investment Income	$16,446,496
Expenses:	
Investment Management	(441,330)
Net Increase in Net Assets Resulting from Operations	16,005,166
Distributions to Participants	
Distributions Paid and Payable	(16,005,166)
Share Transactions	
Net Share Liquidations	(9,679,965)
Total Decrease in Net Assets	(9,679,965)
Net Assets	
Beginning of Year	364,698,484
END OF YEAR	**$355,018,519**

UNC-Chapel Hill Foundation Investment Fund, Inc. (Investment Fund) This is a North Carolina non-profit corporation exempt from income tax pursuant to Section 501(c)(3). It was established in January 1997 and is classified as a governmental external investment pool. The pool is utilized to manage the investments for charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The University's Endowment, UNC-Chapel Hill Foundation, Business School Foundation, Social Work Foundation, School of Education Foundation, Law Foundation, Medical Foundation, Arts and Sciences Foundation, and Educational Foundation Trust are participants in the Investment Fund and 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 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. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Investment Fund. The audited financial statements for the Investment Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The Investment Fund consists of an approximately 91.8 percent membership in the System Fund categorized below.

UNC Investment Fund, LLC (System Fund) This is a limited liability company organized under the laws of the State of North Carolina. It was established in December 2002 by the Investment Fund and is classified as a governmental external investment pool. The pool is utilized to manage the investments for The University of North Carolina, its constituent institutions, and affiliates of the constituent institutions. This includes charitable, non-profit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support these institutions. The Investment Fund, with an approximately 91.8 percent membership interest as of June 30, 2007, is the predominant member of the System Fund. The University's reporting entity portion of the Investment Fund is characterized as the internal portion. Other affiliated organizations in the Investment Fund in addition to other members of the System Fund not included in the University's reporting entity are characterized as the external portion. The external portion of the System Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Membership interests of the System Fund are measured using the unit value method. Under this method, each member's investment balance is determined on a market value basis.

The System Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Investment Fund as the controlling member and the Management Company (See Note 1A). Effective January 1, 2003, the Management Company entered into an investment management services agreement with the System Fund and will provide investment management and administrative services.

The Northern Trust Company is the custodian for the System Fund and provides the University with monthly statements defining income and market value information. The System Fund uses a unit basis to determine each member's market value and to distribute the fund's earnings. There are no involuntary participants in the System Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the System Fund investments. The audited financial statements for the System Fund may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

The following table presents the fair value of the System Fund investments by type and investments subject to interest rate risk at June 30, 2007.

SYSTEM FUND POOL INVESTMENTS

		INVESTMENT MATURITIES (IN YEARS)			
	FAIR VALUE	**LESS THAN 1**	**1 TO 5**	**6 TO 10**	**MORE THAN 10**
INVESTMENT TYPE					
Debt Securities					
U.S. Treasuries	$23,190,275				$23,190,275
U.S. Agencies	3,711,663			$63,350	3,648,313
Mortgage Pass Throughs	5,999,275			2,580,100	3,419,175
Collateralized Mortgage Obligations	4,057,320				4,057,320
Mutual Bond Funds	14,540,471			14,540,471	
Money Market Mutual Funds	23,502,257	$23,502,257			
Domestic Corporate Bonds	14,248,969			1,998,123	12,250,846
Total Debt Securities	**89,250,230**	**$23,502,257**	**$0**	**$19,182,044**	**$46,565,929**
Other Securities					
International Mutual Funds	15,429,125				
Other Mutual Funds	177,935,457				
Hedge Equity	683,727,286				
Limited Partnerships	906,839,906				
Domestic Stocks	94,757,769				
Foreign Stocks	41,081,603				
Absolute Return	159,452,832				
Other	33,948,583				
TOTAL SYSTEM FUND POOL INVESTMENTS	**$2,202,422,791**				

At June 30, 2007, investments in the System Fund Pool had the following credit quality distribution for securities with credit exposure:

	FAIR VALUE	**AAA, Aaa**	**AA, Aa**	**A**	**BBB, Baa**	**BB, Ba AND BELOW**	**UNRATED**
U.S. Agencies	$3,648,313	$2,294,671					$1,353,642
Mortgage Pass Throughs	5,999,275	3,419,175					2,580,100
Collateralized Mortgage Obligations	4,057,320		$936,729				3,120,591
Mutual Bond Funds	14,540,471	750,200	966,450	$1,728,550		$9,677,005	1,418,266
Money Market Mutual Funds	23,502,257			23,502,257			
Domestic Corporate Bonds	14,248,969	483,592	962,821	5,151,354	$7,651,202		
TOTAL	**$65,996,605**	**$6,947,638**	**$2,866,000**	**$30,382,161**	**$7,651,202**	**$9,677,005**	**$8,472,599**

Rating Agencies: Moody's / Standard & Poor's / Fitch

Foreign Currency Risk At June 30, 2007, the System Fund Pool's exposure to foreign currency risk is as follows:

	CURRENCY	FAIR VALUE (U.S. DOLLARS)
Limited Partnerships	Euro	$30,928,110
Limited Partnerships	British Pound Sterling	3,031,860
Foreign Stock	Canadian Dollar	8,197,317
Foreign Stock	Euro	2,229,742
Foreign Stock	Hong Kong Dollar	1,971,504
Foreign Stock	Japanese Yen	16,870,636
Foreign Stock	New Zealand Dollar	845,070
Foreign Stock	Singapore Dollar	1,991,579
Foreign Stock	British Pound Sterling	1,016,800
Foreign Stock	Norwegion Krone	1,248,827
Foreign Stock	South Korean Won	683,767
Foreign Stock	Polish Zloty	711,482
Hedge Equity	Euro	26,497,552
Total		**$96,224,246**

In addition to the foreign currency risk disclosed above, the System Fund includes investments with fair values highly sensitive to interest rate changes. The System Fund invests in hedge funds containing securities that are highly sensitive to rate changes.

Non-Pooled Invstments The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007.

NON-POOLED INVESTMENTS

		INVESTMENT MATURITIES (IN YEARS)			
	FAIR VALUE	LESS THAN 1	1 TO 5	6 TO 10	MORE THAN 10
INVESTMENT TYPE					
Debt Securities					
U.S. Treasuries	$2,725,660	$2,482,664	$113,377	$13,906	$115,713
U.S. Agencies	510,952	59,681	451,271		
Mortgage Pass Throughs	391,202				391,202
Collateralized Mortgage Obligations	104,676		38,858		65,818
State and Local Government	132,323				132,323
Asset-Backed Securities	35,000				35,000
Mutual Bond Funds	10,544,310			9,466,964	1,077,346
Money Market Mutual Funds	34,790,547	34,790,547			
Domestic Corporate Bonds	55,135		25,213		29,922
Total Debt Securities	**49,289,805**	**$37,332,892**	**$628,719**	**$9,480,870**	**$1,847,324**
Other Securities					
Investment Agreements	5,058,649				
International Mutual Funds	7,934,806				
Other Mutual Funds	12,641,488				
Investments in Real Estate	14,715,245				
Domestic Stocks	11,620,025				
Foreign Stocks	176,442				
Other	18,857,799				
TOTAL NON-POOLED INVESTMENTS	**$120,294,259**				

At June 30, 2007, the University's Non-Pooled investments had the following credit quality distribution for securities with credit exposure:

	FAIR VALUE	AAA, Aaa	AA, Aa	A	BBB, Baa	BB, Ba AND BELOW	UNRATED
U.S. Agencies	$510,952	$506,101					$4,851
Mortgage Pass Throughs	391,202	300,132		$91,070			
Collateralized Mortgage Obligations	104,676	104,676					
State and Local Government	132,323			92,494	$39,829		
Asset-Backed Securities	35,000			35,000			
Mutual Bond Funds	10,544,310	4,574,797	$3,898,467	816,673	380,480	$873,893	
Money Market Mutual Funds	34,790,547	31,954,292		2,834,915			1,340
Domestic Corporate Bonds	55,135		55,135				
TOTAL	$46,564,145	$37,439,998	$3,953,602	$3,870,152	$420,309	$873,893	$6,191

Rating Agencies: Moody's / Standard & Poor's / Fitch

Total Investments The following table presents the fair value of the total investments at June 30, 2007:

TOTAL INVESTMENTS

	FAIR VALUE
INVESTMENT TYPE	
Debt Securities	
U.S. Treasuries	$35,952,075
U.S. Agencies	12,374,420
Mortgage Pass Throughs	40,058,759
Collateralized Mortgage Obligations	153,732,781
State and Local Government	1,572,354
Asset-Backed Securities	3,490,211
Mutual Bond Funds	32,429,972
Money Market Mutual Funds	131,550,336
Domestic Corporate Bonds	21,717,148
Foreign Corporate Bonds	5,000,000
Total Debt Securities	437,878,056
Other Securities	
Certificates of Deposit	1,000,000
Investment Agreements	5,058,649
International Mutual Funds	23,363,931
Other Mutual Funds	196,207,505
Investments in Real Estate	14,715,245
Limited Partnerships	906,839,906
Domestic Stocks	106,407,794
Foreign Stocks	41,258,045
Hedge Equity	683,727,286
Absolute Return	159,452,832
Other	52,806,382
TOTAL INVESTMENTS	$2,628,715,631

Total investments include $358,415,943 held in the System Fund for the component units that are discretely presented in the accompanying financial statements. The University's reporting entity, including the three discretely presented component units, comprises 78.05 percent of the System Fund.

Component Units Investments of the University's discretely presented component unit, the Medical Foundation of North Carolina, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Medical Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments not held by the University by type:

COMPONENT UNITS

	CARRYING VALUE
INVESTMENT TYPE	
Bonds	$29,189,596
Mutual Funds	22,824,212
Common Stock	63,260,092
TOTAL INVESTMENTS	$115,273,900

NOTE 3 ENDOWMENT INVESTMENT RETURN

Substantially all of the investments of the University's endowment funds are pooled in the Investment Fund. Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the Investment Fund to the University's pooled endowment funds are generally based on an adopted distribution 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 percent and a maximum of 7 percent 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, 2007, accumulated income and appreciation of $662,367,019 was available in the University's pooled endowment funds of which $596,954,626 was restricted to specific purposes.

NOTE 4 RECEIVABLES

Receivables at June 30, 2007, were as follows:

	GROSS RECEIVABLES	LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS	NET RECEIVABLES
Current Receivables			
Students	$2,875,414		$2,875,414
Patients	83,313,757	($53,029,681)	30,284,076
Accounts	47,921,738		47,921,738
Intergovernmental	45,715,813		45,715,813
Pledges	14,721,839	(368,046)	14,353,793
Investment Earnings	3,957,233		3,957,233
Interest on Loans	574,785		574,785
Other	24,580		24,580
TOTAL CURRENT RECEIVABLES	**$199,105,159**	**($53,397,727)**	**$145,707,432**
Non-current Receivables			
Pledges	**$24,279,770**	**($606,994)**	**$23,672,776**
Notes Receivable			
NOTES RECEIVABLE — CURRENT			
Federal Loan Programs	$2,610,568	($93,441)	$2,517,127
Institutional Student Loan Programs	761,885	(78,573)	683,312
TOTAL NOTES RECEIVABLE — CURRENT	**$3,372,453**	**($172,014)**	**$3,200,439**
NOTES RECEIVABLE — NON-CURRENT			
Federal Loan Programs	$28,855,394	($1,074,575)	$27,780,819
Institutional Student Loan Programs	4,460,788	(135,298)	4,325,490
TOTAL NOTES RECEIVABLE — NON-CURRENT	**$33,316,182**	**($1,209,873)**	**$32,106,309**

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 percent 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
2008	$14,721,839
2009	8,822,381
2010	7,394,240
2011	5,976,599
2012	1,400,295
2013–2017	3,791,453
TOTAL PLEDGE RECEIPTS EXPECTED	42,106,807
Discount Amount Representing Interest (3.58% Rate of Interest)	(3,105,198)
PRESENT VALUE OF PLEDGE RECEIPTS EXPECTED	39,001,609
Less Allowance for Uncollectible	(975,040)
PLEDGES RECEIVABLE	**$38,026,569**

NOTE 5 CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	BALANCE 07/01/06	INCREASES	DECREASES	BALANCE 06/30/07
Capital Assets, Non-depreciable				
Land	$29,252,036	$36,827	$529,036	$28,759,827
Art, Literature, and Artifacts	63,727,792	3,557,397	15,254	67,269,935
Construction in Progress	585,216,057	195,983,647	245,868,035	535,331,669
Intangible	1,000,000			1,000,000
Total Capital Assets, Non-depreciable	679,195,885	199,577,871	246,412,325	632,361,431
Capital Assets, Depreciable				
Buildings	1,373,375,954	296,887,330		1,670,263,284
Machinery and Equipment	232,487,366	30,807,398	16,028,602	247,266,162
General Infrastructure	367,569,830	15,373,537		382,943,367
Total Capital Assets, Depreciable	1,973,433,150	343,068,265	16,028,602	2,300,472,813
Less Accumulated Depreciation/Amortization for				
Buildings	462,612,852	51,232,993		513,845,845
Machinery and Equipment	138,858,374	14,734,756	8,964,322	144,628,808
General Infrastructure	176,671,571	14,859,100		191,530,671
Total Accumulated Depreciation	778,142,797	80,826,849	8,964,322	850,005,324
Total Capital Assets, Depreciable, Net	1,195,290,353	262,241,416	7,064,280	1,450,467,489
Capital Assets, Net	**$1,874,486,238**	**$461,819,287**	**$253,476,605**	**$2,082,828,920**

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

Accounts Payable	$51,224,018
Accrued Payroll	30,170,077
Contract Retainage	14,795,393
Intergovernmental Payables	128,869
TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$96,318,357**

NOTE 7 SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2007, was as follows:

	BALANCE 07/01/06	ISSUED	REDEEMED	BALANCE 06/30/07
Commercial Paper Program	**$117,414,000**	**$75,000,000**	**$0**	**$192,414,000**

The University's commercial paper program provides up to $400,000,000 in short-term financing for the University's capital improvement projects and is supported by a pledge of the University's available funds. The University will typically utilize the commercial paper program for construction financing and will periodically issue long-term bonds to refund the outstanding balances under this program in order to provide permanent financing for these capital improvement projects.

NOTE 8 LONG-TERM LIABILITIES

A Changes in Long-term Liabilities

A summary of changes in the long-term liabilities for the year ended June 30, 2007, is presented as follows:

	BALANCE 07/01/06	ADDITIONS	REDUCTIONS	BALANCE 06/30/07	CURRENT PORTION
Bonds Payable	$826,650,000		$21,775,000	$804,875,000	$105,307,125
Add/Deduct Premium/Discount	(18,563,668)		(2,833,811)	(15,729,857)	
Deduct Deferred Charge on Refunding	(4,240,260)		(401,922)	(3,838,338)	
Total Bonds Payable	803,846,072	$0	18,539,267	785,306,805	105,307,125
Notes Payable	21,054,002	1,180,965	20,872,967	1,362,000	1,362,000
Capital Leases Payable	379,186	2,721,218	696,054	2,404,350	875,282
Compensated Absences	102,305,703	48,048,663	43,043,989	107,310,377	4,358,711
Annuity and Life Income Payable	6,045,475	674,401	720,448	5,999,428	911,491
TOTAL LONG-TERM LIABILITIES	**$933,630,438**	**$52,625,247**	**$83,872,725**	**$902,382,960**	**$112,814,609**

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

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 06/30/07	DISCOUNT ON CAPITAL APPRECIATION BONDS	PRINCIPAL OUTSTANDING 06/30/07
Housing System	1997A	5.0%	11/01/17	$9,170,000	$8,730,000		$440,000
	1997B	4.6% - 5.0%	11/01/11	7,210,000	3,285,000		3,925,000
Total Housing System				**16,380,000**	**12,015,000**		**4,365,000**
Parking System	1997A	5.0%	05/15/27	11,750,000	11,750,000		0
	1997B	5.1%	05/15/09	8,245,000	6,470,000		1,775,000
Total Parking System				**19,995,000**	**18,220,000**		**1,775,000**
General Revenue	2001A	5.000% - 5.375%	12/01/25	89,930,000	45,920,000		44,010,000
	2001B	variable	12/01/25	54,970,000	10,995,000		43,975,000
	2001C	variable	12/01/25	54,970,000	10,995,000		43,975,000
	2002B	5.0%	12/01/11	66,555,000	26,885,000		39,670,000
	2003	2.5% - 5.0%	12/01/33	107,960,000	4,950,000		103,010,000
	2005	3.25% - 5.00%	12/01/34	404,960,000	620,000		404,340,000
Total General Revenue				**779,345,000**	**100,365,000**		**678,980,000**
Utilities System	1997	5.25% - 5.50%	08/01/21	84,135,000		(33,212,660)	50,922,340
Student Union	2000	5.0%	06/01/10	12,465,000	11,040,000		1,425,000
Student Recreation Center	1997	4.7% - 5.0%	06/01/11	3,545,000	2,025,000		1,520,000
U.S. EPA Project	1991	9.05%	02/15/15	58,125,000	25,450,000	(9,179,848)	23,495,152
Total Bonds Payable (principal only)				**$973,990,000**	**$169,115,000**	**($42,392,508)**	**762,482,492**
Less: Unamortized Loss on Refunding							(3,838,338)
Plus: Unamortized Premium							26,662,651
TOTAL BONDS PAYABLE							**$785,306,805**

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 to the University's remarketing or paying agents.

With regards to the following demand bonds, the University has not entered into legal 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. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. 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; 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 Financial Services, Inc. (2001C).

The University entered into a new line of credit agreement in the amount of $300,000,000 with Wachovia Bank on September 21, 2006 and canceled its line of credit in the amount of $107,460,000 with JP Morgan Chase Bank. Under the new line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds or commercial paper bonds delivered for purchase. Under the new line of credit agreement, the University may request that Wachovia Bank increase the commitment by increments of $25,000,000 for a total commitment of up to $400,000,000. A request for increase is subject to the bank's sole discretion, and the University cannot be in default under the agreement.

The University is required to pay a quarterly facility fee for the line of credit in the amount of 0.08 percent per annum based on the size of the commitment. If a long-term debt rating assigned by S&P, Moody's, or Fitch is lowered, the facility fee assigned to the lowest rating in the table below shall apply:

S&P	FITCH	MOODY'S	FACILITY FEE
AA	AA	Aa2	0.10%
AA-	AA-	Aa3	0.11%
A+	A+	A1	0.14%
A	A	A2	0.18%

In the event that the bank increases the available commitment prior to the due date for payment of a facility fee, the University must pay a supplemental fee based on the facility fee applied to the amount of the increase at the time of the commitment to increase. The University will also pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of bonds, multiplied by the prime rate multiplied by the ratio of the number of days from the date of purchase of bonds until the date of payment of the accrued interest to 365 days.

Under the line of credit agreement, draws to purchase bonds will accrue interest at the prime rate payable on the same interest date as provided in the trust agreement for the original bonds. The University is required to begin making a series of ten fully amortizing semi-annual principal payments on bonds held by the bank six months after the date of purchase. Commercial paper bonds held by the bank may be rolled over for a period of 180 days and must be reduced by 1/10th of the original amount of the commercial paper bonds for a period of up to ten rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit. At June 30, 2007, no purchase draws had been made under the line of credit.

The line of credit agreement expires on September 21, 2011 and is subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below a BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's.

Interest Rate Swaps

Lehman Brothers Special Financing, Inc.

Objective To protect against the risk of interest rate changes, effective October 3, 2000, the University entered into an interest rate swap agreement with Lehman Brothers Special Financing, Inc. (Lehman Brothers) related to $22,000,000 of The 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 Demand Bonds, Series 2001B (2001B Bonds), and the interest rate swap agreement was amended to reflect the refunding.

Terms Under this amended agreement, Lehman Brothers pays the University interest on the notional amount based on the Securities Industry and Financial Markets Association (SIFMA) index on a quarterly basis. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of 5.24 percent. The notional amount of the swap reduces annually in conjunction with the 2001B Bonds; the reductions began in November 2002 and end in November 2025. The swap agreement matures November 1, 2025. As of June 30, 2007, rates were as follows:

	TERMS	RATE %
Fixed payment to Lehman	Fixed	5.24
Variable payment from Lehman	SIFMA	3.73
Net interest rate swap payments		1.51
Variable rate bond coupon payments		3.70
Synthetic interest rate on bonds		5.21

Fair value As of June 30, 2007, the swap had a fair value of negative $2,473,616. The fair value was developed by Lehman Brothers. Their method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for London Interbank Offered Rate (LIBOR) due on the date of each future net settlement on the swap.

Credit risk As of June 30, 2007, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. Should the swap have a positive fair value of more than $1,000,000, at that point Lehman would be required to collateralize 103 percent of their exposure. Lehman Brothers Holdings, guarantor of Lehman Brothers Special Financing, Inc., was rated A1 by Moody's, A+ by S&P, and AA- by Fitch for unsecured long-term debt.

Basis risk The University receives the SIFMA index from Lehman Brothers and pays a floating rate to its bondholders set by the remarketing agent. The University incurs basis risk when its bonds begin to trade at a yield above the SIFMA index. Basis risk also exists since swap payments are made quarterly while bond payments are made monthly. With the alternative tax structure of the swap, a change in tax law would trigger the swap being converted from a SIFMA swap to a percentage of LIBOR swap. This would introduce basis risk. If the weekly reset interest rates on the University's bonds are in excess of 65 percent of LIBOR, the University will experience an increase in debt service above the fixed rate on the swap to the extent that the interest rates on the bonds exceed 65 percent of LIBOR.

Termination risk The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Lehman Brothers fails to perform under terms of the contract.

Bank of New York

Objective To protect against the risk of interest rate changes, the University entered into an interest rate swap agreement with the Bank of New York (BNY) on April 19, 2006, based on a notional amount of $150,000,000, effective December 1, 2007, maturing on April 1, 2036.

Terms Under the agreement, BNY pays the University 67 percent of the one-month LIBOR index times the notional amount, payable monthly. The University pays BNY a fixed rate of 3.785 percent on the notional amount, payable monthly. Since the effective date is in the future, there is no expected cash flow until after that date, but the agreement carries with it a market fair value based on swap market conditions. The University anticipates that changes in the cost of issuing traditional fixed-rate debt will be offset by the change in the fair value of the swap, and additionally, that interest on variable rate bonds will correlate highly with 67 percent of the one-month LIBOR index, such that the University has the option to (1) issue variable rate bonds in December 2007, thereby effectively creating synthetic fixed-rate debt, or (2) unwind the swap, capturing the value of the movement of interest rates from the issuance date, and issuing traditional fixed rate bonds.

Fair value As of June 30, 2007, the swap had a fair value of $350,244. The fair value was developed by BNY. Market value represents the amount that would be paid to (or received from) another swap dealer to assume the payments under the swap.

Credit risk As of June 30, 2007, the University was exposed to credit risk because of the derivative's positive fair value. In the event that the swap carried a positive fair value for the University and in the event of a specified ratings downgrade of BNY's unsecured long-term debt, BNY would be required to post collateral in the amount of the difference between the positive fair value of the swap and the thresholds in the below table.

RATINGS (MOODY'S / S&P / FITCH)	THRESHOLD
Aa3/AA- or above	$Infinity
A1/A+	$15,000,000
A2/A	$10,000,000
A3/A- or below	$0

The University is also subject to the same provisions. BNY was rated AA- by S&P, AA- by Fitch and Aaa by Moody's. Since there have been no ratings downgrade, no posted collateral was required. In the event collateralization was required, the University is entitled to hold posted collateral or appoint a custodian to hold posted collateral. Collateral could be in the form of U.S. lawful currency, U.S. government or agency securities, or other collateral acceptable to the University.

Basis risk Changes in swap interest rates and tax-exempt bond interest rates may differ, introducing basis risk in the event the swap is unwound and traditional fixed-rate debt is issued. In the event that the University issues variable rate debt to create synthetic fixed rate debt, the University will pay a rate on the bonds that may not correlate with 67 percent of the one-month LIBOR index, altering the "fixed" cost of synthetic debt.

Termination risk The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or BNY fails to perform under terms of the contract.

Wachovia

Objective To protect against the risk of interest rate changes, the University entered into an interest rate swap agreement with Wachovia on December 5, 2006, based on a notional amount of $100,000,000, effective December 1, 2007, maturing on December 1, 2036.

Terms Under the agreement, Wachovia pays the University 67 percent of the one-month LIBOR index times the notional amount, payable monthly. The University pays Wachovia a fixed rate of 3.314 percent on the notional amount, payable monthly. Since the effective date is in the future, there is no expected cash flow until after that date, but the agreement carries with it a market fair value based on swap market conditions. The University anticipates that changes in the cost of issuing traditional fixed-rate debt will be offset by the change in the fair value of the swap, and additionally, that interest on variable rate bonds will correlate highly with 67 percent of the one-month LIBOR index, such that the University has the option to (1) issue variable rate bonds in December 2007, thereby effectively creating synthetic fixed-rate debt, or (2) unwind the swap, capturing the value of the movement of interest rates from the issuance date, and issuing traditional fixed rate bonds.

Fair value As of June 30, 2007, the swap had a fair value of $6,788,368. The fair value was developed by Wachovia. Market value represents the amount that would be paid to (or received from) another swap dealer to assume the payments under the swap.

Credit risk As of June 30, 2007, the University was exposed to credit risk because of the derivative's positive value. In the event that the swap carried a positive fair value for the University and in the event of a specified ratings downgrade of Wachovia's unsecured long-term debt, Wachovia would be required to post collateral in the amount of the difference between positive fair value of the swap and the thresholds in the below table.

RATINGS (MOODY'S / S&P / FITCH)	THRESHOLD
Aa3/AA- or above	$Infinity
A1/A+	$15,000,000
A2/A	$10,000,000
A3/A- or below	$0

The University is also subject to the same provisions. Wachovia was rated AA by S&P, AA- by Fitch and Aa1 by Moody's. Since there have been no ratings downgrade, no posted collateral was required. In the event collateralization was required, the University is entitled to hold posted collateral or appoint a costodian to hold posted collateral. Collateral could be in the form of U.S. lawful currency, U.S. government or agency securities, or other collateral acceptable to the University.

Basis risk Changes in swap interest rates and tax-exempt bond interest rates may differ, introducing basis risk in the event the swap is unwound and traditional fixed-rate debt is issued. In the event that the University issues variable rate debt to create synthetic fixed rate debt, the University will pay a rate on the bonds that may not correlate with 67 percent of the one-month LIBOR index, altering the "fixed" cost of synthetic debt.

Termination risk The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Wachovia fails to perform under terms of the contract.

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 $50,922,340 ($84,135,000 ultimate maturity less $33,212,660 discount) and $16,095,152 ($25,275,000 ultimate maturity less $9,179,848 discount), respectively, which is the accreted value at June 30, 2007. These bonds mature in the years from 2015 to 2021.

E Annual Requirements

The annual requirements to pay principal and interest on the long-term obligations at June 30, 2007, are as follows:

F Bond Defeasance

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

Housing System On August 30, 2005, the University defeased $6,250,000 of outstanding Housing System Revenue Bonds, Series 1997A. 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 Statement of Net Assets. At June 30, 2007, the outstanding balance of the defeased Housing System, Series 1997A bonds was $5,850,000.

Parking System On August 30, 2005, the University defeased $9,900,000 of outstanding Parking System Revenue Bonds, Series 1997A. 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 Statement of Net Assets. At June 30, 2007, the outstanding balance of the defeased Parking System, Series 1997A bonds was $0.

Student Union On August 30, 2005, the University defeased $8,750,000 of outstanding Student Fee Revenue Bonds, Series 2000. 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

	ANNUAL REQUIREMENTS				
	BONDS PAYABLE			NOTES PAYABLE	
FISCAL YEAR	PRINCIPAL	INTEREST	INTEREST RATE SWAPS, NET*	PRINCIPAL	INTEREST
2008	$22,515,000	$32,976,376	$312,419	$1,362,000	$19,477
2009	24,055,000	31,795,679	308,304		
2010	24,470,000	30,529,974	304,039		
2011	24,905,000	29,608,487	299,546		
2012	25,530,000	28,635,472	294,865		
2013-2017	119,695,000	133,482,135	1,305,018		
2018-2022	110,785,000	118,636,924	882,293		
2023-2027	66,025,000	102,653,598	241,449		
2028-2032	28,225,000	92,416,400			
2033-2037	358,670,000	26,754,375			
TOTAL REQUIREMENTS	$804,875,000	$627,489,420	$3,947,933	$1,362,000	$19,477

Interest on the variable rate General Revenue Bonds 2001B is calculated at 3.70% at June 30, 2007.
Interest on the variable rate General Revenue Bonds 2001C is calculated at 3.67% at June 30, 2007.
This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 8C.

**Computed using (5.24% - 3.73%) X ($22,000,000 - annual swap reduction)* included in the Statement of Net Assets. At June 30, 2007, the outstanding balance of the defeased Student Fee Revenue Bonds, Series 2000 bonds was $8,750,000.

General Revenue Bonds, Series 2001A On August 30, 2005, the University defeased $33,310,000 of outstanding General Revenue Bonds, Series 2001A. 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 Statement of Net Assets. At June 30, 2007, the outstanding balance of the defeased General Revenue Bonds, Series 2001A bonds was $33,310,000.

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 Statement of Net Assets. At June 30, 2007, the outstanding balance of the defeased Dining System bonds was $0.

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 Statement of Net Assets. At June 30, 2007, the outstanding balance of the defeased Student Union bonds was $85,000.

G Notes Payable

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

The Kenan-Flagler Business School Foundation, part of the University's financial reporting entity, closed a $20,000,000 unsecured line of credit with Wachovia Bank on September 22, 2004. This credit facility was used to fund the expansion of the Paul J. Rizzo Business Conference Center and expired on September 22, 2006. The line of credit with Wachovia Bank was paid February 22, 2007.

The UNC-Chapel Hill Foundation, part of the University's reporting entity, has a line of credit agreement issued by Bank of America, originally in the aggregate principal amount up to $10,000,000 to finance the costs of projects benefiting the foundation or the University. The line of credit had a maturity date of September 30, 2007, and subsequent to year end was extended to June 30, 2009. The aggregate principal amount remained at $6,000,000. Advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus 0.40 percent. An unused commitment fee is due each quarter calculated as 0.25 percent of the difference between the commitment amount and the average balance outstanding for the quarter through June 30, 2005, and 0.225 percent thereafter. The University repays draws on the note with capital improvement funds designated for land acquisition.

H Annuities Payable

The University participates in split-interest agreements with donors that require benefits payments for a specified period to a designated beneficiary out of assets held in trust for this purpose. At the end of the predetermined period (e.g., the lifetime of the beneficiary specified by the donor), the remaining assets of the trust revert to the University for its use or for a purpose specified by the donor. At the end of each fiscal year, annuities and life income payable to the beneficiaries is calculated using IRS issued 90CM table, taking into consideration beneficiary's age and the amount of the gift, and using IRS issued Life Table 90CM.

PURPOSE	FINANCIAL INSTITUTION	INTEREST RATE/ RANGES	FINAL MATURITY DATE	BEGINNING BALANCE 07/01/06	DRAWS	REPAYMENTS	PRINCIPAL BALANCE 06/30/07
Rizzo Center	Wachovia Bank	6.52%	09/22/06	$18,537,556	$1,180,965	$19,718,521	$0
Real Property Purchases	Bank of America	5.72%	09/30/07	2,516,446		1,154,446	1,362,000
TOTAL NOTES PAYABLE				$21,054,002	$1,180,965	$20,872,967	$1,362,000

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, 2007:

FISCAL YEAR	AMOUNT
2008	$1,020,531
2009	949,262
2010	440,520
2011	201,105
2012	71,610
Total Minimum Lease Payments	2,683,028
Amount Representing Interest (4.6% - 29.9% Rate of Interest)	278,678
PRESENT VALUE OF FUTURE LEASE PAYMENTS	$2,404,350

Machinery and equipment acquired under capital lease amounted to $2,839,792 at June 30, 2007

B Operating Lease Obligations

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2007:

FISCAL YEAR	AMOUNT
2008	$4,675,614
2009	2,672,604
2010	1,798,646
2011	866,105
2012	48,122
TOTAL MINIMUM LEASE PAYMENTS	$10,061,091

Rental expense for all operating leases during the year was $14,068,702.

C Other Lease Obligations

The UNC-Chapel Hill Foundation issued certificates of participation to provide for construction of alumni facilities. The University constructed the facilities as an agent for the UNC-Chapel Hill Foundation. In October 1989, the University entered into a 20-year lease agreement with the UNC-Chapel Hill 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, 2007, 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 RESTRICTED NET ASSETS

Restricted net assets at June 30, 2007, were as follows:

	AMOUNT
Non-expendable	
Scholarships and fellowships	$109,478,435
Research	14,917,590
Library acquisitions	26,133,509
Endowed professorships	204,597,234
Departmental uses	95,467,393
Loans	15,876,831
Other	29,977,473
TOTAL NON-EXPENDABLE	$496,448,465
Expendable	
Scholarships and fellowships	$219,159,265
Research	25,416,168
Library acquisitions	58,276,312
Endowed professorships	376,059,961
Departmental uses	304,194,803
Instruction and educational agreements	11,926,061
Plant improvements	16,207,776
Capital projects	69,817,295
Debt service	8,985,000
TOTAL EXPENDABLE	$1,090,042,641

NOTE 11 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 Change in Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues	Revenues Pledged as Security for Debt	
OPERATING REVENUES								
Student Tuition and Fees	**$261,744,652**		**$51,093,134**			**$210,651,518**	**$4,613,811**	(A)
Patient Services	**$521,439,391**			**$7,733,642**	**$316,484,231**	**$197,221,518**		
Sales and Services								
Residential Life	$38,755,995		$7,352,245			$31,403,750	$31,403,750	(B)
Dining	22,583,850					22,583,850		
Student Union Services	416,651	$376,550				40,101		
Health, Physical Education, and Recreation Services	6,413,205	143	275,478			6,137,584		
Bookstore	28,616,292	4,099,352	345,144			24,171,796		
Parking	21,568,587	740				21,567,847	21,567,847	(C)
Athletic	38,197,319	23,396				38,173,923		
Utilities	90,612,131	70,620,283				19,991,848	19,991,848	(D)
Telecommunications	15,925,201	12,753,215				3,171,986		
Other Professional Income	87,368,259	139,575				87,228,684		
Printing/Carolina Copy	9,045,039	6,024,949				3,020,090		
Repairs & Maintenance	29,294,025	28,031,181				1,262,844		
Materials Management and Disbursements	21,961,085	21,255,206				705,879		
Other	102,634,903	37,663,572				64,971,331	3,612,495	(E)
Total Sales and Services	**$513,392,542**	**$180,988,162**	**$7,972,867**	**$0**	**$0**	**$324,431,513**	**$76,575,940**	
Non-operating — Non-capital Gifts	**$74,253,058**			**($38,541)**		**$74,291,599**		

Revenue Bonds Secured by Pledged Revenues: *(A) Student Fee Revenue Bonds, Series 1997 & 2000 (B) Housing System Revenue Bonds, Series 1997 A & B (C) Parking System Revenue Bonds, Series 1997 A & B (D) Utility System Revenue Bonds, Series 1997 (E) US EPA Project, Series 1991 & 1996*

NOTE 12 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	$477,946,300	$29,763,639	$116,311,429		$106,969		$624,128,337
Research	205,659,528	41,049,571	65,432,962		18,154		312,160,215
Public Service	32,602,817	1,720,649	55,610,097		91,534		90,025,097
Academic Support	63,489,935	14,460,453	19,764,116		61,259		97,775,763
Student Services	11,914,848	943,564	13,001,994		3,739		25,864,145
Institutional Support	49,993,306	6,921,372	19,250,178		23,501		76,188,357
Operations and Maintenance of Plant	39,398,479	11,746,874	21,193,350		52,652,430		124,991,133
Student Financial Aid				$56,662,461			56,662,461
Auxiliary Enterprises	241,263,911	59,097,781	151,528,646		7,769,414		459,659,752
Depreciation						$80,826,849	80,826,849
TOTAL OPERATING EXPENSES	**$1,122,269,124**	**$165,703,903**	**$462,092,772**	**$56,662,461**	**$60,727,000**	**$80,826,849**	**$1,948,282,109**

NOTE 13 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. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the state to provide pension benefits for employees of the state, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66 percent of covered payroll for employers and 6 percent of covered payroll for members.

For the year ended June 30, 2007, the University had a total payroll of $969,440,038, of which $401,055,925 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $24,063,356 and $10,668,088, respectively. The University made 100 percent of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $10,668,088, $8,587,084, and $7,633,965, respectively.

The Teachers' and State Employees' Retirement System's financial information is 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.ncosc.net/ 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 that 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 the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2007, these rates were set at 6.84 percent of covered payroll for employers and 6 percent of covered payroll for members. The University assumes no liability other than its contribution.

For the year ended June 30, 2007, the University had a total payroll of $969,440,038, of which $386,278,029 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were $23,176,682 and $26,421,417, 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). 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, 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 $5,735,239 for the year ended June 30, 2007.

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 percent 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 law enforcement officers for the year ended June 30, 2007, were $238,968. The voluntary contributions by employees amounted to $3,239,665 for the year ended June 30, 2007.

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 $25,313,393 for the year ended June 30, 2007.

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS

A Health Care for Long-term Disability Beneficiaries and Retirees

The University participates in state-administered programs that provide post-employment 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, Article3, 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 3.8 percent 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, 2007, the University's total contribution to the Plan was $29,918,690. 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 Disability Income

The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and 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 0.52 percent of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2007, the University's total contribution to the DIPNC was $4,094,137. 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 15 RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled by a combination of methods, including participation in state-administered insurance programs, 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 Officer's and Employee's 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 excess public officers' and employees' liability insurance up to $5,000,000 through a contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

System Fund (blended component unit) Liability Insurance The System Fund is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The Management Company is a separate legal entity from The University of North Carolina System and the University. However, the Management Company's employees conduct System Fund's affairs. Therefore, exposures to loss are handled by the purchase of commercial insurance by the

Management Company. This insurance is independent of the risk management programs of The University of North Carolina System and the University.

Fire and Other Property Loss The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the state. Such coverage is provided at no cost to the University for operations supported by the state's General Fund. Other operations not supported by the state's General Fund are charged for the coverage. Fire and lightning losses covered by the Fund are subject to a $500 per occurrence deductible. Effective this year, the University also purchased through the Fund extended coverage for all campus buildings and contents with a $500,000 per occurrence deductible. This extended coverage provides insurance against an additional set of perils, most notably for windstorms.

Automobile Liability Insurance All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in state are $500,000 per claim and $5,000,000 per occurrence and out of state are $1,000,000 per claim and $5,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

Employee and Computer Fraud The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence with a $75,000 deductible and a 10 percent participation in each loss above the deductible.

Other authorized coverage not handled by the North Carolina Department of Insurance is purchased through the state's insurance agent of record. Examples include, but are not limited to, fine arts, boiler and machinery, medical professional liability, athletic accident and revenues, and study abroad health insurance.

Comprehensive Major Medical Plan University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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 a 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 (Trust Fund), a claims-servicing public entity risk pool for health-care professional liability protection. The Trust Fund services 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 Trust Fund.

The Trust Fund is an unincorporated entity created by Chapter 116, Article 26, of the *North Carolina General Statutes* and The University of North Carolina Board of Governors Resolution of June 9, 1978. The Trust Fund is a self-insurance program established to provide professional medical malpractice liability covering the University of North Carolina Hospitals at Chapel Hill ("UNC Hospitals") and The University of North Carolina at Chapel Hill Physicians and Associates ("UNC P&A"), the program participants. The Trust Fund provides coverage for program participants and individual health care practitioners working as employees, agents, or officers of program participants. The Trust 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 Trust Fund is open to the University of North Carolina, any constituent institution of the University of North Carolina, the UNC 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 UNC Hospitals. Only the UNC P&A and the UNC Hospitals have participated in the Trust Fund to date. Participants provide management and administrative services to the Trust Fund at no cost.

The Trust Fund is governed by the Liability Insurance Trust Fund Council (the Council). The Council consists of 13 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 UNC System's Board of Governors.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future expenses and claim adjustment expenses) that have been reported but not settled and of claims incurred but not reported. 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.

For the period July 1, 2006, through June 30, 2007, the Trust Fund provided coverage on an occurrence basis of $3,000,000 per individual and $7,000,000 in the aggregate per claim. The Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer in prior years. However, excess reinsurance coverage was not purchased for the policy year ended June 30, 2007, as the Trust Fund chose to retain 100 percent of the liability. In lieu of reinsurance, the participants contributed $10,000,000 in the aggregate toward the reimbursement fund for future losses.

For the fiscal year ending June 30, 2007, the Trust Fund purchased a direct insurance policy to cover the first $1,000,000 per occurrence and $3,000,000 in the aggregate for dental residents. *North Carolina General Statutes* Chapter 116 was amended during 1987 to authorize the Trust Fund to borrow necessary amounts up to $30,000,000, in the event that the Trust Fund may have insufficient funds to pay existing and future claims. Any such borrowing would be repaid from the assets and revenues of program participants. No line of credit or borrowing has been established pursuant to this authorization. The Council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust 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 Council may choose to terminate the Trust 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, 2007, University assets in the Trust Fund totaled $38,414,642 while University liabilities totaled $26,520,695 resulting in net assets of $11,893,947.

Additional disclosures about 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, 2007 and 2006. Copies of this report may be obtained from The University of North Carolina Liability Insurance Trust Fund, 4030 Bondurant Hall, CB# 7000, Chapel Hill, North Carolina 27599-7000, or by calling (919) 966-1712.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16 percent for the current fiscal year.

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

NOTE 16 COMMITMENTS AND CONTINGENCIES

A Commitments

The University has commitments of $96,381,242 for various capital improvements projects that include construction and completion of new buildings, and renovations of existing buildings.

B Pending Litigation and Claims

The Supreme Court of North Carolina issued a ruling on July 1, 2005 regarding litigation between North Carolina School Boards Association, et. al. v. Richard H. Moore, State Treasurer, 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 alleged 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 sought 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 appealed this judgment. The Court of Appeals affirmed in part and reversed in part the order of summary judgment by the Superior Court. The Supreme Court affirmed the Court of Appeals ruling that library fines are not civil penalties. The Supreme Court reversed the ruling that fines for parking and traffic regulations are not civil penalties. The civil penalties case is still pending in Wake Superior Court. This court has not scheduled a final hearing or issued a judgment because the plaintiffs and state legislative leadership have been involved in settlement negotiations, which are being facilitated by the State Attorney General's Office.

At issue is the effective date of the ruling. Approximately $10,200,000 representing net fines from the Department of Public Safety has been collected from 1994–95 through 2004–05, and of that amount 10 percent may be retained by the University to fund related operating expenses. Therefore, $9,200,000 may be payable by the University. Approximately $3,600,000 in collected fines remains unexpended if needed for possible payment. Annual fines are approximately $850,000. Fines net of approved operating expenses have been remitted to the State Treasurer on a monthly basis beginning July 1, 2005. The current unexpended amount is based on the initial lawsuit date of December 14, 2001. An additional amount up to $5,600,000 could be needed for possible payment if the effective date is determined to be earlier. It is not expected that the effective date of the ruling will be prior to fiscal year 1994–95.

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 believes 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 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, cannot 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:

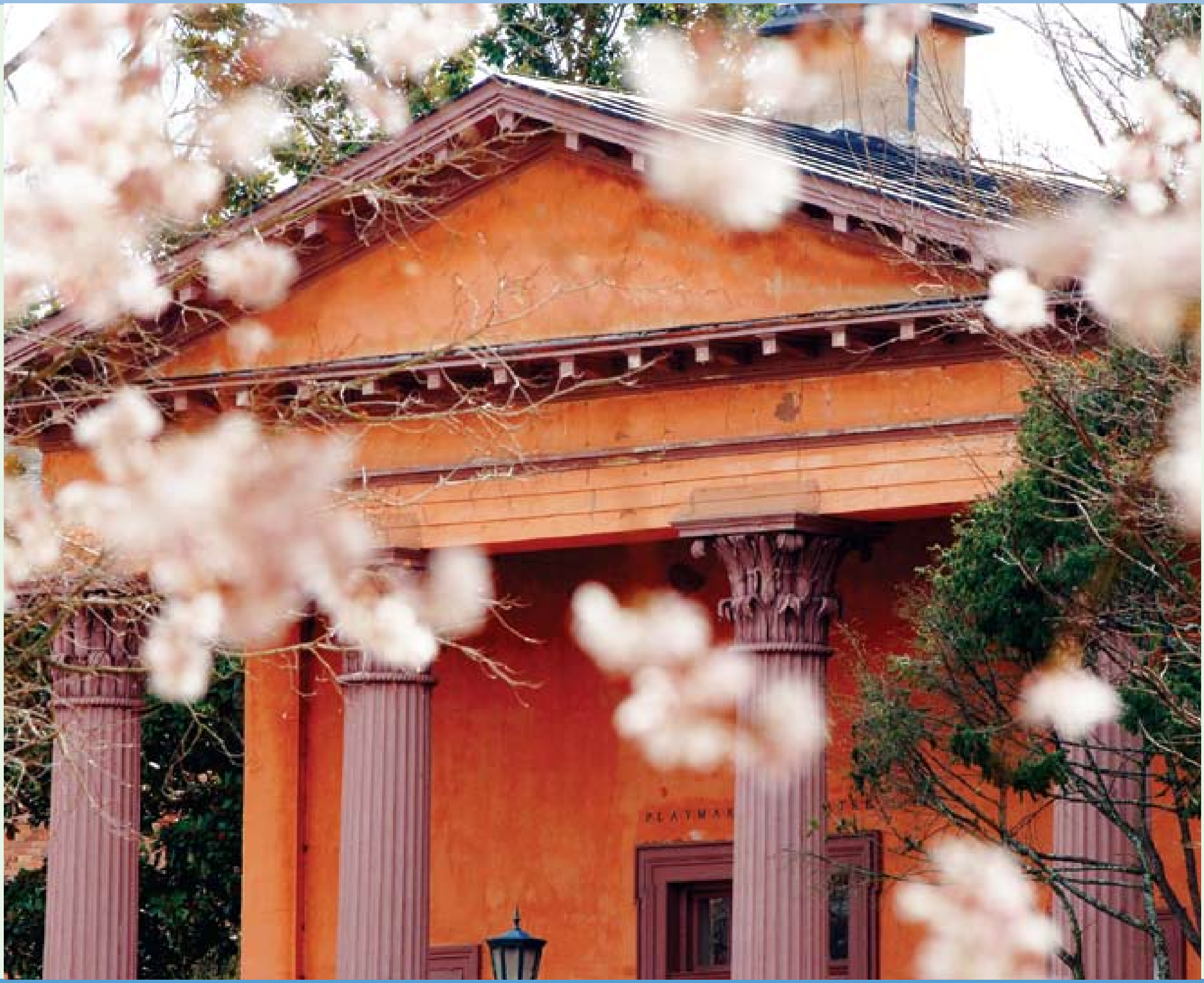
PURPOSE	AMOUNT
Pledges to Permanent Endowments	$37,852,053

NOTE 17 RELATED PARTIES

There are 13 separate non-profit organizations that are considered related to the University. They include 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 School of Government Foundation, Inc., The Law Alumni Association of N.C., Inc., The Morehead Scholarship Foundation, Inc., The Pharmacy Foundation of North Carolina, Inc., The School of Journalism and Mass Communication Foundation of North Carolina, Inc., The University of North Carolina at Chapel Hill Public Health Foundation, Inc., The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc., and Carolina for Kibera, Inc. Some of these organizations serve, in conjunction with the University's component units (See Note 1A), as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The alumni associations provide educational opportunities or other services to alumni. 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 totaled $16,783,999 for the year ended June 30, 2007.

NOTE 18 SUBSEQUENT EVENTS

On November 9, 2007, the Board of Governors of the University of North Carolina System approved the issuance of $298,475,000 of General Revenue Bonds in December 2007. Approximately $170,000,000 of the issued amount is expected to refund outstanding commercial paper.



STATISTICAL
SECTION

Due to reporting and definition changes prescribed by 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 Managements Discussion and Analysis — For Public Colleges and Universities, only information for fiscal years 2002–2007 is available. The specific revenue and general revenue bond coverage and demographic data were not affected by the GASB implementation.

07 NARRATIVE TO THE STATISTICAL SECTION

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the University's financial performance has changed over time.

- Net Assets by Component
- Changes in Net Assets
- Changes in Net Assets Adjusted for Inflation
- Operating Expenses by Function

REVENUE CAPACITY

These schedules contain information to help the reader assess the University's revenue sources.

- Revenue Base
- Academic Year Tuition and Required Fees
- Principal Revenue Payers

DEBT CAPACITY

These schedules present information to help the reader assess the University's current levels of outstanding debt.

- Long-term Debt
- Summary of Ratios
- Specific Revenue and General Revenue Bond Coverage

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the University's financial activities take place.

- Annual Undergraduate Educational Costs Per Student
- Admissions, Enrollment and Degrees Earned

OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the University's financial information relates to the activities it performs.

- Faculty and Staff
- Capital Assets

NET ASSETS BY COMPONENT Last Six Fiscal Years

IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
Invested in Capital Assets	$1,211,805	$1,119,040	$1,017,383	$855,740	$771,281	$668,386
Restricted, Non-expendable	496,448	430,316	378,234	328,735	323,961	304,097
Restricted, Expendable	1,090,043	853,133	736,631	648,019	559,128	645,390
Unrestricted	617,573	525,513	475,631	408,705	370,816	346,546
Total Net Assets	**$3,415,869**	**$2,928,002**	**$2,607,879**	**$2,241,199**	**$2,025,186**	**$1,964,419**

NET ASSETS BY COMPONENT

EXPRESSED AS A PERCENT OF THE TOTAL

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
	%	%	%	%	%	%
Invested in Capital Assets	35.5	38.2	39.0	38.2	38.1	34.0
Restricted, Non-expendable	14.5	14.7	14.5	14.7	16.0	15.5
Restricted, Expendable	31.9	29.2	28.2	28.9	27.6	32.9
Unrestricted	18.1	17.9	18.3	18.2	18.3	17.6
Total Net Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

NET ASSETS BY COMPONENT

PERCENTAGE INCREASE (DECREASE) FROM PRIOR YEAR

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
	%	%	%	%	%	%
Invested in Capital Assets	8.3	10.0	18.9	11.0	15.4	n/a
Restricted, Non-expendable	15.4	13.8	15.1	1.5	6.5	n/a
Restricted, Expendable	27.8	15.8	13.7	15.9	(13.4)	n/a
Unrestricted	17.5	10.5	16.4	10.2	7.0	n/a
Total Net Assets	**16.7**	**12.3**	**16.4**	**10.7**	**3.1**	**n/a**

CHANGES IN NET ASSETS Last Six Fiscal Years

IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
REVENUES						
Operating Revenues						
Student tuition and fees, net	$210,651	$195,882	$164,457	$153,943	$146,961	$124,661
Patient services, net	197,221	184,324	172,063	172,877	131,256	137,035
Federal grants and contracts	429,059	422,229	403,100	384,618	356,845	330,403
State and local grants and contracts	45,256	41,842	39,816	39,793	34,289	38,512
Non-governmental grants and contracts	92,572	89,976	81,560	75,388	64,547	75,536
Sales and services, net	324,432	301,303	290,397	270,351	262,106	246,568
Interest earnings on loans	679	672	1,441	435	281	121
Other operating revenues	4,574	5,283	4,167	5,233	7,283	14,629
Total operating revenues	**1,304,444**	**1,241,511**	**1,157,001**	**1,102,638**	**1,003,568**	**967,465**
EXPENSES						
Operating Expenses						
Salaries and benefits	1,122,269	1,042,452	966,629	917,840	876,266	829,473
Supplies and materials	165,704	152,911	148,440	151,196	146,986	148,324
Services	462,093	432,212	407,690	380,126	377,856	364,832
Scholarships and fellowships	56,662	54,105	51,170	47,427	45,618	40,415
Utilities	60,727	56,277	47,870	46,208	43,915	45,452
Depreciation	80,827	64,475	60,102	60,589	53,076	48,517
Total operating expenses	**1,948,282**	**1,802,432**	**1,681,901**	**1,603,386**	**1,543,717**	**1,477,013**
Operating loss	**(643,838)**	**(560,921)**	**(524,900)**	**(500,748)**	**(540,149)**	**(509,548)**
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	492,471	440,070	406,673	380,446	368,024	368,504
Non-capital grants	62,669	67,388	62,544	53,154	40,995	34,769
Non-capital gifts, net	74,291	68,824	73,693	68,517	60,888	62,404
Investment income, net	318,442	207,423	154,900	135,369	47,398	52,957
Interest and fees — capital asset related debt	(42,926)	(39,921)	(21,823)	(18,339)	(15,681)	(15,031)
Other non-operating revenues (expenses)	(84)	(230)	8,374	(8,132)	(1,899)	(7,662)
Net non-operating revenues	904,863	743,554	684,361	611,015	499,725	495,941
Income before other revenues	261,025	182,633	159,461	110,267	(40,424)	(13,607)
Capital appropriations	52,888	15,776	5,166	898	0	0
Capital grants	118,850	52,277	152,844	74,392	72,486	27,480
Capital gifts, net	15,662	13,368	11,521	6,359	7,553	8,238
Additions to endowments	39,442	56,069	37,688	24,098	21,153	23,283
Increase in Net Assets	**$487,867**	**$320,123**	**$366,680**	**$216,014**	**$60,768**	**$45,394**

CONTINUED

CHANGES IN NET ASSETS Last Six Fiscal Years

IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
Total Revenues	$2,479,159	$2,162,706	$2,070,404	$1,845,871	$1,622,065	$1,545,100
Total Expenses	*1,991,292*	*1,842,583*	*1,703,724*	*1,629,857*	*1,561,297*	*1,499,706*
Increase in Net Assets	**$487,867**	**$320,123**	**$366,680**	**$216,014**	**$60,768**	**$45,394**

EXPRESSED AS A PERCENT OF TOTAL REVENUES / TOTAL EXPENSES

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
REVENUES						
	%	%	%	%	%	%
Operating Revenues						
Student tuition and fees, net	8.5	9.1	7.9	8.3	9.1	8.1
Patient services, net	8.0	8.5	8.3	9.4	8.1	8.9
Federal grants and contracts	17.3	19.6	19.6	20.8	22.0	21.3
State and local grants and contracts	1.8	1.9	1.9	2.2	2.1	2.5
Non-governmental grants and contracts	3.7	4.2	3.9	4.1	4.0	4.9
Sales and services, net	13.1	13.9	14.0	14.6	16.2	16.0
Interest earnings on loans	0.0	0.0	0.1	0.0	0.0	0.0
Other operating revenues	0.2	0.2	0.2	0.3	0.4	0.9
Total operating revenues	**52.6**	**57.4**	**55.9**	**59.7**	**61.9**	**62.6**
EXPENSES						
Operating Expenses						
Salaries and benefits	*56.4*	*56.6*	*56.7*	*56.3*	*56.1*	*55.3*
Supplies and materials	*8.3*	*8.3*	*8.7*	*9.3*	*9.4*	*9.9*
Services	*23.2*	*23.5*	*23.9*	*23.3*	*24.2*	*24.3*
Scholarships and fellowships	*2.8*	*2.9*	*3.0*	*2.9*	*2.9*	*2.7*
Utilities	*3.0*	*3.1*	*2.8*	*2.8*	*2.8*	*3.0*
Depreciation	*4.1*	*3.5*	*3.5*	*3.7*	*3.4*	*3.2*
Total operating expenses	**78.6**	**83.3**	**81.3**	**86.8**	**95.2**	**95.6**
Operating loss	**(26.0)**	**(25.9)**	**(25.4)**	**(27.1)**	**(33.3)**	**(33.0)**
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	19.9	20.3	19.6	20.6	22.7	23.8
Non-capital grants	2.5	3.1	3.0	2.9	2.5	2.3
Non-capital gifts, net	3.0	3.2	3.6	3.7	3.8	4.0
Investment income, net	12.8	9.6	7.5	7.3	2.9	3.4
Interest and fees —						
capital asset related debt	*(2.2)*	*(2.2)*	*(1.3)*	*(1.1)*	*(1.0)*	*(1.0)*
Other non-operating revenues (expenses)	0.0	0.0	0.4	(0.4)	(0.1)	(0.5)
Net non-operating revenues	**36.5**	**34.3**	**33.1**	**33.1**	**30.8**	**32.1**
Income before other revenues	**10.5**	**8.4**	**7.7**	**6.0**	**(2.5)**	**(0.9)**
Capital appropriations	2.1	0.7	0.2	0.0	0.0	0.0
Capital grants	4.8	2.5	7.4	4.1	4.4	1.8
Capital gifts, net	0.6	0.6	0.6	0.3	0.5	0.5
Additions to endowments	1.6	2.6	1.8	1.3	1.3	1.5
Increase in Net Assets	**19.7**	**14.8**	**17.7**	**11.7**	**3.7**	**2.9**

Note — Percent of total expenses is italicized.

CHANGES IN NET ASSETS Last Six Fiscal Years

PERCENTAGE INCREASE (DECREASE) FROM PRIOR YEAR

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
REVENUES						
	%	%	%	%	%	%
Operating Revenues						
Student tuition and fees, net	7.5	19.1	6.8	4.8	17.9	n/a
Patient services, net	7.0	7.1	(0.5)	31.7	(4.2)	n/a
Federal grants and contracts	1.6	4.7	4.8	7.8	8.0	n/a
State and local grants and contracts	8.2	5.1	0.1	16.1	(11.0)	n/a
Non-governmental grants and contracts	2.9	10.3	8.2	16.8	(14.5)	n/a
Sales and services, net	7.7	3.8	7.4	3.1	6.3	n/a
Interest earnings on loans	1.2	(53.4)	231.3	54.8	132.2	n/a
Other operating revenues	(13.4)	26.8	(20.4)	(28.1)	(50.2)	n/a
Total operating revenues	**5.1**	**7.3**	**4.9**	**9.9**	**3.7**	**n/a**
EXPENSES						
Operating Expenses						
Salaries and benefits	7.7	7.8	5.3	4.7	5.6	n/a
Supplies and materials	8.4	3.0	(1.8)	2.9	(0.9)	n/a
Services	6.9	6.0	7.3	0.6	3.6	n/a
Scholarships and fellowships	4.7	5.7	7.9	4.0	12.9	n/a
Utilities	7.9	17.6	3.6	5.2	(3.4)	n/a
Depreciation	25.4	7.3	(0.8)	14.2	9.4	n/a
Total operating expenses	**8.1**	**7.2**	**4.9**	**3.9**	**4.5**	**n/a**
Operating loss	**14.8**	**6.9**	**4.8**	**(7.3)**	**6.0**	**n/a**
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	11.9	8.2	6.9	3.4	(0.1)	n/a
Non-capital grants	(7.0)	7.7	17.7	29.7	17.9	n/a
Non-capital gifts, net	7.9	(6.6)	7.6	12.5	(2.4)	n/a
Investment income, net	53.5	33.9	14.4	185.6	(10.5)	n/a
Interest and fees — capital asset related debt	7.5	82.9	19.0	17.0	4.3	n/a
Other non-operating revenues (expenses)	63.5	(102.7)	203.0	(328.2)	75.2	n/a
Net non-operating revenues	**21.7**	**8.6**	**12.0**	**22.3**	**0.8**	**n/a**
Income before other revenues	**42.9**	**14.5**	**44.6**	**372.8**	**(197.1)**	**n/a**
Capital appropriations	235.2	205.4	475.3	n/a	n/a	n/a
Capital grants	127.3	(65.8)	105.5	2.6	163.8	n/a
Capital gifts, net	17.2	16.1	81.2	(15.8)	(8.3)	n/a
Additions to endowments	(29.7)	48.8	56.4	13.9	(9.1)	n/a
Increase in Net Assets	**52.4**	**(12.7)**	**69.7**	**255.5**	**33.9**	**n/a**

CHANGES IN NET ASSETS ADJUSTED FOR INFLATION

Last Six Fiscal Years
(2002 Dollars)

IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
REVENUES						
Operating Revenues						
Student tuition and fees, net	$171,591	$165,657	$146,412	$142,563	$142,160	$124,661
Patient services, net	160,652	155,882	153,184	160,097	126,968	137,035
Federal grants and contracts	349,501	357,078	358,871	356,186	345,187	330,403
State and local grants and contracts	36,864	35,386	35,447	36,851	33,169	38,512
Non-governmental grants and contracts	75,407	76,092	72,611	69,815	62,438	75,536
Sales and services, net	264,275	254,811	258,534	250,366	253,543	246,568
Interest earnings on loans	553	568	1,283	403	272	121
Other operating revenues	3,726	4,468	3,710	4,846	7,045	14,629
Total operating revenues	**1,062,569**	**1,049,942**	**1,030,052**	**1,021,127**	**970,782**	**967,465**
EXPENSES						
Operating Expenses						
Salaries and benefits	914,174	881,599	860,568	849,990	847,640	829,473
Supplies and materials	134,979	129,316	132,153	140,019	142,184	148,324
Services	376,410	365,521	362,957	352,026	365,512	364,832
Scholarships and fellowships	46,156	45,756	45,555	43,921	44,128	40,415
Utilities	49,467	47,593	42,618	42,792	42,480	45,452
Depreciation	65,840	54,526	53,507	56,110	51,342	48,517
Total operating expenses	**1,587,026**	**1,524,311**	**1,497,358**	**1,484,858**	**1,493,286**	**1,477,013**
Operating loss	**(524,457)**	**(474,369)**	**(467,306)**	**(463,731)**	**(522,504)**	**(509,548)**
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	401,155	372,166	362,052	352,322	356,001	368,504
Non-capital grants	51,049	56,990	55,681	49,225	39,656	34,769
Non-capital gifts, net	60,516	58,204	65,607	63,452	58,899	62,404
Investment income, net	259,395	175,417	137,904	125,362	45,850	52,957
Interest and fees — capital asset related debt	(34,967)	(33,761)	(19,429)	(16,983)	(15,169)	(15,031)
Other non-operating revenues (expenses)	(68)	(195)	7,455	(7,531)	(1,837)	(7,662)
Net non-operating revenues	**737,080**	**628,821**	**609,270**	**565,847**	**483,400**	**495,941**
Income before other revenues	**212,623**	**154,452**	**141,964**	**102,116**	**(39,104)**	**(13,607)**
Capital appropriations	43,081	13,342	4,599	832	0	0
Capital grants	96,812	44,211	136,074	68,893	70,118	27,480
Capital gifts, net	12,758	11,305	10,257	5,889	7,306	8,238
Additions to endowments	32,129	47,417	33,553	22,317	20,462	23,283
Increase in Net Assets	**$397,403**	**$270,727**	**$326,447**	**$200,047**	**$58,782**	**$45,394**
Higher Education Price Index	279.9	269.6	256.1	246.2	235.7	228.0

CHANGES IN NET ASSETS ADJUSTED FOR INFLATION

PERCENTAGE INCREASE (DECREASE) FROM PRIOR YEAR

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
REVENUES						
	%	%	%	%	%	%
Operating Revenues						
Student tuition and fees, net	3.6	13.1	2.7	0.3	14.0	n/a
Patient services, net	3.1	1.8	(4.3)	26.1	(7.3)	n/a
Federal grants and contracts	(2.1)	(0.5)	0.8	3.2	4.5	n/a
State and local grants and contracts	4.2	(0.2)	(3.8)	11.1	(13.9)	n/a
Non-governmental grants and contracts	(0.9)	4.8	4.0	11.8	(17.3)	n/a
Sales and services, net	3.7	(1.4)	3.3	(1.3)	2.8	n/a
Interest earnings on loans	(2.6)	(55.7)	218.4	48.2	124.8	n/a
Other operating revenues	(16.6)	20.4	(23.4)	(31.2)	(51.8)	n/a
Total operating revenues	**1.2**	**1.9**	**0.9**	**5.2**	**0.3**	**n/a**
EXPENSES						
Operating Expenses						
Salaries and benefits	3.7	2.4	1.2	0.3	2.2	n/a
Supplies and materials	4.4	(2.1)	(5.6)	(1.5)	(4.1)	n/a
Services	3.0	0.7	3.1	(3.7)	0.2	n/a
Scholarships and fellowships	0.9	0.4	3.7	(0.5)	9.2	n/a
Utilities	3.9	11.7	(0.4)	0.7	(6.5)	n/a
Depreciation	20.7	1.9	(4.6)	9.3	5.8	n/a
Total operating expenses	**4.1**	**1.8**	**0.8**	**(0.6)**	**1.1**	**n/a**
Operating loss	**10.6**	**1.5**	**0.8**	**(11.2)**	**2.5**	**n/a**
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	7.8	2.8	2.8	(1.0)	(3.4)	n/a
Non-capital grants	(10.4)	2.4	13.1	24.1	14.1	n/a
Non-capital gifts, net	4.0	(11.3)	3.4	7.7	(5.6)	n/a
Investment income, net	47.9	27.2	10.0	173.4	(13.4)	n/a
Interest and fees — capital asset related debt	3.6	73.8	14.4	12.0	0.9	n/a
Other non-operating revenues (expenses)	(65.1)	(102.6)	(199.0)	310.0	(76.0)	n/a
Net non-operating revenues	**17.2**	**3.2**	**7.7**	**17.1**	**(2.5)**	**n/a**
Income before other revenues	**37.7**	**8.8**	**39.0**	**(361.1)**	**187.4**	**n/a**
Capital appropriations	222.9	190.1	452.8	n/a	n/a	n/a
Capital grants	119.0	(67.5)	97.5	(1.7)	155.2	n/a
Capital gifts, net	12.9	10.2	74.2	(19.4)	(11.3)	n/a
Additions to endowments	(32.2)	41.3	50.3	9.1	(12.1)	n/a
Increase in Net Assets	**46.8**	**(17.1)**	**63.2**	**240.3**	**29.5**	**n/a**

OPERATING EXPENSES BY FUNCTION Last Six Fiscal Years

IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
OPERATING EXPENSES BY FUNCTION						
Instruction	$624,128	$595,319	$575,951	$532,927	$531,123	$497,771
Research	312,160	285,646	271,208	257,945	247,434	237,275
Public Service	90,025	85,330	83,005	78,276	75,410	76,896
Academic Support	97,776	86,229	75,384	75,693	70,888	67,618
Student Services	25,865	23,957	21,653	20,488	19,491	18,225
Institutional Support	76,188	71,609	67,426	64,732	63,461	58,560
Operations and Maintenance of Plant	124,991	111,720	92,860	87,891	86,451	90,942
Student Financial Aid	56,662	54,105	51,170	47,427	45,618	40,415
Auxiliary Enterprises	459,660	424,042	383,142	377,418	350,765	340,794
Depreciation	80,827	64,475	60,102	60,589	53,076	48,517
Total Operating Expenses by Function	**$1,948,282**	**$1,802,432**	**$1,681,901**	**$1,603,386**	**$1,543,717**	**$1,477,013**

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
OPERATING EXPENSES BY FUNCTION	*EXPRESSED AS A PERCENT OF THE TOTAL*					
	%	%	%	%	%	%
Instruction	32.2	33.1	34.3	33.2	34.4	33.7
Research	16.0	15.8	16.1	16.1	16.0	16.0
Public Service	4.6	4.7	4.9	4.9	4.9	5.2
Academic Support	5.0	4.8	4.5	4.7	4.6	4.6
Student Services	1.3	1.3	1.3	1.3	1.3	1.2
Institutional Support	3.9	4.0	4.0	4.0	4.1	4.0
Operations and Maintenance of Plant	6.4	6.2	5.5	5.5	5.6	6.2
Student Financial Aid	2.9	3.0	3.0	3.0	3.0	2.7
Auxiliary Enterprises	23.6	23.5	22.8	23.5	22.7	23.1
Depreciation	4.1	3.6	3.6	3.8	3.4	3.3
Total Operating Expenses by Function	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
OPERATING EXPENSES BY FUNCTION	*PERCENTAGE INCREASE (DECREASE) FROM PRIOR YEAR*					
	%	%	%	%	%	%
Instruction	4.8	3.4	8.1	0.3	6.7	n/a
Research	9.3	5.3	5.1	4.2	4.3	n/a
Public Service	5.5	2.8	6.0	3.8	(1.9)	n/a
Academic Support	13.4	14.4	(0.4)	6.8	4.8	n/a
Student Services	8.0	10.6	5.7	5.1	6.9	n/a
Institutional Support	6.4	6.2	4.2	2.0	8.4	n/a
Operations and Maintenance of Plant	11.9	20.3	5.7	1.7	(4.9)	n/a
Student Financial Aid	4.7	5.7	7.9	4.0	12.9	n/a
Auxiliary Enterprises	8.4	10.7	1.5	7.6	2.9	n/a
Depreciation	25.4	7.3	(0.8)	14.2	9.4	n/a
Total Operating Expenses by Function	**8.1**	**7.2**	**4.9**	**3.9**	**4.5**	**n/a**

REVENUE BASE Last Six Fiscal Years

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
North Carolina Population	9,033,635	8,856,505	8,683,242	8,541,221	8,407,248	8,320,146
North Carolina Population — 18 year olds	123,751	122,281	120,352	119,691	118,653	114,518
North Carolina Per Capita Income	$34,250	$32,338	$30,553	$29,246	$28,235	$27,566
North Carolina Unemployment rate	4.94%	4.56%	5.33%	5.49%	6.51%	6.27%
National Institutes of Health						
Total Appropriations (000's)	$28,626,000	$28,586,617	$28,495,157	$27,887,512	$27,066,782	$23,296,382
percent increase from prior year	0.14%	0.32%	2.18%	3.03%	16.18%	n/a
National Science Foundation						
Total Appropriations (000's)	$5,917,160	$5,580,000	$5,472,820	$5,577,830	$5,309,995	$4,789,240
percent increase from prior year	6.04%	1.96%	(1.88)%	5.04%	10.87%	n/a

Sources: Office of the State Controller, North Carolina State Data Center, National Institute of Health, and National Science Foundation.

ACADEMIC YEAR TUITION AND REQUIRED FEES

UNC-Chapel Hill vs Association of American Universities (AAU)

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
Resident Undergraduate — UNC	$5,033	$4,613	$4,451	$4,072	$3,856	$3,277
percent increase from prior year	9.11%	3.64%	9.31%	5.60%	17.67%	n/a
AAU Public Universities (mean)	$7,321	$6,906	$6,458	$5,980	$5,160	$4,656
percent increase from prior year	6.01%	6.94%	7.99%	15.89%	10.82%	n/a
Non-Resident Undergraduate — UNC	$19,681	$18,411	$17,549	$15,920	$15,140	$13,269
percent increase from prior year	6.90%	4.91%	10.23%	5.15%	14.10%	n/a
AAU Public Universities (mean)	$20,652	$19,579	$18,471	$16,849	$15,089	$13,656
percent increase from prior year	5.48%	6.00%	9.63%	11.66%	10.49%	n/a
Resident Graduate — UNC	$5,680	$5,014	$4,651	$4,269	$4,043	$3,449
percent increase from prior year	13.27%	7.80%	8.95%	5.59%	17.22%	n/a
AAU Public Universities (mean)	$8,913	$8,379	$7,812	$7,260	$6,315	$5,750
percent increase from prior year	6.37%	7.26%	7.60%	14.96%	9.83%	n/a
Non-Resident Graduate— UNC	$19,678	$19,012	$17,899	$16,267	$15,692	$13,760
percent increase from prior year	3.50%	6.22%	10.03%	3.66%	14.04%	n/a
AAU Public Universities (mean)	$20,067	$19,295	$18,367	$16,488	$14,898	$13,729
percent increase from prior year	4.00%	5.05%	11.40%	10.67%	8.51%	n/a

Source: "Academic Year Tuition and Required Fees, AAU Public Universities," Univ. of Missouri System, Sept. 2006.

PRINCIPAL REVENUE PAYERS

IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
State and local grants and contracts	$45,256	$41,842	$39,816	$39,793	$34,289	$38,512
State appropriations	492,471	440,070	406,673	380,446	368,024	368,504
Capital appropriations	52,888	15,776	5,166	898	0	0
Capital grants	118,850	52,277	152,844	74,392	72,486	27,480
NC State Government	**$709,465**	**$549,965**	**$604,499**	**$495,529**	**$474,799**	**$434,496**
percent increase from prior year	29.00%	(9.02%)	21.99%	4.37%	9.28%	n/a
Federal grants and contracts	$429,059	$422,229	$403,100	$384,618	$356,845	$330,403
Non-capital grants	62,669	67,388	62,544	53,154	40,995	34,769
Federal Government	**$491,728**	**$489,617**	**$465,644**	**$437,772**	**$397,840**	**$365,172**
percent increase from prior year	0.43%	5.15%	6.37%	10.04%	8.95%	n/a

LONG-TERM DEBT Last Six Fiscal Years

IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
General Revenue Debt	$678,980	$694,575	$338,210	$351,430	$190,255	$195,810
Plus Unamortized Disc/Premium	26,821	28,050	8,098	8,662	5,409	5,867
Less Unamortized Loss on Refunding	(3,838)	(4,240)	(2,280)	(2,606)	(2,932)	(3,257)
Net General Revenue Debt	**701,963**	**718,385**	**344,028**	**357,486**	**192,732**	**198,420**
Revenue Bonds	83,502	85,642	112,395	114,553	181,531	186,438
Plus Unamortized Disc/Premium	(158)	(181)	(330)	(356)	(716)	(903)
Net Revenue Bonds	**83,344**	**85,461**	**112,065**	**114,197**	**180,815**	**185,535**
Total Bonds Payable	785,307	803,846	456,093	471,683	373,547	383,955
Notes Payable	1,362	21,054	33,519	35,000	39,333	3,800
Capital Leases Payable	2,404	379	970	1,320	927	606
Total	**$789,073**	**$825,279**	**$490,582**	**$508,003**	**$413,807**	**$388,361**
Long-Term Debt (whole dollars)						
per Student FTE	$30,472	$32,954	$19,835	$20,893	$17,213	$16,514
per Dollar of Total Grants	$1.25	$1.33	$0.84	$0.92	$0.83	$0.81
per Dollar of State Appropriations	$1.60	$1.88	$1.21	$1.34	$1.12	$1.05

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
Net General Revenue Debt	$701,963	$718,385	$344,028	$357,486	$192,732	$198,420
Commercial Paper Program	192,414	117,414	141,141	8,841	19,000	1,000
Total General Revenue Debt	**$894,377**	**$835,799**	**$485,169**	**$366,327**	**$211,732**	**$199,420**
General Revenue Debt (whole dollars)						
per Student FTE	$34,539	$33,375	$19,616	$15,067	$8,807	$8,480
per Dollar of Total Grants	$1.42	$1.34	$0.83	$0.66	$0.43	$0.42
per Dollar of State Appropriations	$1.82	$1.90	$1.19	$0.96	$0.58	$0.54

DATA USED FOR ABOVE CALCULATIONS						
Total Student FTE	25,895	25,043	24,733	24,314	24,041	23,517
State appropriations	$492,471	$440,070	$406,673	$380,446	$368,024	$368,504
Federal grants and contracts	$429,059	$422,229	$403,100	$384,618	$356,845	$330,403
State and local grants and contracts	45,256	41,842	39,816	39,793	34,289	38,512
Non-governmental grants and contracts	92,572	89,976	81,560	75,388	64,547	75,536
Non-capital grants	62,669	67,388	62,544	53,154	40,995	34,769
Total Grants	**$629,556**	**$621,435**	**$587,020**	**$552,953**	**$496,676**	**$479,220**

SUMMARY OF RATIOS Last Six Fiscal Years

DOLLARS IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
COMPOSITE FINANCIAL INDEX						
+ Primary Reserve Ratio	1.05 x	0.92 x	0.86 x	0.79 x	0.60 x	0.66 x
/ Strength Factor	0.133	0.133	0.133	0.133	0.133	0.133
= Ratio / Strength Factor	7.89	6.92	6.47	5.94	4.51	4.96
* Weighting Factor	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	2.76	2.42	2.26	2.08	1.58	1.74
= Ratio 10% Cap Subtotal	2.76	2.42	2.26	2.08	1.58	1.74
+ Return on Net Assets Ratio	16.7%	12.3%	16.4%	10.7%	3.1%	2.4%
/ Strength Factor	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
= Ratio / Strength Factor	8.35	6.15	8.20	5.35	1.55	1.20
* Weighting Factor	20%	20%	20%	20%	20%	20%
= Ratio Subtotal	1.67	1.23	1.64	1.07	0.31	0.24
= Ratio 10% Cap Subtotal	1.67	1.23	1.64	1.07	0.31	0.24
+ Net Operating Revenues Ratio	11.6%	9.0%	8.6%	6.3%	(2.7%)	(0.9%)
/ Strength Factor	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
= Ratio / Strength Factor	16.57	12.86	12.29	9.00	(3.86)	(1.29)
* Weighting Factor	10%	10%	10%	10%	10%	10%
= Ratio Subtotal	1.66	1.29	1.23	0.90	(0.39)	(0.13)
= Ratio 10% Cap Subtotal	1.00	1.00	1.00	0.90	(0.39)	(0.13)
+ Viability Ratio	2.1 x	1.8 x	2.3 x	2.5 x	2.1 x	2.5 x
/ Strength Factor	0.417	0.417	0.417	0.417	0.417	0.417
= Ratio / Strength Factor	5.04	4.32	5.52	6.00	5.04	6.00
* Weighting Factor	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	1.76	1.51	1.93	2.10	1.76	2.10
= Ratio 10% Cap Subtotal	1.76	1.51	1.93	2.10	1.76	2.10
Composite Financial Index	**7.85**	**6.45**	**7.06**	**6.15**	**3.26**	**3.95**
Composite Financial Index with 10% Cap	**7.19**	**6.16**	**6.83**	**6.15**	**3.26**	**3.95**

The Composite Financial Index (CFI) provides a methodology for a single overall financial measurement of the institution's health based on the four core ratios. The CFI uses a reasonable weighting plan and allows a weakness or strength in a specific ratio to be offset by another ratio result, which provides a more balanced measure. The CFI provides a more holistic approach to understanding the financial health of the institution. The CFI scores are not intended to be precise measures; they are indicators of ranges of financial health that can be indicators of overall institutional well-being when combined with non-financial indicators. Ratio/Strength Factors are capped at a maximum of 10% before the weighting factor is applied so that a higher CFI does not unduly mask a weakness in a component ratio.

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
NET OPERATING REVENUES RATIO						
Total Operating Revenues	$1,304,444	$1,241,511	$1,157,001	$1,102,637	$1,003,568	$967,465
State Appropriations	492,471	440,070	406,673	380,446	368,024	368,505
Non-capital Gifts and Grants, net	136,960	136,212	136,237	121,671	101,882	97,173
Investment Income, net	318,442	207,423	154,900	135,369	47,398	52,957
Adjusted Net Operating Revenues	$2,252,317	$2,025,216	$1,854,811	$1,740,123	$1,520,872	$1,486,100
Income Before Other Revenues, Expenses, Gains, or Losses	$261,025	$182,633	$159,462	$110,267	($40,424)	($13,607)
Adjusted Net Operating Revenues	$2,252,317	$2,025,216	$1,854,811	$1,740,123	$1,520,872	$1,486,100
Ratio	**11.6%**	**9.0%**	**8.6%**	**6.3%**	**(2.7%)**	**(0.9%)**

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

CONTINUED

SUMMARY OF RATIOS Last Six Fiscal Years

DOLLARS IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
PRIMARY RESERVE RATIO						
Unrestricted Net Assets	$617,573	$525,513	$475,631	$408,705	$370,816	$346,546
Unrestricted Net Assets — Component Units*	28,627	23,709	20,653	17,724	n/a	n/a
Expendable Restricted Net Assets	1,090,043	853,133	736,632	648,019	559,128	645,390
Temporarily Restricted Net Assets — Component Units*	361,559	284,351	238,745	209,030	n/a	n/a
Expendable Net Assets	$2,097,802	$1,686,706	$1,471,661	$1,283,478	$929,944	$991,936
Operating Expenses	$1,948,282	$1,802,432	$1,681,901	$1,603,386	$1,543,717	1,477,013
Interest and Fees on Capital Asset-Related Debt	42,926	39,921	21,823	18,339	15,681	15,031
Total Expenses	$1,991,208	$1,842,353	$1,703,724	$1,621,725	$1,559,398	$1,492,044
Expendable NetAssets	$2,097,802	$1,686,706	$1,471,661	$1,283,478	$929,944	$991,936
Total Expenses	$1,991,208	$1,842,353	$1,703,724	$1,621,725	$1,559,398	$1,492,044
Ratio	**1.05 x**	**0.92 x**	**0.86 x**	**0.79 x**	**0.60 x**	**0.66 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.

** For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations are Component Units. This Statement amends GASB Statement No. 14, The Financial Reporting Entity, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The component units of the University are discretely presented in the Financial Section.*

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
STATE APPROPRIATION PER STUDENT						
State Appropriations	$492,471	$440,070	$406,673	$380,446	$368,024	$368,505
Undergraduate, Graduate and Professional FTE	25,895	25,043	24,733	24,314	24,041	23,517
State Appropriation per Student *(whole dollars)*	**$19,018**	**$17,573**	**$16,443**	**$15,647**	**$15,308**	**$15,670**

Measures institution's dependency on state appropriations.

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
RETURN ON NET ASSETS RATIO						
Change in Net assets	$487,867	$320,123	$366,680	$216,014	$60,768	$45,394
Total Net Assets (Beginning of Year)	$2,928,002	$2,607,879	$2,241,199	$2,025,186	$1,964,418	$1,919,024
Ratio	**16.7%**	**12.3%**	**16.4%**	**10.7%**	**3.1%**	**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.

SUMMARY OF RATIOS Last Six Fiscal Years

DOLLARS IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
VIABILITY RATIO						
Unrestricted Net Assets	$617,573	$525,513	$475,631	$408,705	$370,816	$346,546
Unrestricted Net Assets — Component Units*	28,627	23,709	20,653	17,724	n/a	n/a
Expendable Restricted Net Assets	1,090,043	853,133	736,632	648,019	559,128	645,390
Temporarily Restricted Net Assets — Component Units*	361,559	284,351	238,745	209,030	n/a	n/a
Expendable Net Assets	$2,097,802	$1,686,706	$1,471,661	$1,283,478	$929,944	$991,936
Bonds	$785,307	$ 803,846	$456,093	$471,684	373,548	383,955
Commercial Paper	192,414	117,414	141,141	8,841	19,000	1,000
Capital Leases	2,404	379	970	1,320	927	606
Notes	1,362	21,054	33,519	35,000	39,333	3,800
Notes — Component Units *	2,100	3,000	263	255	n/a	n/a
Total Adjusted University Debt	$983,587	$945,693	$631,986	$517,100	$432,808	$389,361
Expendable Net Assets	$2,097,802	$1,686,706	$1,471,661	$1,283,478	$929,944	$991,936
Total Adjusted University Debt	$983,587	$945,693	$631,986	$517,100	$432,808	$389,361
Ratio	**2.1 x**	**1.8 x**	**2.3 x**	**2.5 x**	**2.1 x**	**2.5 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 generally denotes strength.

** For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards BoardStatement No. 39,* Determining Whether Certain Organizations are Component Units. *This Statement amends GASB Statement No. 14,* The Financial Reporting Entity, *to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should bereported as component units based on the nature and significance of their relationship to the University.The component units of the University are discretely presented in the Financial Section.*

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
OPERATING MARGIN EXCLUDING GIFTS						
Income Before Other Revenues, Expenses, Gains, or Losses	$261,025	$182,632	$159,462	$110,267	($40,424)	($13,607)
Less: Non-capital Gifts and Grants, net	(136,960)	(136,212)	(136,237)	(121,671)	(101,882)	(97,173)
Adjusted Income Before Other Revenues, Expenses, Gains, or Losses	$124,065	$46,420	$23,225	($11,404)	($142,306)	($110,780)
Total Operating Revenues	$1,304,444	$1,241,511	$1,157,001	$1,102,637	$1,003,568	$967,465
State Appropriations	492,471	440,070	406,673	380,446	368,024	368,505
Investment Income, net	318,442	207,423	154,900	135,369	47,398	52,957
Adjusted Net Operating Revenues less Gifts	$2,115,357	$1,889,004	$1,718,574	$1,618,452	$1,418,990	$1,388,927
Adjusted Income Before Other Revenues, Expenses, Gains, or Losses	$124,065	$46,420	$23,225	($11,404)	($142,306)	($110,780)
Adjusted Net Operating Revenues less Gifts	$2,115,357	$1,889,004	$1,718,574	$1,618,452	$1,418,990	$1,388,927
Ratio	**5.9%**	**2.5%**	**1.4%**	**(0.7%)**	**(10.0%)**	**(8.0%)**

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.

SUMMARY OF RATIOS Last Six Fiscal Years

DOLLARS IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
EXPENDABLE RESOURCES TO DEBT						
Unrestricted Net Assets	$617,573	$525,513	$475,631	$408,705	$370,816	$346,546
Unrestricted Net Assets — Component Units*	28,627	23,709	20,653	17,724	n/a	n/a
Expendable Restricted Net Assets	1,090,043	853,133	736,632	648,019	559,128	645,390
Temporarily Restricted Net Assets — Component Units *	361,559	284,351	238,745	209,030	n/a	n/a
Expendable Net Assets	$2,097,802	$1,686,706	$1,471,661	$1,283,478	$929,944	$991,936
Total Notes, Bonds, Capital Leases and Commercial Paper	$981,487	$942,693	$631,723	$516,845	$432,807	$389,361
Long-term Debt — Component Units*	2,100	3,000	263	255	n/a	n/a
Less: U.S. EPA Project Bonds **	(23,495)	(25,349)	(27,317)	(29,221)	(30,975)	(32,591)
Total Adjusted University Debt	$960,092	$920,344	$604,669	$487,879	$401,832	$356,770
Expendable Net Assets	$2,097,802	$1,686,706	$1,471,661	$1,283,478	$929,944	$991,936
Total Adjusted University Debt	$960,092	$920,344	$604,669	$487,879	$401,832	$356,770
Ratio	**2.2 x**	**1.8 x**	**2.4 x**	**2.6 x**	**2.3 x**	**2.8 x**

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

** For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39,* Determining Whether Certain Organizations are Component Units. *This Statement amends GASB Statement No. 14,* The Financial Reporting Entity, *to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University. The component units of the University are discretely presented in the Financial Section.*

*** U.S. EPA Project Bonds are secured by an irrevocable lease from the U.S. government. This lease covers the debt service requirements for the term of the Bonds.*

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
TOTAL FINANCIAL RESOURCES TO DIRECT DEBT						
Unrestricted Net Assets	$617,573	$525,513	$475,631	$408,705	$370,816	$346,546
Non-expendable Restricted Net Assets	496,448	430,316	378,234	328,735	323,961	304,097
Expendable Restricted Net Assets	1,090,043	853,133	736,632	648,019	559,128	645,390
Total Financial Resources	$2,204,064	$1,808,962	$1,590,497	$1,385,459	$1,253,905	$1,296,033
Total Financial Resources	$2,204,064	$1,808,962	$1,590,497	$1,385,459	$1,253,905	$1,296,033
Total Notes, Bonds, Capital Leases and Commercial Paper	$981,487	$942,693	$631,723	$516,845	$432,807	$389,361
Ratio	**2.2 x**	**1.9 x**	**2.5 x**	**2.7 x**	**2.9 x**	**3.3 x**

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

SUMMARY OF RATIOS Last Six Fiscal Years

DOLLARS IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
DIRECT DEBT TO ADJUSTED CASH FLOW						
Net Cash Used by Operating Activities	($570,342)	($492,016)	($460,046)	($348,742)	($382,265)	($440,099)
State Appropriations	492,471	440,070	406,673	380,446	368,024	368,505
Grants for Other than Capital Purposes	62,669	67,388	62,544	53,154	40,995	34,769
Non-capital Gifts	74,292	68,824	73,693	68,517	60,888	62,404
Adjusted Cash Flow from Operations	$59,090	$84,266	$82,864	$153,375	$87,642	$25,579
Total Notes, Bonds, Capital Leases and Commercial Paper	$981,487	$942,693	$631,723	$516,845	$432,807	$389,361
Adjusted Cash Flow from Operations	$59,090	$84,266	$82,864	$153,375	$87,642	$25,579
Ratio	**16.6 x**	**11.2 x**	**7.6 x**	**3.4 x**	**4.9 x**	**15.2 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.debt using the cash provided by its operations. A decreasing ratio over time denotes strength.

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
DEBT BURDEN RATIO						
Interest and Fees Paid on Capital Debt and Leases	$43,676	$40,390	$22,644	$20,438	$18,303	$21,117
Principal Paid on Capital Debt and Leases	43,344	228,037	39,608	21,900	14,044	14,130
Less: Principal Paid from Refinancing Activities	(19,719)	(206,539)	(19,910)	(4,333)	0	0
Debt Service	$67,301	$61,888	$42,342	$38,005	$32,347	$35,247
Operating Expenses	$1,948,282	$1,802,432	$1,681,901	$1,603,386	$1,543,717	$1,477,013
Interest and Fees on Capital Asset-related Debt	42,926	39,921	21,823	18,339	15,681	15,031
Fixed Asset Write-downs (if not included in operating expenses)	0	0	2,635	8,132	1,899	7,661
Less: Depreciation Expense	(80,827)	(64,475)	(60,102)	(60,589)	(53,076)	(48,517)
Plus: Principal Paid on Capital Debt and Leases	43,344	228,037	39,608	21,900	14,044	14,130
Less: Principal Paid from Refinancing Activities	(19,719)	(206,539)	(19,910)	(4,333)	0	0
Total Expenditures	$1,934,006	$1,799,376	$1,665,955	$1,586,835	$1,522,265	$1,465,318
Debt Service	$67,301	$61,888	$42,342	$38,005	$32,347	$35,247
Total Expenditures	$1,934,006	$1,799,376	$1,665,955	$1,586,835	$1,522,265	$1,465,318
Ratio	**3.5%**	**3.4%**	**2.5%**	**2.4%**	**2.1%**	**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 Last Six Fiscal Years

DOLLARS IN THOUSANDS

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
DEBT SERVICE TO OPERATIONS						
Interest and Fees Paid on Capital Debt and Leases	$43,676	$40,390	$22,644	$20,438	$18,303	$21,117
Less: Interest and Fees Paid — U.S. EPA Project Bonds *	(977)	(1,251)	(1,520)	(1,768)	(1,995)	(2,198)
Principal Paid on Capital Debt and Leases	43,344	228,037	39,608	21,900	14,044	14,130
Less: Principal Paid from Refinancing Activities	(19,719)	(206,539)	(19,910)	(4,333)	0	0
Less: Principal Paid — U.S. EPA Project Bonds *	(3,245)	(3,240)	(3,065)	(2,815)	(2,585)	(2,385)
Debt Service	$63,079	$57,397	$37,757	$33,422	$27,767	$30,664
Debt Service	$63,079	$57,397	$37,757	$33,422	$27,767	$30,664
Operating Expenses	$1,948,282	$1,802,432	$1,681,901	$1,603,386	$1,543,717	$1,477,013
Ratio	**3.2%**	**3.2%**	**2.2%**	**2.1%**	**1.8%**	**2.1%**

Measures the financial strength of the institution.
** U.S. EPA Project Bonds are secured by an irrevocable lease from the U.S. government. This lease covers the debt service requirements for the term of the Bonds.*

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
RESEARCH EXPENSES TO TOTAL OPERATING EXPENSES						
Operating Expenses	$1,948,282	$1,802,432	$1,681,901	$1,603,386	$1,543,717	$1,477,013
Interest and Fees on Capital Asset-related Debt	42,926	39,921	21,823	18,339	15,681	15,031
Fixed Asset Write-downs (if not included in operating expenses)	0	0	2,635	8,132	1,899	7,661
Total Adjusted Operating Expenses	$1,991,208	$1,842,353	$1,706,359	$1,629,857	$1,561,297	$1,499,705
Research Expenses	$312,160	$285,646	$271,208	$257,945	$247,434	$237,275
Total Adjusted Operating Expenses	$1,991,208	$1,842,353	$1,706,359	$1,629,857	$1,561,297	$1,499,705
Ratio	**15.7%**	**15.5%**	**15.9%**	**15.8%**	**15.8%**	**15.8%**

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

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
NET TUITION PER STUDENT						
Student Tuition and Fees, net	$210,651	$195,882	$164,457	$153,943	$146,961	$124,661
Less: Scholarships and Fellowships	(56,662)	(54,105)	(51,170)	(47,427)	(45,618)	(40,415)
Net Tuition and Fees	$153,989	$141,777	$113,287	$106,516	$101,343	$84,246
Net Tuition and Fees	$153,989	$141,777	$113,287	$106,516	$101,343	$84,246
Undergraduate, Graduate and Professional FTE	25,895	25,043	24,733	24,314	24,041	23,517
Net Tuition per Student *(whole dollars)*	**$5,947**	**$5,661**	**$4,580**	**$4,381**	**$4,215**	**$3,582**

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

SPECIFIC REVENUE & GENERAL REVENUE BOND COVERAGE

The University of North Carolina at Chapel Hill has 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.

IN THOUSANDS

FOR THE FISCAL YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003
SPECIFIC REVENUE BOND COVERAGE					
Gross Operating Revenues	$160,112	$143,900	$125,968	$121,470	$116,985
Direct Operating Expenses	115,450	105,885	90,218	90,057	90,731
Net Revenue Available for Debt Service	**$44,662**	**$38,015**	**$35,750**	**$31,413**	**$26,254**
Principal	$6,180	$5,635	$5,700	$5,335	$6,420
Interest	1,527	2,325	3,669	4,034	4,414
Specific Revenue Debt Service Requirements	**$7,707**	**$7,960**	**$9,369**	**$9,369**	**$10,834**
Coverage	**5.79**	**4.78**	**3.82**	**3.35**	**2.42**

FOR THE FISCAL YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003
AVAILABLE FUNDS GENERAL REVENUE BONDS					
Total Unrestricted Revenue	$1,447,939	$1,316,160	$1,191,976	$1,148,297	$1,055,273
Less					
State Appropriations	(492,471)	(440,070)	(406,673)	(380,446)	(368,024)
Tuition and Fees	(210,651)	(195,882)	(164,457)	(153,943)	(146,961)
Specific Revenue Debt Service Requirements	(7,707)	(7,960)	(9,369)	(9,369)	(10,834)
Plus					
Adjusted Beginning Unrestricted Net Assets	525,513	475,631	410,110	370,816	346,546
Total Available Funds	**$1,262,623**	**$1,147,879**	**$1,021,587**	**$975,355**	**$876,000**
Annual Increase	$114,744	$126,292	$46,232	$99,355	$7,368
% Increase	10.0%	12.4%	4.7%	11.3%	0.8%

FOR THE FISCAL YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003
GENERAL REVENUE BOND COVERAGE					
Total Available Funds	$1,262,623	$1,147,879	$1,021,587	$975,355	$876,000
Principal	$15,595	$15,285	$13,220	$11,745	$7,150
Interest	32,814	28,373	14,459	10,017	8,332
General Revenue Debt Service Requirements	**$48,409**	**$43,658**	**$27,679**	**$21,762**	**$15,482**
Coverage	**26.08**	**26.29**	**36.91**	**44.82**	**56.58**

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.

IN THOUSANDS

FOR THE FISCAL YEAR ENDED JUNE 30,	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 FISCAL YEAR ENDED JUNE 30,	2002 *(1)*	2001	2000	1999	1998 *(2)*
AVAILABLE FUNDS GENERAL REVENUE BONDS					
Total Unrestricted Revenue	$987,708	$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					
Adjusted Beginning Unrestricted Net Assets	392,613	354,936	347,359	310,896	300,367
Total Available Funds	**$868,632**	**$803,367**	**$744,378**	**$674,480**	**$642,437**
Annual Increase	$65,265	$58,989	$69,898	$32,043	$67,308
% Increase	8.1%	7.9%	10.4%	5.0%	11.7%

FOR THE FISCAL YEAR ENDED JUNE 30,	2002	2001	2000	1999	1998
GENERAL REVENUE BOND COVERAGE					
Total Available Funds	$868,632	$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	**77.88**	**102.31**			

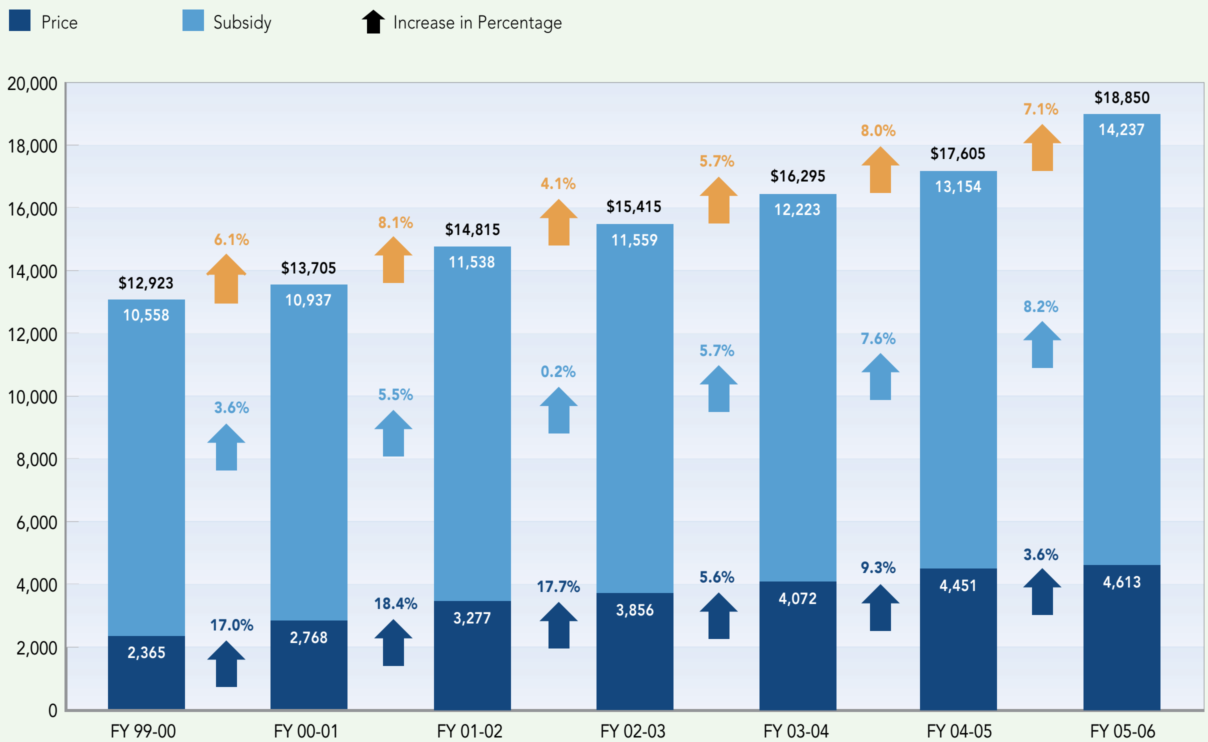
(1) For fiscal year ended June 30, 2002, the University implemented GASB Statement No. 34, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments *as amended by GASB Statement No. 35, Basic financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities. In addition, the University implemented 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.

ANNUAL UNDERGRADUATE EDUCATIONAL COSTS PER STUDENT

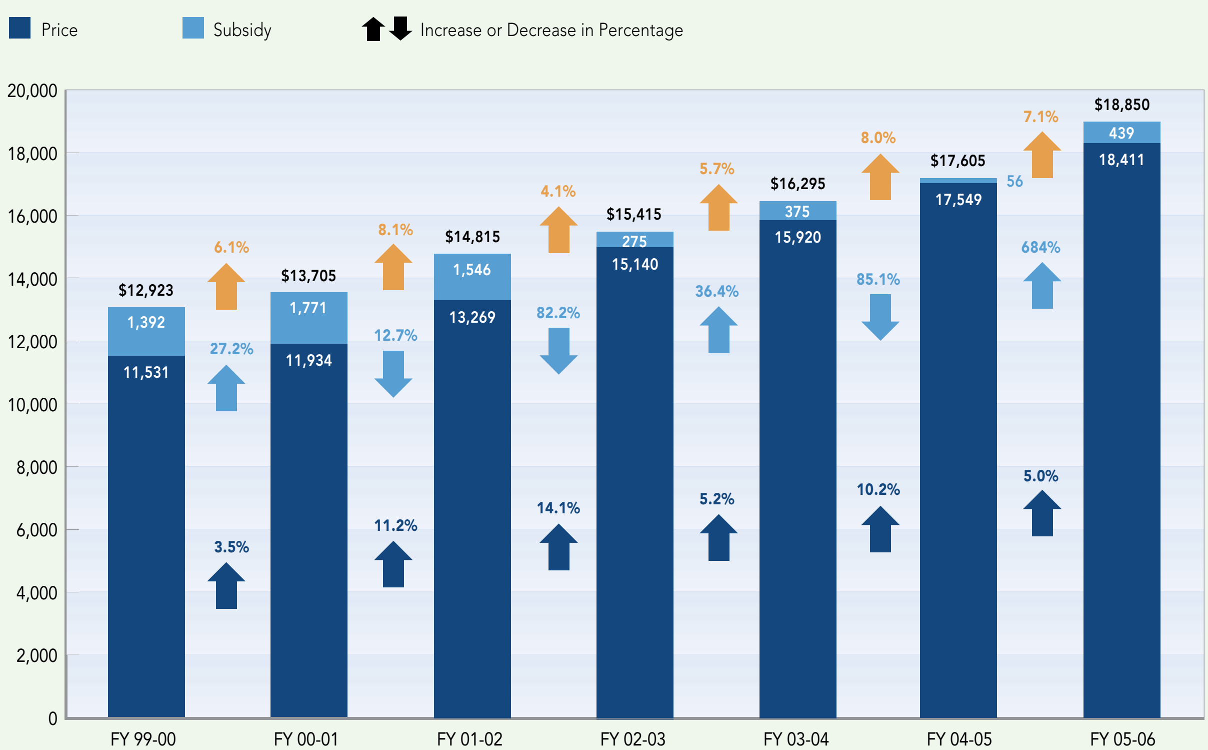
Public concern over tuition prices at colleges and universities led in 1997 to the establishment by Congress of the National Commission on the Cost of Higher Education. The task of the commission was to investigate the college cost-price conundrum and recommend ways to address it. In response, the National Association of College and University Business Officers (NACUBO) developed the Cost of College Project. The goal was to create a uniform methodology that any college or university could use to explain and present how much it costs to provide one year of undergraduate education and related services. The criteria governing the project include: simplicity of use and understanding; basis should be on existing data from annual financial statements; should be applicable to all types of colleges and universities; and should produce reasonable results when compared with more detailed cost data derived from the institution's internal accounting methods.

After more than two years in development and testing by almost 150 colleges and universities, the final project report was delivered in November 2002. Carolina was one of those testing sites. A single-page template was developed by NACUBO to be used to record the necessary information. The template shows annual costs per resident undergraduate student at the University. The graphs displayed on the next page show historical trends in the total annual costs per resident and non-resident undergraduate student at the University, and the difference between the price the student pays (i.e., tuition and fees) and state support (i.e., "subsidy"). The methodology was created to help individual institutions calculate and report the annual cost of providing an undergraduate education. It was not designed to be a mechanism for collecting national data on college costs or creating industry benchmarks. It is also not a measure of the value or quality of the education provided by the institution.

COST OF COLLEGE FOR RESIDENT UNDERGRADUATE STUDENTS



COST OF COLLEGE FOR NON-RESIDENT UNDERGRADUATE STUDENTS



ADMISSIONS, ENROLLMENT, AND DEGREES EARNED

Fall Enrollment
Last Ten Fiscal Years

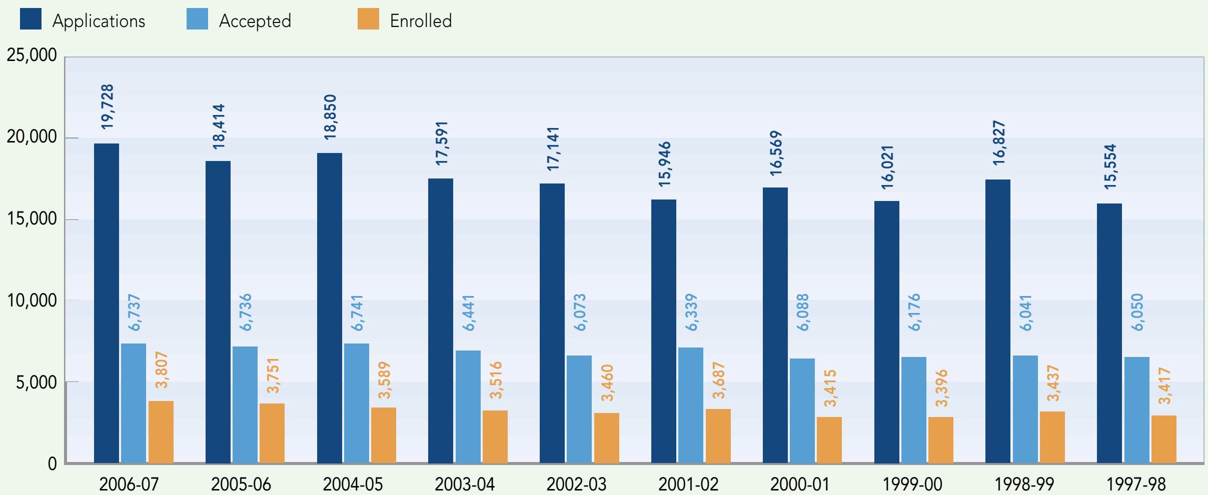
ADMISSIONS — FRESHMEN	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98
Applications	19,728	18,414	18,850	17,591	17,141	15,946	16,569	16,021	16,827	15,554
Accepted	6,737	6,736	6,741	6,441	6,073	6,339	6,088	6,176	6,041	6,050
Enrolled	3,807	3,751	3,589	3,516	3,460	3,687	3,415	3,396	3,437	3,417
Accepted as a Percentage of Applications	34.1%	36.6%	35.8%	36.6%	35.4%	39.8%	36.7%	38.5%	35.9%	38.9%
Enrolled as a Percentage of Accepted	56.5%	55.7%	53.2%	54.6%	57.0%	58.2%	56.1%	55.0%	56.9%	56.5%
Average SAT Scores — Total	1,292	1,299	1,287	1,283	1,267	1,257	1,251	1,245	1,230	1,220
Verbal	638	643	638	634	625	623	622	620	613	609
Math	654	656	649	649	642	634	629	625	617	611

ENROLLMENT	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98
Undergraduate, Graduate and Professional FTE	25,895	25,043	24,733	24,314	24,041	23,517	23,000	22,761	21,940	21,794
Undergraduate, Graduate and Professional Headcount	28,136	27,276	26,878	26,359	26,028	25,464	24,872	24,635	24,238	24,189
Men (Headcount)	11,635	11,403	11,288	10,941	10,661	10,344	10,090	10,028	9,854	10,002
Percentage of Total	41.4%	41.8%	42.0%	41.5%	41.0%	40.6%	40.6%	40.7%	40.7%	41.3%
Women (Headcount)	16,501	15,873	15,590	15,418	15,367	15,120	14,782	14,607	14,384	14,187
Percentage of Total	58.6%	58.2%	58.0%	58.5%	59.0%	59.4%	59.4%	59.3%	59.3%	58.7%
African American (Headcount)	2,813	2,692	2,686	2,658	2,574	2,490	2,398	2,419	2,402	2,364
Percentage of Total	10.0%	9.9%	10.0%	10.1%	9.9%	9.7%	9.6%	9.8%	9.9%	9.8%
White (Headcount)	19,860	19,695	19,665	19,635	19,779	19,720	19,547	19,515	19,318	19,348
Percentage of Total	70.6%	72.2%	73.2%	74.4%	76.0%	77.3%	78.5%	79.2%	79.7%	80.0%
Other (Headcount)	5,463	4,889	4,527	4,066	3,675	3,254	2,927	2,701	2,518	2,477
Percentage of Total	19.4%	17.9%	16.8%	15.5%	14.1%	12.9%	11.9%	11.0%	10.4%	10.2%

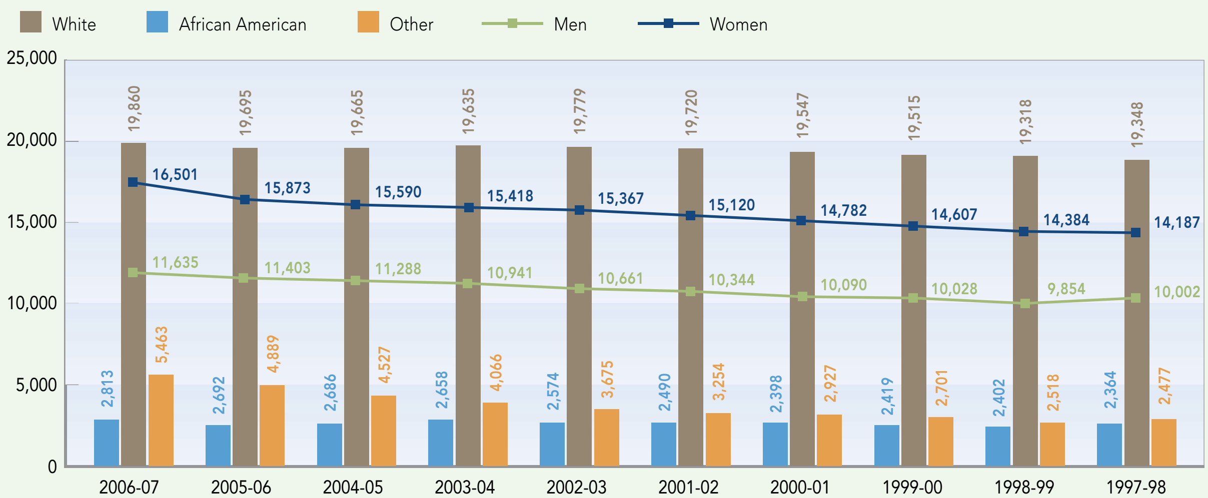
DEGREES EARNED	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98
Bachelor's	3,787	3,773	3,888	3,715	3,741	3,560	3,477	3,444	3,406	3,669
Master's	1,871	1,914	1,847	1,872	1,739	1,638	1,679	1,726	1,550	1,464
Doctoral	512	490	459	439	412	390	398	425	374	382
Professional	601	608	610	587	672	589	599	588	571	584

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

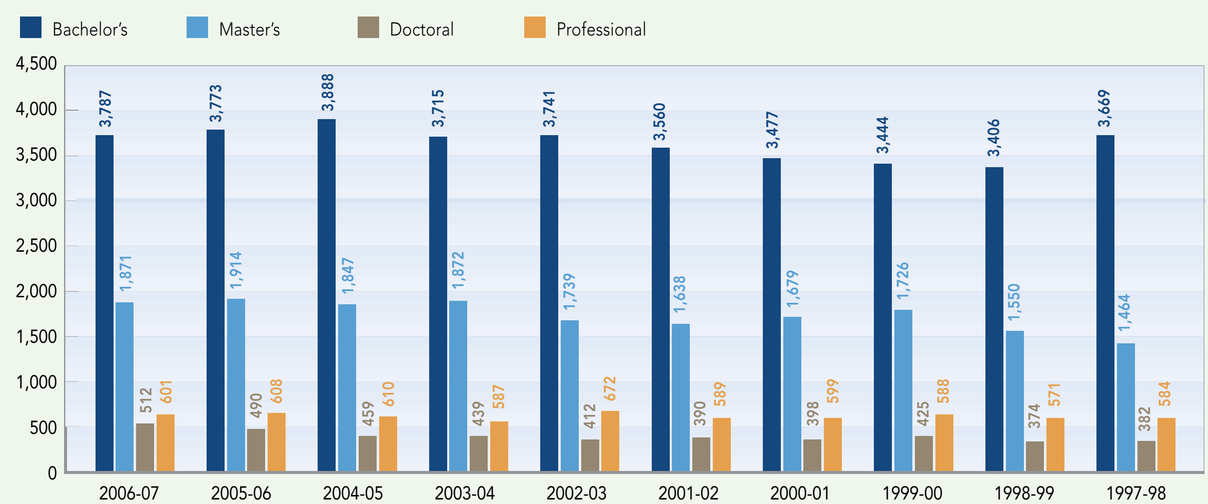
FRESHMEN APPLIED, ACCEPTED, AND ENROLLED



HEADCOUNT TOTAL



DEGREES EARNED



FACULTY AND STAFF Last Ten Fiscal Years

FALL EMPLOYMENT OF FISCAL YEAR	2006-07	2005-06	2004-05	2003-04	2002-03
Faculty					
Full-time	2,919	2,885	2,844	2,744	2,701
Part-time	303	323	330	313	307
Total Faculty	**3,222**	**3,208**	**3,174**	**3,057**	**3,008**
Percentage Tenured	**46.9%**	**48.1%**	**48.7%**	**45.9%**	**50.5%**
Staff and EPA Non-Faculty					
Full-time	1,501	1,374	1,307	1,227	1,157
Part-time	155	131	132	128	111
EPA Non-Faculty	**1,656**	**1,505**	**1,439**	**1,355**	**1,268**
Full-time	6,104	6,005	6,004	5,947	5,915
Part-time	317	318	321	317	290
SPA	**6,421**	**6,323**	**6,325**	**6,264**	**6,205**
Total Full-time	7,605	7,379	7,311	7,174	7,072
Total Part-time	472	449	453	445	401
Total Staff and EPA Non-Faculty	**8,077**	**7,828**	**7,764**	**7,619**	**7,473**
Total Faculty, Staff, and EPA Non-Faculty	**11,299**	**11,036**	**10,938**	**10,676**	**10,481**

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

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

FALL EMPLOYMENT OF FISCAL YEAR	2001-02	2000-01	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**
Total Faculty, Staff, and EPA Non-Faculty	**10,111**	**9,725**	**10,011**	**9,619**	**9,288**

CAPITAL ASSETS Last Six Fiscal Years

FOR THE YEAR ENDED JUNE 30,	2007	2006	2005	2004	2003	2002
Academic buildings	106	103	103	103	103	103
Administrative buildings	19	19	19	19	17	17
Auxiliary buildings	49	48	48	48	48	48
Dormitories	41	40	35	35	31	31
Art/Library collections	6	6	6	6	6	6

Source: Controller's Office.

07

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

Comprehensive Annual Financial Report 2007

THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

2007 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2007 | CHAPEL HILL, NORTH CAROLINA