



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

2008 Comprehensive Annual Financial Report

Fiscal year ended June 30, 2008 • 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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INTRODUCTORY SECTION

MESSAGE FROM THE CHANCELLOR

Aspiring to Global Eminence and
Serving North Carolina



Holden Thorp

As this Comprehensive Annual Financial Report shows, fiscal 2007–08 was a time for the University to celebrate some remarkable achievements under the guidance of my mentor James Moeser. On his watch, the University set new standards for accessibility and affordability, grew and modernized the physical campus, significantly boosted private support, and expanded its reach deeper into the state and farther into the world. He has been a magnificent leader for Carolina, and he left the University in a position of great strength.

The biggest thrill of my own professional career came on October 12, 2008, when I was installed as chancellor after three-and-a-half months on the job. I resisted the urge to talk about Carolina's past since it was University Day, when we celebrate the University's founding. Instead, we focused on Carolina's future.

The central premise of my speech went like this: Throughout our history, our leaders have held true to a concept so bold, so audacious and so challenging — to aspire to global academic eminence while focusing our teaching and our service on North Carolina's students and people. We're the university of **both — and: Both** academic prominence **and** a commitment to our state. I'm grateful that this message has been so well received.

Although I grew up in Fayetteville and have lived in North Carolina for most of my life, I still have a lot to learn about our state. I started a state tour before the installation to demonstrate my commitment to the University's mission of serving and engaging with North Carolina. I visited most of the other UNC campuses and met with high school students who are starting to think about college. The tour included Fayetteville with stops at Fayetteville State University and my alma mater, Terry Sanford High School, as well as Asheville, Charlotte, Greensboro, Wilmington, Morehead City, and Elizabeth City. I plan to visit other communities in North Carolina, as well as cities across the country where we have a strong alumni base.

One key to Carolina's future success will be how well we inspire our students to reach beyond themselves and take on the great problems facing the world. Just imagine the history of North Carolina without Carolina alumni. Nothing we do contributes more to our state than providing an accessible and affordable education to North Carolina's students and turning those bright young people loose to lead us.

Right now, we face one of the world's most extraordinary economic times. At this writing, North Carolina has cut one-time (non-permanent) state appropriations by 4 percent. To be prudent, we're planning for likely permanent (recurring) state budget cuts for fiscal 2009–2010. If that happens, we'll carefully scrutinize all University operations and programs. We're in better shape than many public universities that have been forced by their state's circumstances to make very difficult budget decisions in recent months — even before the global financial meltdown. In North Carolina, we can be grateful for historically strong support from our General Assembly. Faculty research funding has stayed strong despite an already challenging federal funding environment. The successful Carolina First Campaign has strengthened teaching, research, and public service along with the endowment — and set the bar high for continued private support. These are extraordinary economic times, and the global financial crisis and its ripple effects create uncharted territory. We're closely examining everything that we do to make responsible choices to position the University for the economic recovery.

At Carolina, we're committed to transparency in our finances. We take very seriously our responsibility to accountability with our elected officials and the taxpayers of North Carolina. This state has nurtured the University for over 200 years, in both good times and bad, and we recognize our responsibility to contribute all that we can to this partnership. Our purpose is helping propel North Carolina forward to a prosperous future.

LETTER OF TRANSMITTAL

December 8, 2008



Richard L. Mann

To Chancellor Thorp, 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, 2008, 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 committee. The Comprehensive Annual Financial Report includes Management's Discussion and Analysis and 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, 2008.

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. For the fiscal year ended June 30, 2008, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity*

Transfers of Assets and Future Revenues, and GASB Statement No. 50, *Pension Disclosures*. GASB Statement No. 45 requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. GASB Statement No. 48 requires disclosures pertaining to future revenues that have been pledged in order to disclose information about which revenues will be unavailable for other purposes and for how long. GASB Statement No. 50 aligns the financial reporting requirements for pensions with those of other postemployment benefits to conform to GASB Statement No. 45.

The financial reporting entity for the financial statements is comprised of the University and 10 component units. Seven 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. (UNC-CH Foundation), The Kenan-Flagler Business School Foundation (Business School Foundation), The School of Education Foundation, Inc. (School of Education Foundation), and U.N.C. Law Foundation, Inc. (Law Foundation).

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 88.1 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, School of Education Foundation, and Law Foundation is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University.

The financial statements of the Investment Fund, System Fund, Management Company, UNC-CH Foundation, Business School Foundation, School of Education Foundation, and Law Foundation have been blended with those of the University.

Separate financial statements for three other component units are reported based on GASB Statement No. 39. 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 & Sciences Foundation) 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 16-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

Economic Condition and Outlook

North Carolina's economy exceeded \$400 billion in total economic output for the first time in 2008. In 2007 total economic output was \$399.4 billion which equaled approximately 2.9 percent of the national total. In real terms (adjusted for inflation), the North Carolina economy has performed much better than the United States for several years.

A June 5, 2008 release from the Bureau of Economic

Analysis (BEA) included gross domestic product data for all states and the District of Columbia. The data in the analysis reflected the first estimates for 2007. State gross domestic product (GDP) is the total value of goods and services produced within the borders of a state for final demand in the United States or elsewhere. In 2007 North Carolina ranked 9th among all states in nominal GDP, well below the \$465.5 billion of eighth-ranked New Jersey and \$2.9 billion ahead of tenth-ranked Georgia. North Carolina's 2007 growth rate slowed dramatically to 2.2 percent, which was 19th among all states and was exactly the same as the previously reported GDP growth rate for the entire United States. Revisions have decreased the national GDP growth rate to 2 percent and the BEA is expected to produce revised state GDP data for 2007.

On December 27, 2007, the Census Bureau reported that the total population of North Carolina as of July 1, 2007 was 9,061,032, which is the largest North Carolina population to date. North Carolina now accounts for 3.4 percent of the United States total population. The state population increase in 2007 was 2.3 percent. Since 2000, the population of North Carolina has grown by 12.6 percent, far above the comparable United States increase of 7.2 percent.

On September 18, 2008, the BEA reported that total personal income in North Carolina was running at a seasonally adjusted annual rate of \$319.3 billion in the second quarter of 2008, up 5.5 percent from a year earlier and slightly above the national average increase of 5.2 percent. For all of 2007, total personal income in North Carolina was \$305.0 billion.

Unfortunately, the employment situation in North Carolina in 2008 has deteriorated at a far more rapid pace than that of the United States. A Bureau of Labor Statistics report issued on September 19, 2008 shows that the unemployment rate in North Carolina was 6.9 percent in August, well above the national average of 6.1 percent. There were a record 314,700 people in the state unemployed in August. A year earlier the unemployment rate in North Carolina was only 4.7 percent, the same as the national average with 212,700 unemployed.

Total employment has shrunk by 55,800 people in North Carolina over the twelve months ended in August 2008. Over the same period, the total number of non-farm payroll jobs in North Carolina has risen by 6,200 jobs to 4,163,900 such jobs.

This weak employment data and the current global financial situation suggest a challenging economic environment in North Carolina for 2009.

Progress and Major Initiatives

Carolina's progress, priorities, and major initiatives

during fiscal 2007–2008 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 \$1,070,888,883 of outstanding long-term bonds and \$101,157,000 of commercial paper at June 30, 2008. 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. Beginning this fiscal year, the University's treasury and risk management functions were merged into a new unit in order to strengthen the business and financing aspects of our risks.

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 14 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 Investment Fund, UNC-CH Foundation, System Fund, Management Company, Business School Foundation, School of Education Foundation, Law Foundation, Arts and Sciences Foundation, Medical Foundation, Educational Foundation 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



The University of North Carolina at Chapel Hill has received the award for reporting excellence for the past 13 years.

(CAFR) for the fiscal year ended June 30, 2007. This was the 13th 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 CAFR. 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 CAFR 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.

A handwritten signature in black ink that reads "Richard L. Mann".

Richard L. Mann
Vice Chancellor for Finance and Administration

PROGRESS AND MAJOR INITIATIVES

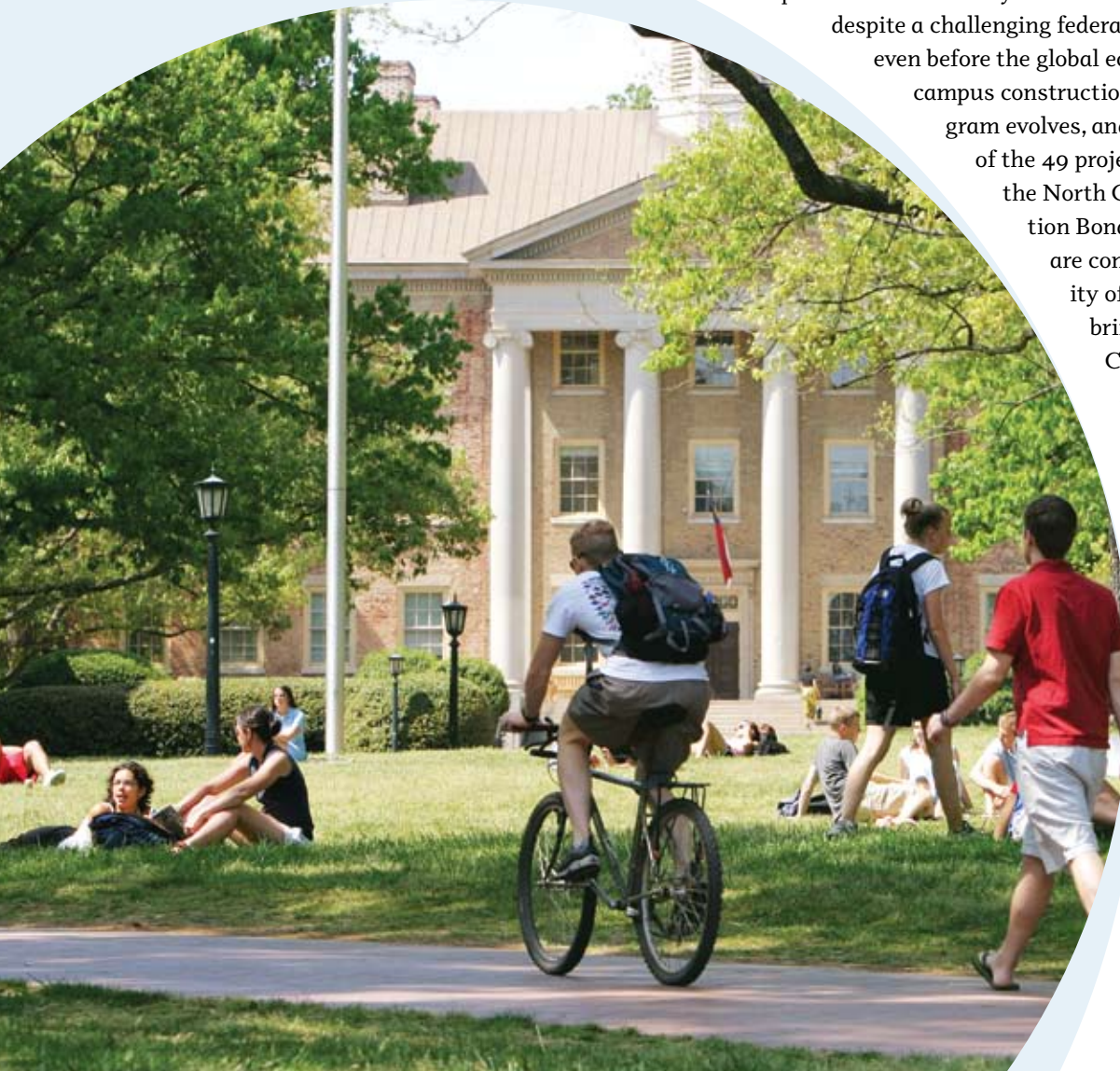
Fiscal 2007–2008

RECENT SUCCESSES REFLECT A GREAT RESEARCH UNIVERSITY

Carolina is making significant progress with key priorities and initiatives that reflects one of America's great research universities. The Carolina Covenant graduated its first class and started a fifth year of educating deserving low-income students debt-free. First-year applications pour in at a record-setting pace, and the Class of 2012 enrolled with stellar academic credentials. Students, faculty, and staff achieve excellence through teaching, research, and public service. Faculty research funding keeps rising — despite a challenging federal funding environment even before the global economic crisis. The

campus construction and renovation program evolves, and all but a half-dozen of the 49 projects made possible by the North Carolina Higher Education Bond Referendum in 2000 are complete. The generosity of alumni and friends brings the Carolina First Campaign to a successful close and continues critical private support. And the University demonstrates outstanding leadership in American higher education and provides life-changing public service to the people of North Carolina.

Following is a sampling of recent highlights demonstrating progress at Carolina in fiscal 2007–08 and beyond.



Academic Priorities Focus on Quality, Accessibility

Carolina offers talented students the opportunity to learn in a high-quality academic environment. The University's academic culture fosters excellence in interdisciplinary teaching and scholarship between and among the health, natural, and social sciences, as well as the liberal arts and the humanities. This approach helps develop the student body into thoughtful individuals, informed citizens, and compassionate leaders.

Carolina Covenant Graduates First Class

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 first class of Carolina Covenant Scholars graduated in May 2008, marking a milestone for this nationally recognized initiative.

Through fall 2008, UNC awarded about 1,500 scholarships for a debt-free education through the Carolina Covenant. Since 2005, admitted students and their families had to be at or below 200 percent of the federal poverty level to be eligible for the program.

Carolina was the country's first major public university to announce such a program in 2003. Since then, more than 80 financial aid initiatives for low- to moderate-income students have been launched that were modeled after the Carolina Covenant.

Morehead-Cain Key to Allen's Success

Danielle Allen, who grew up poor in Monroe, N.C., got a standing ovation at her high school graduation for receiving over \$1 million in college scholarship offers. Many of her classmates had dropped out. She accepted the Morehead-Cain Scholarship, providing four years of full merit-based support at Carolina. And she hasn't stopped excelling.

"I am proof that hard work pays off and that you can overcome circumstance," Allen says.

Since arriving at UNC, she has conducted research about families and public education for the Council on African American Affairs and taught English to poor children in Texas. With a double major in public policy and economics and a minor in urban studies, she plans to work for Teach for America. She wants to be an attorney to tackle inequal-



Carolina Covenant Scholar Cheyenne Brewington and her family during preparations for Commencement in May 2008. She was part of the first graduating class.



Danielle Allen on the phone working at Credit Suisse in New York as part of her summer enrichment opportunity as a Morehead-Cain Scholar.

ities in public education that can hold students back from achieving their dreams.

Allen recently won two more honors. She received the Truman Scholarship, providing \$30,000 for graduate studies, and was named one of Glamour Magazine's Top 10 (Next) Role Models, given to highly accomplished undergraduate women.

Carolina's Other Distinguished Scholarship Winners

Allen, one of 65 Truman Scholarship winners, was part of the notable run that Carolina students made in 2007–08 to earn distinguished scholarships in the United States and abroad. Of 30 Truman Scholars from UNC since the program began in 1977, 17 have been Morehead Scholars (now Morehead-Cain Scholars). UNC's other distinguished scholarship winners included:

- **Michael Tarrant** of Raleigh, N.C., was awarded a **Luce Scholarship** to live and learn in Asia as one of 18 winners nationwide. A double major in political science and communication studies, Tarrant, a senior, was student body vice president. The Henry Luce Foundation provides the scholarships for a year's internship in Asia, with the goal of acquainting future U.S. leaders with Asian colleagues. Tarrant will pursue graduate degrees in public administration or public policy and higher education administration. UNC ranks second only to Harvard in producing Luce Scholars. Twenty-seven UNC students and alumni have won the Luce since it began in 1974.
- **Lisa Bond** of Bowie, Md., and **Stephanie Jones** of Cary, N.C., both seniors majoring in the physical sciences, won **Churchill Scholarships** for graduate work at Cambridge University in England. They were among 13 winners

chosen by the Winston Churchill Foundation of the United States. Bond, a biology major with a chemistry minor, is pursuing a master's degree in biochemistry. Jones, a chemistry major with a minor in entrepreneurship, is seeking a master's degree in chemistry. Both intend to become university research professors. At UNC, Bond was a research assistant in the lab of Biology Professor Kerry Bloom and co-author of a paper published in *Current Biology*. Jones interned at the National Heart, Lung and Blood Institute and had conducted research at UNC since she was a high school junior. UNC and Princeton are tied at eight for the most Churchill Scholars from any campus from 1997 through spring 2008.

- **Elinor Benami** of Knoxville, Tenn., received a **Morris K. Udall Undergraduate Scholarship**. Benami, a sophomore who is double-majoring in international studies and economics, plans a career in environmental consulting. The Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation chose 80 scholars based on their commitment to careers in the environment or, for American Indian and Alaskan native applicants, commitment to careers in health care or tribal public policy. Benami's award brings the number of Udall Scholarships awarded to UNC students to 12 since the program began in 1996.

Rhodes Scholar Numbers Among the Best

For the past five years, Carolina has produced more **Rhodes Scholars** than any other state-supported university, and ninth most of any public or private school. Overall, 41 Rhodes Scholars have come from Carolina — second among all top public research universities. During 2006–07, UNC had two winners, the third time that Carolina had two Rhodes winners in the same year. Since 1957, when the first Morehead Scholars graduated, the University has produced 26 Rhodes Scholars. All but three were Moreheads.

University facilities designed for convenient collaboration among students and faculty include the FedEx Global Education Center, the Sonja Haynes Stone Center for Black Culture and History, Caudill Laboratories, and the Johnston Center for Undergraduate Excellence.



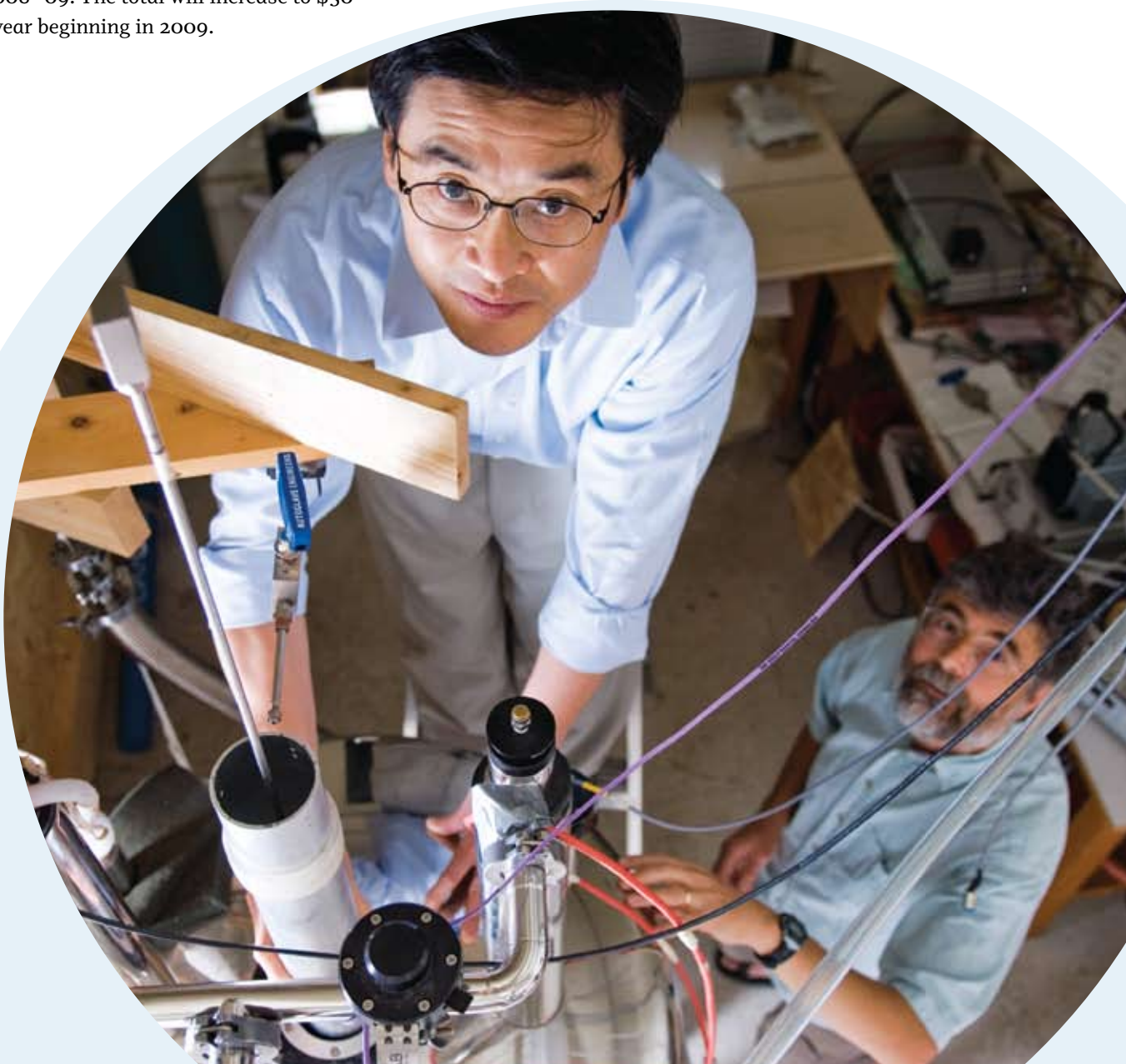
Faculty Research Advances Knowledge

Carolina ranks among the top U.S. public universities in research support for work that advances basic science, helps find cures for diseases, and brings new discoveries to the commercial marketplace. Faculty attracted more than \$678.2 million in total contract and grant funding in fiscal 2008 — up from \$610 million last year. Awards from the National Institutes of Health, the University's largest source of grant funding, exceeded \$356 million — rising sharply by more than 13 percent from last year.

In 2007, the North Carolina General Assembly created the [University Cancer Research Fund](#) to support basic research in medicine, pharmacy and public health, as well as basic science departments of the College of Arts and Sciences through the Lineberger Comprehensive Cancer Center and the School of Medicine. Supporting laboratory, clinical, and outreach efforts across North Carolina, the fund directed \$25 million to Carolina in 2007–08 and \$40 million in 2008–09. The total will increase to \$50 million per year beginning in 2009.

Carolina's world-class faculty includes [Oliver Smithies](#), Excellence Professor of Pathology and Laboratory Medicine, received the 2007 Nobel Prize for work that has fundamentally changed the science of genetic medicine and potentially will help millions of people live healthier lives. Other recent honorees include [Barbara Rimer](#), dean of the UNC Gillings School of Global Public Health, and [Etta Pisano](#), vice dean for academic affairs in the School of Medicine. They were recently elected to the Institute of Medicine, one of the highest honors for researchers in health and medicine. The institute is part of the National Academy of Sciences. Members serve on institute committees that conduct a broad range of studies on health policy issues. Now 19 institute members have Carolina faculty ties.

Physicists Yue Wu (left) and Alfred Kleinhammes use nuclear magnetic resonance to find out if carbon-based nanomaterial can effectively store hydrogen.



Ongoing research initiatives at Carolina include the [Institute for Pharmacogenomics and Individualized Therapy](#), based in the UNC Eshelman School of Pharmacy, which brings together researchers and clinicians to create therapies and treatments for patients suffering from a variety of conditions. The institute aims to make drugs safer and more effective and speed laboratory discoveries by translating genetic discoveries into new ways of diagnosing and treating diseases. [Howard McCleod](#), center director and Fred Eshelman Distinguished Professor, helped identify genetic variants that predispose patients to risk of severe side effects or inadequate benefit from drugs for diseases including colorectal cancer and childhood leukemia. His research also has helped shape Food and Drug Administration guidelines for warfarin, a blood thinner prescribed to more than 2 million people in the United States.

Chemist [Joseph M. DeSimone](#) won the prestigious \$500,000 Lemelson-MIT Prize for his innovations in polymer chemistry. He was cited for pioneering inventions, lab-to-marketplace entrepreneurship and commitment to mentorship. DeSimone, Chancellor's Eminent Professor of Chemistry in the College of Arts and Sciences, is known for the development of groundbreaking solutions in green manufacturing and promising applications in gene therapy and drug delivery, as well as medical devices. "Joe is clearly one of the most inventive researchers in all of science," says Dr. Robert S. Langer, Institute Professor at the Massachusetts Institute of Technology. The Lemelson-MIT Program recognizes outstanding inventors, encourages sustainable new solutions to real-world problems, and enables and inspires young people to pursue creative lives and careers through invention.

Polymer expert Joseph DeSimone holds a drum of his PRINT(r) molds, which can manufacture highly customizable and controllable nanobiomaterials for the diagnosis and treatment of disease.



Improving Lives, Building Futures Across the State

Through teaching, research, and public service, Carolina improves people's lives and builds futures across North Carolina. Examples include:

Fast-track Teacher Training Targets Shortages

Carolina has secured a \$1.25 million, five-year grant from the U.S. Department of Education to expand a new fast-track teacher program to include mathematics and geological sciences as part of an effort to address North Carolina's acute teacher shortage.

North Carolina's public schools need 525 new science teachers each year, but the UNC system's 15 teacher education programs, which include Carolina, produced only 200 science teachers in 2006–2007. The highest-need areas include science and mathematics teachers. Carolina's Baccalaureate Education in Science and Teaching (UNC-BEST) program, launched in 2008, originally offered biology and physics majors a way to earn state high school teaching licensure while simultaneously completing their undergraduate science degrees. Before UNC-BEST, an undergraduate science major had to pursue additional study after graduation to obtain a teaching license.

The new federal grant will expand the program to include mathematics and geological sciences majors, as well as beef up the existing programs in biology and physics. The new grant creates a partnership with four high-needs districts: Hertford, Warren, Vance, and Guilford counties. The first class of 12 UNC-BEST biology and physics teachers will graduate in May 2009. The first cohort of UNC-BEST mathematics and geological sciences majors could enroll in the program as early as fall 2009.

Cut, Color, and Cancer Prevention

When Carolina researchers realized that cancer and death rates are disproportionately higher among black women, they wondered how to get the word out about prevention. Instead of waiting for these women to come to the doctor's office, Laura Linnan, associate professor in the School of Public Health, went where they were already comfortable talking about their health and asking for advice — the beauty salon. Linnan's BEAUTY (Bringing Education And Understanding To You) Project worked with hairstylists to share information with customers in eight N.C. counties about how to prevent colorectal cancer.

"They feel comfortable talking to me," says Christina Boyd, a stylist who owns the Hair Estate in Durham. "They tell me things they don't even tell their husbands or



Erin Burns, a UNC-BEST student, discusses her lessons on protein synthesis at a symposium on biology teaching.

Pharen Bowman, right, of the Carolina Advising Corps, and Steve Farmer, director of UNC's undergraduate admissions offices, listen during a presentation at West Charlotte High School.



Christina Boyd, a stylist who owns the Hair Estate in Durham, helped UNC researchers reach customers.

doctors or best friends.”

Messages from the stylists were simple: Eat three to five servings of fruits and vegetables a day. Engage in physical activity for at least 30 minutes most days. Talk with your doctor about personal risks for cancer and screening tests. Call a national hotline. Preliminary results from the study showed a modest increase in the number of health conversations customers had with their stylists and in self-reported physical activity and screening tests. Nearly all owners said that salons should offer programs such as BEAUTY.

Helping Seniors Aspire to College

Pharen Bowman, who graduated as a Carolina Covenant Scholar from the University, is one of 19 advisers in 38 North Carolina high schools as part of the Carolina

Advising Corps. Pharen brings the message to students at two Charlotte high schools that going to college, including at UNC, is a realistic goal. She helps seniors navigate the complex college admissions process.

Funded by the Jack Kent Cooke Foundation, the Z. Smith Reynolds Foundation, the Annie Penn Community Trust, and the Golden LEAF Foundation, the Carolina Corps is one of 13 partner programs in the National College Advising Corps, also headquartered at the University.

The corps, based in the University's admissions office, aims to increase the number of low-income, first-generation and underrepresented students entering and completing higher education. According to the College Board, high-achieving students from low-income families have about the same chance of enrolling in college as low-achieving students from high-income families.



New Carolina graduates don distinctive blue robes for Commencement in Kenan Stadium. The Class of 2012 enrolled this fall has 3,900 students drawn from a record 21,511 applications — a 20 percent increase from five years ago. Seventy-nine percent of these students were in the top 10 percent of their high school classes. Using this measure, the quality of the entering class has improved more at Carolina over the last five years than at all but two top 30 national universities.

Carolina First Sets Fundraising Records

The Carolina First Campaign finished in December 2007 as the fifth biggest fund-raising drive among completed campaigns at that time in the history of U.S. higher education and as the largest in the South. With more than 194,000 donors, Carolina First surged past its \$2 billion goal to raise \$2.38 billion to support the University.

Reaching that goal was critical for the University to compete nationally for top faculty and students, invest in departments and programs, and build and renovate facilities. The \$2.38 billion raised included \$419.7 million for faculty, including 208 new endowed professorships;

\$345.3 million for students, including 577 new scholarships and 196 new fellowships; \$579.4 million for research; \$664.8 million for strategic initiatives; and \$185 million for facilities.

Carolina's fundraising efforts brought in \$300.3 million in gifts in fiscal 2008, breaking the \$300 million mark for the first time in school history. The total represented the fifth straight record-setting year for this type of support, which accounts for money that is immediately available to the University. Carolina raised \$250.8 million in gifts in 2007. In commitments for fiscal 2008, which ended June 30, UNC received \$342.8 million. Commitments include pledges, as well as gifts.

Bond Referendum Projects Nearing Completion

The Carolina campus has undergone an unprecedented physical transformation made possible in part by North Carolinians' approval of the \$3.1 billion bond referendum for higher education in 2000. The bonds have provided more than \$515 million for renovations and new buildings. The University continues to invest funds from non-state sources, including private gifts raised during the Carolina First Campaign, state appropriations, and overhead receipts from faculty research grants, for other buildings essential to excellence. The resulting capital construction program exceeding \$2.1 billion is among the largest at any major American university.

The bond-funded portion of the building program includes 49 projects. Forty-three of those projects have been closed out or completed, leaving another six under construction. This program is scheduled to be completed in January 2009 — within two months of the original schedule set in 2002.

Recently completed projects include the second phase of the Carolina Physical Science Complex, the largest construction project in University history, and the related demolition of nearby Venable Hall. Major projects nearing completion include the second phase of the Genetic Medicine Building and phase one of the Arts Common in the form of the Kenan Music Building, a teaching facility.

High-Quality Academics Drive National Reputation

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

- 1st among the 100 best U.S. public colleges and universities that offer the best combination of academics and affordable costs as ranked by *Kiplinger's Personal Finance* magazine in December 2008. 1st for 8 consecutive times since Kiplinger's began these periodic surveys in 1998.
- 5th best public university in *U.S. News & World Report's* 2009 "Best Colleges" guidebook for the 8th consecutive year. 1st among public campuses for the 4th 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 7 public universities ranking in the top 25 for all nine measures used in the 2007 edition of "The Top American Research Universities," produced 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. Since these studies began in 2000, Carolina is one of only 4 publics with all 9 measures in the top 25 each year.



Kiplinger's Personal Finance magazine has ranked Carolina the best value in U.S. public higher education eight consecutive times. The ranking is based on the best combination of outstanding academics and affordable costs.

Kenan Music Building, a teaching facility, is among the most recently completed new buildings at Carolina. It is the centerpiece of the planned Arts Common and its completion was made possible by a gift from the William R. Kenan, Jr. Charitable Trust.

BOARD OF TRUSTEES

June 30, 2008

Roger L. Perry, Sr.
Chairman, Chapel Hill, NC

Paul Fulton
Winston-Salem, NC

A. Donald Stallings
Rocky Mount, NC

Karol V. Mason
Vice Chairwoman, Atlanta, GA

Alston Gardner
Chapel Hill, NC

Robert W. Winston III
Raleigh, NC

Russell M. Carter
Secretary, Wilmington, NC

Barbara Rosser Hyde
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J. J. Raynor
Ex-Officio, Chapel Hill, NC

Phillip L. Clay
Cambridge, MA

Nelson Schwab III
Charlotte, NC

John G. B. Ellison, Jr.
Greensboro, NC

Sallie Shuping-Russell
Durham, NC

CHANCELLOR'S CABINET

June 30, 2008

James C. Moeser
Chancellor

Archie W. Ervin
*Associate Provost for
Diversity and
Multicultural Affairs*

Richard L. Mann
*Vice Chancellor for Finance
and Administration*

Michael R. Smith
*Vice Chancellor for
Public Service and
Engagement and Dean,
School of Government*

Richard A. Baddour
Director of Athletics

Bernadette Gray-Little
*Executive Vice
Chancellor and Provost*

Ann E. Penn
*Equal Opportunity/
ADA Officer*

Leslie Chambers Strohm
*Vice Chancellor
and General Counsel*

Larry D. Conrad
*Vice Chancellor for
Information Technology and
Chief Information Officer*

Margaret A. Jablonski
*Vice Chancellor for
Student Affairs*

Dwayne L. Pinkney
*Special Assistant to the
Chancellor for State and
Local Relations and Assistant
Vice Chancellor for Finance
and Administration*

Holden Thorp*
*Dean, College of
Arts and Sciences*

Nancy K. Davis
*Associate Vice
Chancellor for
University Relations*

Brenda W. Kirby
Secretary of the University

William L. Roper
*Vice Chancellor for
Medical Affairs and Dean,
School of Medicine*

Tony G. Waldrop
*Vice Chancellor
for Research and
Economic Development*

Douglas S. Dibbert
*President, General Alumni
Association*

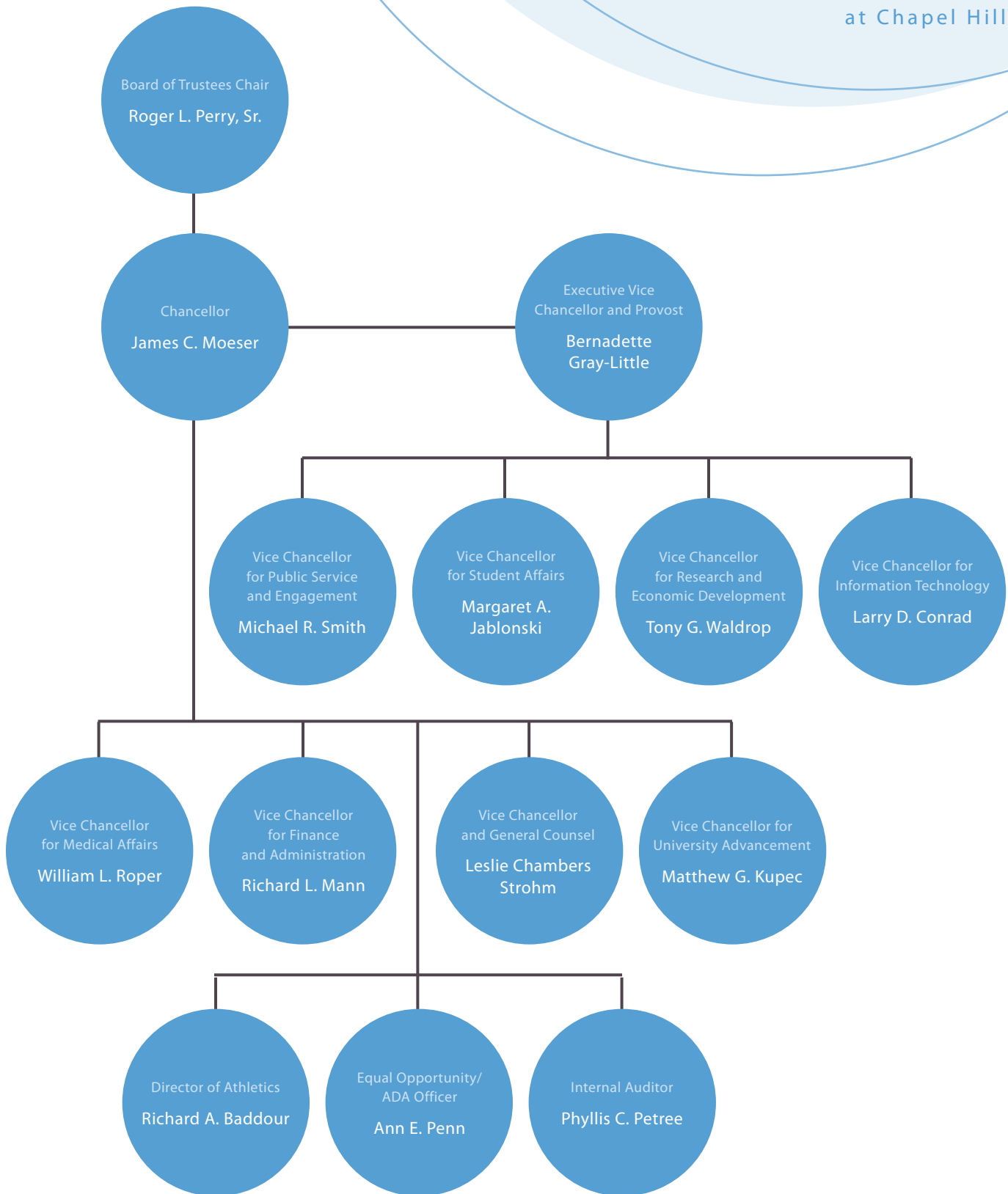
Matthew G. Kupec
*Vice Chancellor for
University Advancement*

*Holden Thorp was elected as the University's 10th chancellor effective July 1, 2008.

ORGANIZATION CHART

June 30, 2008

The University of North Carolina
at Chapel Hill







FINANCIAL SECTION



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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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, 2008, 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, and 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, 2008, 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)

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 8, 2008, 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 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 W. Merritt, Jr., CPA, CFP
State Auditor

December 8, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Introduction

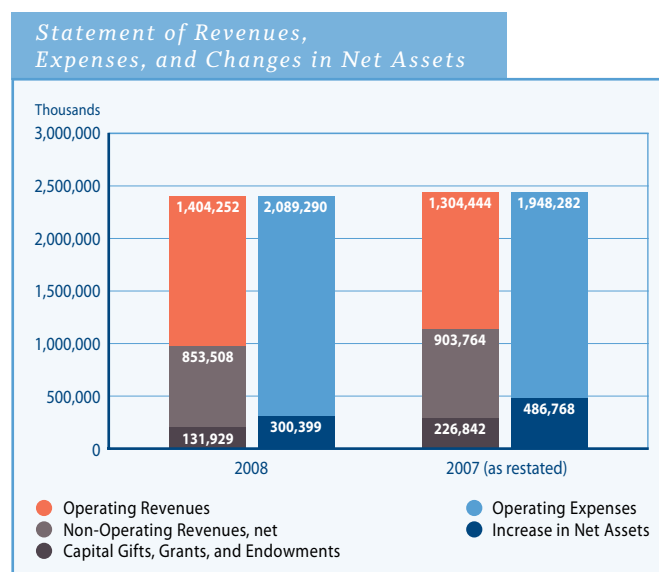
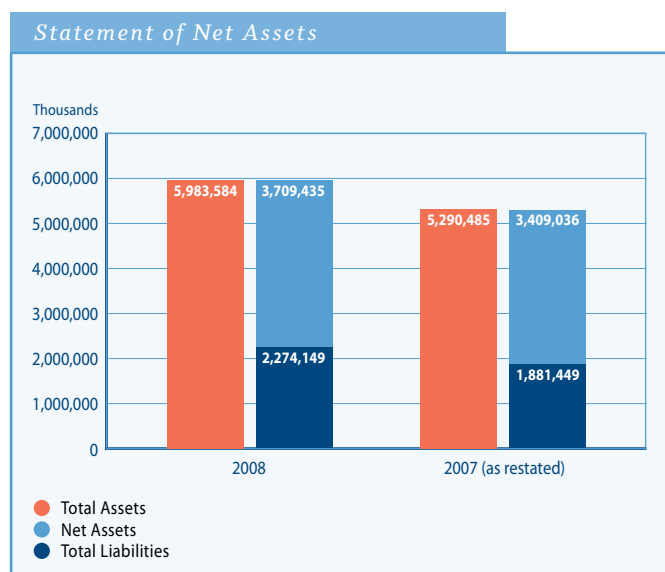
Management's discussion and analysis provides an overview of the financial position and activities of The University of North Carolina at Chapel Hill (the "University") for the fiscal year that ended June 30, 2008, with comparative information for the fiscal year ended June 30, 2007. Due to a change in the bylaws of The School of Social Work Foundation, Inc. which was previously reported as a component unit, this entity is no longer reported as if it were part of the University. Therefore, certain prior year amounts have been restated to conform to current year presentations. The reader may refer to Note 18 for additional information. 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 ten component units. Seven 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, 2008 remains strong with total assets of \$6 billion. Net assets, which represent the residual interest in the University's assets after deducting liabilities, were \$3.7 billion at June 30, 2008. The University's net assets increased by \$300.4 million in fiscal 2007–2008 as a result of operating, non-operating, and other changes. A comparison of the total assets, liabilities, and net assets at June 30, 2008, and June 30, 2007, and a comparison of the major components of the changes in net assets for the two fiscal years are presented below:



Net assets increased 8.8 percent on June 30, 2008, over the prior year. Total assets increased 13.1 percent and total liabilities rose 20.9 percent for the same period. Operating revenues increased at a lower rate than operating expenses in 2007–2008 over the prior year, 7.7 percent and 7.2 percent, respectively. Net non-operating revenues and expenses decreased 5.6 percent in 2007–2008 over the prior year. The growth in state appropriations — 10.3 percent — was significant; however, investment income had a substantial decrease of 53.8 percent in 2007–2008 from 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 the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

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, 2008, and June 30, 2007.

Assets, Liabilities, and Net Assets (Dollars in Thousands)

	2008	2007	Percent Change
		<i>(as restated)</i>	
Assets			
Current assets	\$1,200,432	\$1,005,433	19.4
Non-current assets			
Endowment and other investments	2,277,442	1,996,987	14.0
Capital assets, net	2,289,015	2,082,829	9.9
Other non-current assets	216,695	205,236	5.6
Total Assets	5,983,584	5,290,485	13.1
Liabilities			
Current liabilities	372,616	471,718	(21.0)
Non-current liabilities:			
Funds held in trust for pool participants	781,049	588,099	32.8
Long-term liabilities	1,088,637	789,568	37.9
Other non-current liabilities	31,847	32,064	(0.7)
Total Liabilities	2,274,149	1,881,449	20.9
Net Assets			
Invested in capital assets, net of related debt	1,290,034	1,211,805	6.5
Restricted	1,747,431	1,579,658	10.6
Unrestricted	671,970	617,573	8.8
Total Net Assets	\$3,709,435	\$3,409,036	8.8

Current Assets and Liabilities

The Statement of Net Assets shows that working capital, which is current assets less current liabilities, was \$827.8 million at June 30, 2008, an increase of 55.1 percent, or \$294.1 million, over the previous year. Funds in the State Treasurer's short-term investment fund are categorized as cash equivalents and increased by \$155 million over the prior year. Short-term debt decreased by \$91.3 million as a long-term general revenue bond issue refunded commercial paper borrowings. The Statement of Net Assets details the current asset and current liability categories.

Endowment and Other Investments

Endowment investments increased 6.7 percent during 2007–2008 and were \$1.485 billion at June 30, 2008, and \$1.392 billion at June 30, 2007, 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 \$1.46 billion at June 30, 2008, and \$1.37 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.

Other investments of \$792 million at June 30, 2008, include funds of \$744.8 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 \$47.2 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 2007–2008 was 8 percent. The investment return for fiscal 2006–2007 was 23.4 percent. Although the System Fund's return of 8 percent lagged the returns of the four prior fiscal years, the investment performance for fiscal 2007–2008 was very strong relative to benchmarks and other endowment funds. The System Fund return of 8 percent for 2007–2008 significantly outperformed the Strategic Investment Policy Portfolio ("SIPP") return of 3.3 percent. The System Fund's return also exceeded the 70 percent S&P 500 / 30 percent Lehman Brothers Bond Index ("70/30") return of -7.2 percent for the year.

The investment performance enabled the System Fund to earn a three-year annualized return of 16.7 percent at June 30, 2008. This three-year return measure compares well with the corresponding measure of 11.2 percent for the

SIPP and 4.4 percent for the 70/30. For the five years ended June 30, 2008, the System Fund earned a 16.4 percent annualized return compared to 12.6 percent for the SIPP and 6.6 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, 2008, the System Fund returned 11.1 percent, 12 percent, and 12.4 percent respectively. Comparatively, the CPI plus 5.5 percent has been 8.6 percent, 8.4 percent, and 8.7 percent respectively for the corresponding time periods. This primary objective of earning the inflation rate plus 5.5 percent reflects the need to preserve the purchasing power of the System Fund after factoring in inflation and spending.

The return of 8 percent for fiscal 2007–2008 ended four consecutive years in which the System Fund was able to produce a return in excess of 15 percent. More important than the absolute return; however, was the ability to protect and enhance the value of the portfolio in a year in which most financial markets generated losses. The System Fund remains invested according to an 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, 2008, and June 30, 2007, were as follows:

	2008	2007	Percent Change
Assets			
Construction in progress	\$665,936	\$535,332	24.4
Land and other non-depreciable assets	115,155	97,030	18.7
Buildings	1,184,264	1,129,399	4.9
General infrastructure	212,514	218,431	(2.7)
Machinery and equipment	111,146	102,637	8.3
Total	\$2,289,015	\$2,082,829	9.9

The University is engaged in a \$2.1 billion capital construction program that began in 2000 and will continue through the next few years. The 151 projects in the capital program include major capital renewal of existing buildings and infrastructure to address both deferred maintenance and programmatic needs. The 76 completed projects total \$856 million, or 41 percent of the \$2.1 billion capital construction program. The 29 projects under construction total \$511 million or 24 percent, and the 46 projects under design represent \$733 million or 35 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 \$101.2 million at June 30, 2008 and \$192.4 million at June 30, 2007. The University currently plans to issue a long-term bond in fiscal year 2009–2010 to refund a significant portion of outstanding commercial paper and to provide additional funds for capital projects.

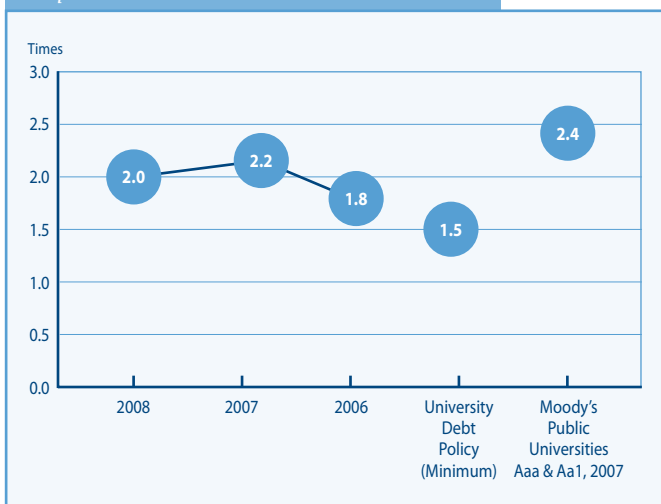
The commercial paper program and the general revenue bonds allow the University to use a central bank concept for funding capital projects. The University issues fixed

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.

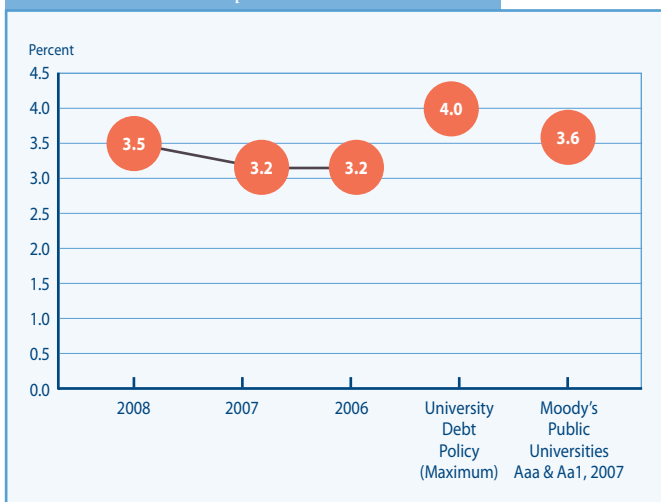
The University maintains a combination of variable and fixed rate debt, consistent with its debt management policy. The effective, combined interest rate for variable and fixed rate debt was 4.65 percent for fiscal year 2007–2008 and 4.72 percent for fiscal year 2006–2007. The interest rate on the commercial paper program for fiscal year 2007–2008 was 3.19 percent and for 2006–2007 was 3.6 percent. Interest rates on the University’s variable rate, long-term bonds were 2.84 percent for fiscal year 2007–2008 and 3.59 percent for fiscal year 2006–2007. 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 2006–2007 (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 Service to Operations



Other Non-current Assets and Liabilities

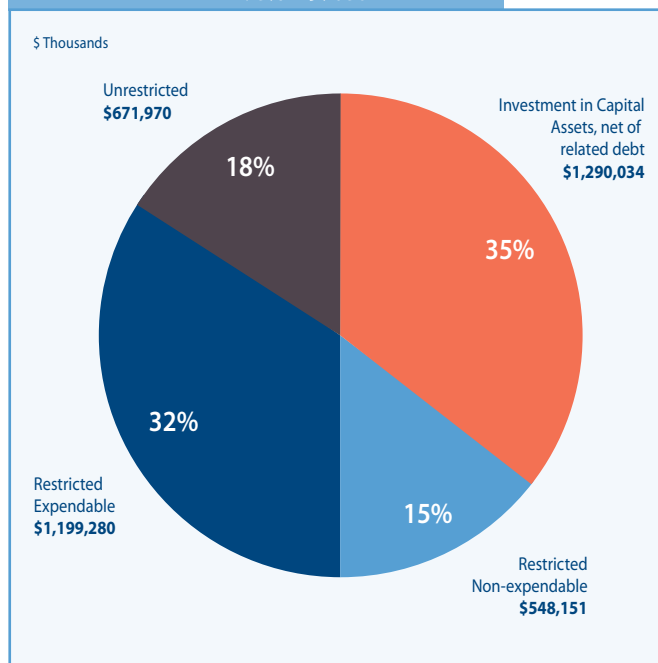
Other non-current assets were \$216.7 million at June 30, 2008, and \$205.2 million at June 30, 2007, a 5.6 percent increase. Non-current liabilities were \$1.9 billion at June 30, 2008, and \$1.4 billion at June 30, 2007, and include funds held in trust for the University's affiliated foundations and other campuses in the UNC System and their

affiliates of \$781 million and \$588.1 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 32.8 percent over the prior year resulted from solid 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 \$3.7 billion at June 30, 2008, an increase of \$300.4 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.

2008 Net Assets: \$3,709,435



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, 2008, and the prior year are summarized as follows:

<i>University Operations (Dollars in Thousands)</i>			
	2008	2007	Percent Change
Operating Revenues		<i>(as restated)</i>	
Student tuition and fees, net	\$218,763	\$210,651	3.9
Grants and contracts	614,513	566,887	8.4
Sales and services, net	564,078	521,653	8.1
Other	6,898	5,253	31.3
Total Operating Revenues	1,404,252	1,304,444	7.7
Operating Expenses	2,089,290	1,948,282	7.2
Operating Loss	(685,038)	(643,838)	6.4
Non-operating Revenues (Expenses)			
State appropriations	543,292	492,471	10.3
Non-capital gifts and grants	216,026	136,306	58.5
Investment income	146,650	317,767	(53.8)
Interest and fees on capital asset related debt	(53,311)	(42,926)	24.2
Other non-operating revenues	851	146	482.9
Income Before Other Changes	168,470	259,926	(35.2)
Capital grants and appropriations	60,091	171,738	(65.0)
Capital gifts	11,596	15,662	(26.0)
Additions to permanent endowments	60,242	39,442	52.7
Increase in Net Assets	300,399	486,768	(38.3)
Net Assets — July 1	3,409,036	2,922,268	16.7
Net Assets — June 30	\$3,709,435	\$3,409,036	8.8
<i>Fiscal year 2007–2008 revenues and other changes total \$2,443,000 and expenses total \$2,142,601.</i>			
<i>Fiscal year 2006–2007 revenues and other changes total \$2,477,976 and expenses total \$1,991,208.</i>			

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 \$57.1 million for fiscal 2007–2008 and \$51.1 million for the prior year. Net revenues from student tuition and fees increased 3.9 percent over the prior year. The 2007–2008 tuition rates increased 7.2 percent for undergraduate resident students, 6.9 percent for undergraduate non-residents, 12.2 percent for graduate residents, and 2.8 percent for graduate non-residents.

Operating revenues from grants and contracts increased 8.4 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 \$678.2 million in sponsored program funding during fiscal 2007–2008, an 11.1 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 13 percent to \$356 million. Health-related research funded from NIH and other sources continues to receive the bulk of research dollars, with the medical school bringing in \$356.8 million in 2007–2008. The College of Arts and Sciences received \$68.6 million, the School of Pharmacy received \$16.5 million, and the School Social Work \$12 million.

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 University administrative services.

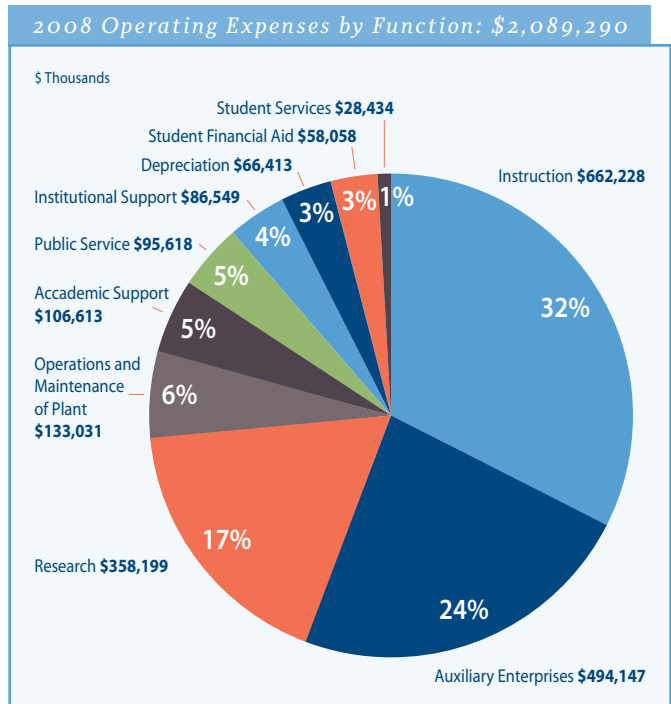
Operating Expenses

The University's operating expenses were \$2.1 billion for the fiscal year ended June 30, 2008, an increase of 7.2 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 11). The following table illustrates the University's operating expenses by functional classification and by natural classification:

Operating Expenses by Function (Dollars in Thousands)

	2008	2007	Percent Change
Instruction	\$662,228	\$624,128	6.1
Research	358,199	312,160	14.7
Public service	95,618	90,025	6.2
Academic support	106,613	97,776	9.0
Student services	28,434	25,865	9.9
Institutional support	86,549	76,188	13.6
Operations and maintenance of plant	133,031	124,991	6.4
Student financial aid	58,058	56,662	2.5
Auxiliary enterprises	494,147	459,660	7.5
Depreciation	66,413	80,827	(17.8)
Total Operating Expenses	\$2,089,290	\$1,948,282	7.2

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

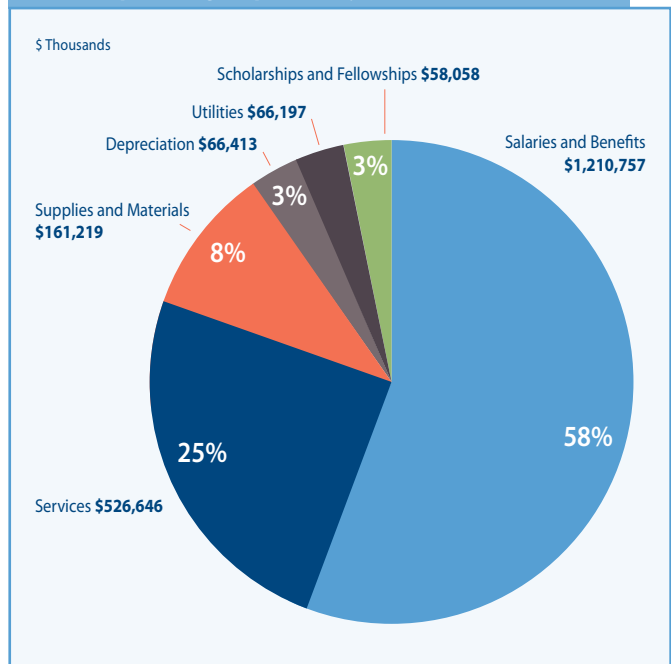


The following graph illustrates the University's operating expenses by the natural classification.

Operating Expenses by Nature (Dollars in Thousands)

	2008	2007	Percent Change
Salaries and benefits	\$1,210,757	\$1,122,269	7.9
Supplies and materials	161,219	165,704	(2.7)
Services	526,646	462,093	14.0
Scholarships and fellowships	58,058	56,662	2.5
Utilities	66,197	60,727	9.0
Depreciation	66,413	80,827	(17.8)
Total Operating Expenses	\$2,089,290	\$1,948,282	7.2

2008 Operating Expenses by Nature: \$2,089,290



Operating expense categories changed at varying rates. The 14 percent increase in services resulted in part from additional contractual service agreements related to professional health care services. The 17.8 percent decrease in depreciation expenses in 2007–2008 over the prior year resulted from increases in the estimated useful life used for buildings. The useful life for certain segments of componentized buildings was increased from 50 to 75 years, and the useful life for non-componentized buildings was increased from 40 to 75 years. The reader may refer to Note 1H for additional information. The \$2.1 billion capital construction that began in 2000 has resulted in an increased depreciable capital asset base of \$2.4 billion at June 30, 2008, an increase of 67.1 percent from five years earlier. Research expenses increased 14.7 percent in keeping with the growth in sponsored awards. Institutional support increased 13.6 percent in part from noncapitalized expenses for the Enterprise Resource Planning project implementation, other technology needs, and administrative expenses of a component unit.

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.

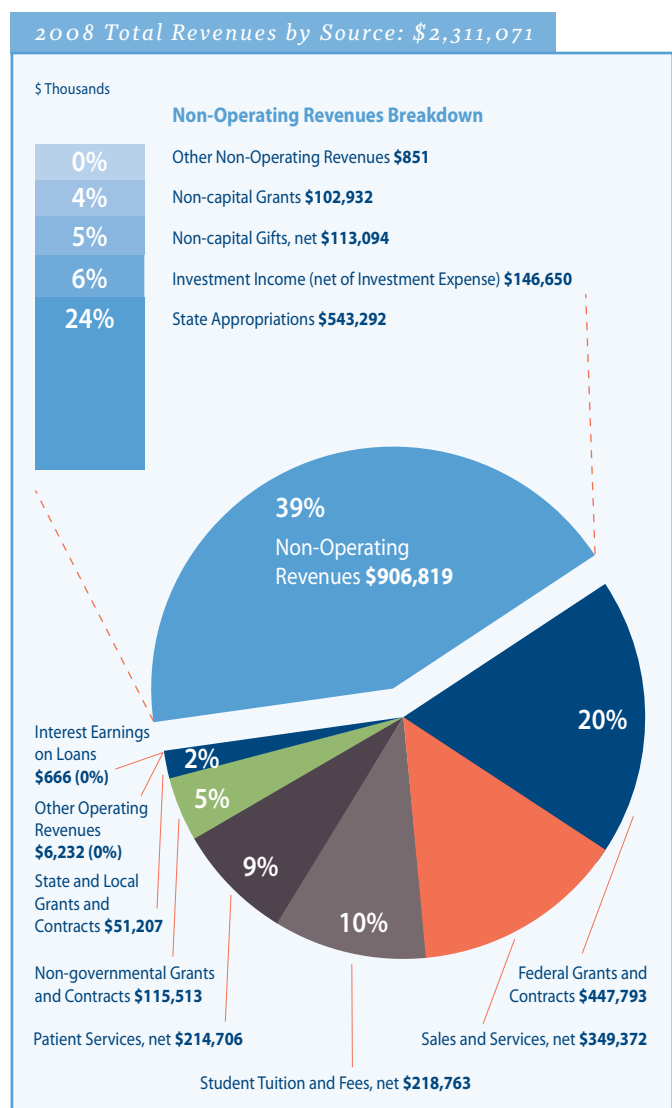
State appropriations were \$543.3 million for fiscal 2007–2008, a 10.3 percent increase. The University received budget increases totaling \$26.4 million to fund salary and benefit enhancements, \$20.9 million for additional enrollment and program enhancements, and \$9.7 million for operating costs for new facilities. The expiration of nonrecurring budget allocations and other net budget reductions were \$6.2 million.

Non-capital gifts and grants increased \$79.7 million and include expendable gifts and federal awards that are not considered to be operating revenues. The increase resulted in large part from the increase in expendable gifts as part of the University’s fundraising efforts. Net investment

income of \$146.7 million, a decrease of 53.8 percent over 2006–2007, includes income and realized and unrealized gains and is net of realized and unrealized losses and investment management fees. For additional discussion, the reader may refer to the Endowment and Other 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 2007–2008.



Other Changes in Net Assets

Capital grants and appropriations of \$60.1 million for fiscal 2007–2008 and \$171.7 million for fiscal 2006–2007 are from statewide higher education bond proceeds and state appropriations for capital construction projects. These resources decreased as other resources are used and the pace of new constructions lessens. Capital gifts of \$11.6 million for fiscal 2007–2008 and \$15.7 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 \$60.2 million during fiscal 2007–2008 and \$39.4 million during fiscal 2006–2007.

Economic Outlook

The University is financially well-positioned and will continue to maintain and generate sufficient resources to successfully fulfill its teaching, research, and service missions. The fiscal improvement during 2007–2008 enhanced the University's solid financial foundation. The University maintains low tuition levels in relative terms that provide important resources for key University priorities. Support from the state remains solid despite a national economic downturn, 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 2008–2009 by 6.5 percent for undergraduate non-residents, 8.7 percent for graduate residents, and 4.3 percent for graduate non-residents. Tuition rates for undergraduate residents did not change. 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 2008–2009 totals \$573.6 million, which represents an increase of 5.6 percent over fiscal 2007–2008 actual state appropriations. This level of state appropriation funding includes faculty and staff pay and benefit increases of \$17.1 million. The fiscal 2008–2009 pay increase of 3 percent for faculty and 2.75 percent for staff is the fifth consecutive year of base salary increases for all employees. Other budget changes included \$15.8 million for enrollment increases and program enhancements, \$2.8 million for operating costs for new facilities, and \$5.4 million in net budget decreases. Because of a slowing national economy, the Governor recommended lowering revenue expectations for fiscal 2008–2009 to help manage a revenue shortfall should it arise. The impact on the University will be a requirement to reserve nonrecurring budget of 4 percent for fiscal 2008–2009 should a budget reduction become necessary.

External funding from contracts and grants increased to \$678.2 million in fiscal 2007–2008. In many cases researchers from multiple University schools, departments, and units collaborate on research grants, contracts, and studies. The approach reflects the University's emphasis on interdisciplinary teaching and scholarship between and among the health, natural and social sciences, as well as the liberal arts and the humanities. The level of awards exceeded expectations and demonstrates strong potential for future growth as the University continues to expand

its research facilities as part of the University's capital construction program.

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. It is expected that the investment performance of the 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. This structure should continue to enhance the ability to attract and retain investment professionals and increase the pool of funds and resulting investment returns.

The University's fund-raising efforts brought in more than \$300 million in gifts for fiscal year 2007–2008, surpassing the \$300 million mark for the first time and setting a new record for the fifth consecutive year. These latest milestones occurred in a year that the University concluded the Carolina First Campaign on a historic note. The campaign ended December 31, 2007, with \$2.38 billion in commitments, which include pledges as well as gifts. The campaign marked the fifth largest total among completed campaigns at that time in the history of U.S. higher education and the largest in the South.

Carolina First, which supports the University's vision to be the nation's leading public university, began July 1, 1999. Its public launch came in October 2002 with a \$1.8 billion goal. That goal was raised to \$2 billion in October 2005. Not only did Carolina surpass its overall goal, but each professional school and unit exceeded individual goals as well. The final amount raised was \$2.38 billion.

The University's academic standing augments its financial future. In the Fall semester of 2007, the University

enrolled its most academically prepared first-year class in its history, with 3,893 students enrolled from a record 20,090 applications. Applications for the Fall semester of 2008 surpassed the prior year by 7 percent. Total student enrollment for fall semester 2007 exceeded 28,000 students for the first time. The first full class of Carolina Scholars graduated in May 2008. The Carolina Covenant, which provides a debt-free education to qualified low-income students from North Carolina and beyond, is a national model for making a college degree possible for qualified low-income students. The University's policies protect affordability and offer an outstanding education.

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, 2008

Assets

Current Assets	
Cash and cash equivalents	\$306,241,864
Restricted cash and cash equivalents	364,417,260
Short-term investments	195,957,967
Restricted short-term investments	103,208,331
Receivables, net (Note 4)	185,105,754
Due from State of North Carolina component units	19,295,769
Inventories	23,389,483
Notes receivable, net (Note 4)	2,621,117
Other assets	193,915
Total current assets	1,200,431,460
Non-current Assets	
Restricted cash and cash equivalents	119,085,895
Receivables, net (Note 4)	35,859,181
Restricted due from primary government	18,264,453
Endowment investments	1,485,398,669
Other investments	792,043,416
Notes receivable, net (Note 4)	35,166,168
Investment in joint venture	8,318,917
Capital assets, non-depreciable (Note 5)	781,091,310
Capital assets, depreciable, net (Note 5)	1,507,924,143
Total non-current assets	4,783,152,152
Total assets	5,983,583,612

Liabilities

Current Liabilities	
Accounts payable and accrued liabilities (Note 6)	91,947,105
Due to primary government	7,273,721
Due to State of North Carolina component units	5,784,042
Deposits payable	1,742,516
Funds held for others	3,876,485
Unearned revenue	42,379,319
Interest payable	4,862,588
Short-term debt (Note 7)	101,157,000
Long-term liabilities - current portion (Note 8)	113,592,746
Total current liabilities	372,615,522
Non-current Liabilities	
U. S. government grants refundable	31,846,832
Funds held in trust for pool participants	781,049,014
Long-term liabilities (Note 8)	1,088,637,083
Total non-current liabilities	1,901,532,929
Total liabilities	2,274,148,451
Total assets less liabilities	\$3,709,435,161

Continued in next column

Net Assets

Invested in capital assets, net of related debt	\$1,290,033,696
Restricted for	
Non-expendable	
Scholarships and fellowships	113,623,685
Research	17,069,199
Library acquisitions	27,132,326
Endowed professorships	240,569,934
Departmental uses	103,360,727
Loans	16,431,800
Other	29,963,465
Total non-expendable	548,151,136
Expendable	
Scholarships and fellowships	229,734,050
Research	28,351,226
Library acquisitions	61,820,776
Endowed professorships	396,506,546
Departmental uses	365,358,550
Instruction and educational agreements	20,429,604
Plant improvements	19,332,357
Capital projects	68,981,470
Debt service	8,765,000
Total expendable	1,199,279,579
Unrestricted	671,970,750
Total net assets	\$3,709,435,161

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, 2008*

Revenues

Operating Revenues	
Student tuition and fees, net (Note 10)	\$218,763,485
Patient services, net (Note 10)	214,705,830
Federal grants and contracts	447,792,388
State and local grants and contracts	51,207,123
Non-governmental grants and contracts	115,513,098
Sales and services, net (Note 10)	349,372,187
Interest earnings on loans	665,619
Other operating revenues	6,232,215
Total operating revenues	1,404,251,945

Expenses

Operating Expenses	
Salaries and benefits	1,210,757,446
Supplies and materials	161,219,222
Services	526,645,768
Scholarships and fellowships	58,058,259
Utilities	66,197,231
Depreciation	66,412,469
Total operating expenses	2,089,290,395
Operating loss	(685,038,450)

Non-Operating Revenues (Expenses)

State appropriations	543,291,852
Non-capital grants	102,932,492
Non-capital gifts, net (Note 10)	113,093,852
Investment income (net of investment expense of \$6,416,039)	146,650,103
Interest and fees on capital asset related debt	(53,311,210)
Other non-operating revenues	851,693
Net non-operating revenues	853,508,782
Income before other revenues	168,470,332
Capital appropriations	47,206,200
Capital grants	12,884,378
Capital gifts	11,596,369
Additions to endowments	60,241,629
Increase in net assets	300,398,908

Net Assets

Net assets — July 1, 2007 as restated (Note 18)	3,409,036,253
Net assets — June 30, 2008	\$3,709,435,161

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, 2008

Cash Flows From Operating Activities

Received from customers	\$1,381,267,969
Payments to employees and fringe benefits	(1,193,733,438)
Payments to vendors and suppliers	(747,072,706)
Payments for scholarships and fellowships	(58,058,259)
Loans issued	(7,952,158)
Collection of loans	5,926,896
Other payments	(21,512,209)
Net cash used by operating activities	(641,133,905)

Cash Flows From Non-Capital Financing Activities

State appropriations	543,291,852
Non-capital grants	88,851,058
Non-capital gifts	96,958,135
Additions to endowments	60,241,629
Related activity agency receipts	191,708,958
Cash provided by non-capital financing activities	981,051,632

Cash Flows From Capital Financing and Related Financing Activities

Proceeds from capital debt	426,478,562
Capital grants	56,265,270
Capital appropriations	47,206,200
Capital gifts	9,409,483
Acquisition and construction of capital assets	(283,860,475)
Principal paid on capital debt and leases	(238,671,512)
Interest and fees paid on capital debt and leases	(52,779,333)
Net cash used by capital financing and related financing activities	(35,951,805)

Cash Flows From Investing Activities

Proceeds from sales and maturities of investments	1,306,318,418
Investment Income	56,598,516
Purchase of investments and related fees	(1,522,635,524)
Net cash used by investing activities	(159,718,590)
Net increase in cash and cash equivalents	144,247,332
Cash and cash equivalents, July 1, 2007 as restated	645,497,687
Cash and cash equivalents, June 30, 2008	\$789,745,019

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	(\$685,038,450)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation expense	66,412,469
Allowances, write-offs, and amortizations	204,424
Changes in assets and liabilities	
Receivables, net	(31,980,016)
Inventories	(3,883,607)
Notes receivable, net	(2,684,961)
Other assets	(193,915)
Accounts payable and accrued liabilities	10,862,764
Due to primary government	7,179,549
U.S. government grants refundable	(217,247)
Unearned revenue	(11,639,223)
Compensated absences	9,844,308
Net cash used by operating activities	(\$641,133,905)

Non-Cash Investing, Capital, and Financing Activities

Assets acquired through assumption of a liability	\$2,147,681
Assets acquired through a gift	\$2,186,886
Change in fair value of investments	\$23,565,632
Decrease in receivables related to non-operating income	(\$6,957,789)
Loss on disposal of capital assets	\$3,995,430

Reconciliation of Cash and Cash Equivalents

Current Assets	
Cash and cash equivalents	\$306,241,864
Restricted cash and cash equivalents	364,417,260
Non-current assets	
Restricted cash and cash equivalents	119,085,895
Total cash and cash equivalent — June 30, 2008	\$789,745,019

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

Statement of Financial Position June 30, 2008

<i>Component Units</i>	UNC-CH Arts and Sciences Foundation, Inc.	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina, Inc.
Assets			
<i>Current assets</i>			
Cash and cash equivalents	\$8,383,739	\$15,652,749	\$45,669,788
Investments		183,875,742	111,229,321
Unconditional promises to give	6,758,254	8,444,835	4,659,547
Contributions receivable from split interest agreements		3,491,692	
Accounts receivable	327,374		
Funds held in trust	498,823		
Accrued income receivable	21,906		139,212
Prepaid expenses			68,298
Miscellaneous receivables			152,306
Total current assets	15,990,096	211,465,018	161,918,472
<i>Property and equipment</i>			
Building			555,729
Furniture and equipment	650,324		446,081
Leasehold interest — building	3,750,483		
Vehicle	26,422		
Allowance for depreciation	(484,283)		(392,596)
Total property and equipment	3,942,946		609,214
<i>Other assets</i>			
Investments	138,393,715		60,820,662
Unconditional promises to give, net	16,565,643		5,681,445
Restricted cash	4,477,382		89,006
Split-interest agreements	2,284,358		4,807,143
Restricted investments			473,532
Real estate interests held for investment	49,500		
Student loans receivable			36,198
Cash surrender value of life insurance		2,041,074	437,400
Total other assets	161,770,598	2,041,074	72,345,386
Total non-current assets	165,713,544	2,041,074	72,954,600
Total assets	\$181,703,640	\$213,506,092	\$234,873,072
Liabilities and Net Assets			
<i>Current liabilities</i>			
Accounts payable	\$64,901		\$160,446
Annuities payable		\$117,159	
Accrued expenses	160,985		211,541
Total current liabilities	225,886	117,159	371,987
Long-term debt	1,500,000		
Total liabilities	1,725,886	117,159	371,987
<i>Net assets</i>			
Unrestricted	17,501,214		11,395,790
Temporarily restricted	86,874,251	114,643,701	162,284,633
Permanently restricted	75,602,289	98,745,232	60,820,662
Total net assets	179,977,754	213,388,933	234,501,085
Total liabilities and net assets	\$181,703,640	\$213,506,092	\$234,873,072

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

Statement of Activities and Changes in Net Assets For the fiscal year ended June 30, 2008

<i>Component Units</i> <i>Support and Revenue</i>	UNC-CH Arts and Sciences Foundation, Inc.	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina, Inc.
Support			
Contributions	\$8,735,734	\$7,207,726	\$24,777,033
Development assessment fee	1,880,344		
Change in value of split-interest agreements	219,978		74,537
Donated facilities	65,000		
Actuarial adjustment of annuities payable		208	
Endowment investment return desingnated for current operations		6,830,007	
Total support	10,901,056	14,037,941	24,851,570
Revenue			
Interest and dividend income			14,628,762
Net unrealized and realized gains (losses) on investments	8,954,116		(16,167,753)
Investment income	2,464,968		
Other income	24,333		917,975
Total revenue	11,443,417		(621,016)
Total support and revenue	22,344,473	14,037,941	24,230,554
Expenses			
Program services			
Grants	10,749,723		21,028,813
Scholarship expense distribution		6,815,685	
Annuity payments		14,322	
Other expenses		142,500	
Total program services	10,749,723	6,972,507	21,028,813
Supporting services			
Fundraising expenses	2,300,126		1,258,197
Management and general	1,114,491		1,555,936
Total supporting services	3,414,617		2,814,133
Total expenses	14,164,340	6,972,507	23,842,946
Changes in Nets Assets from Operations	8,180,133	7,065,434	387,608
Other Changes			
Investment return in excess of amounts designated for current operations		6,621,787	
Changes in Net Assets			
Unrestricted	1,908,221		(2,942,898)
Temporarily restricted	2,105,277	6,621,995	(5,179,346)
Permanently restricted	4,166,635	7,065,226	8,509,852
Total changes in net assets	8,180,133	13,687,221	387,608
Transfers			
Transfers to UNC-Chapel Hill Endowment Fund	(50,302)		
Net Assets — Beginning of Year	171,847,923	199,701,712	234,113,477
Net Assets — End of Year	\$179,977,754	\$213,388,933	\$234,501,085

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

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- A Financial Reporting Entity
- B Basis of Presentation
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NOTE 1 Significant Accounting Policies

A Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by 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), 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 four 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, other constituent institutions of the University of North Carolina System (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, 2008, the Investment Fund membership interest was approximately 88.1 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 to three 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 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 board consisting of three ex-officio directors and 27 elected directors, which serve staggered terms. 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, 2008, the Medical Foundation, Arts and Sciences Foundation, and the Educational Foundation Trust distributed in total \$38,594,221 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 fund. The short-term investment fund 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

Investments generally are reported at fair value. 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, 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.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

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 method over the estimated useful lives of the assets, generally 10 to 30 years for general infrastructure, 12 to 75 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

Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are

reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

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, 2008, is approximately \$29,939,739.

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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$706,727,484, 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 2.9 years as of June 30, 2008. 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, 2008 was \$202,611. The carrying amount of the University's deposits not with the State Treasurer was \$82,814,924 and the bank balance was \$37,442,238. 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, 2008, \$35,529,174 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, 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 Novant Asset Management, LLC (formerly Tanglewood). 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. Fund ownership of the University's Temporary Pool is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The Temporary Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. 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, 2008.

<i>Temporary Pool Investments</i>					
Investment Type	Fair Value	<i>Investment Maturities (in Years)</i>			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt Securities					
U.S. Treasuries	\$9,615,101		\$9,615,101		
U.S. Agencies	3,011,341		2,986,443	\$24,898	
Mortgage Pass Throughs	44,634,666	\$973,751	2,036,202	982,724	\$40,641,989
Collateralized Mortgage Obligations	139,676,929	31,936	6,015,454	8,344,222	125,285,317
State and Local Government	3,073,519	748,519			2,325,000
Asset-Backed Securities	2,006,653				2,006,653
Mutual Bond Funds	4,128,480				4,128,480
Money Market Mutual Funds	85,971,576	85,971,576			
Domestic Corporate Bonds	1,868,347				1,868,347
Total Debt Securities	293,986,612	\$87,725,782	\$20,653,200	\$9,351,844	\$176,255,786
Other Securities					
Mutual Funds	4,879,257				
Domestic Stocks	30,000				
Total Temporary Pool investments	\$298,895,869				

At June 30, 2008, 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	BB/Ba and below	Unrated
U.S. Agencies	\$2,986,443						\$2,986,443
Mortgage Pass Throughs	44,634,666						44,634,666
Collateralized Mortgage Obligations	139,676,929	\$52,883,777	\$4,256,408	\$15,578,563		\$3,247,997	63,710,184
State and Local Government	3,073,519	748,519	2,325,000				
Asset-backed Securities	2,006,653	31,855	1,363,716		\$611,082		
Mutual Bond Funds	4,128,480		4,128,480				
Money Market Mutual Funds	85,971,576			85,971,576			
Domestic Corporate Bonds	1,868,347	1,354,367		513,980			
Total	\$284,346,613	\$55,018,518	\$12,073,604	\$102,064,119	\$611,082	\$3,247,997	\$111,331,293

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

Since a separate annual financial report of the Temporary Investment Pool has not been 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, 2008, are as follows:

<i>Statement of Net Assets June 30, 2008</i>	
	Amount
Assets	
State Treasurer Investment Fund	\$43,000,000
Accounts Receivable	6,936,159
Accrued Investment Income	1,123,855
Investment Fund	50,400,252
Investments	298,895,869
Total Assets	\$400,356,135
Liabilities	
Deferred Income	\$1,610,099
Accounts Payable	98,068
Total Liabilities	1,708,167
Net Assets	
Internal Portion	233,448,250
External Portion	165,199,718
Total Net Assets	398,647,968
Total Liabilities and Net Assets	\$400,356,135

<i>Statement of Operations and Changes in Net Assets For the fiscal year ended June 30, 2008</i>	
	Amount
Increase in Net Assets from Operations	
Revenues: Investment Income	\$15,622,316
Expenses: Investment Management	(638,386)
Net Increase in Net Assets Resulting from Operations	14,983,930
Distributions to Participants	
Distributions Paid and Payable	(14,983,930)
Share Transactions	
Net Share Purchases	43,629,449
Total Increase in Net Assets	43,629,449
Net Assets	
Beginning of Year	355,018,519
End of Year	\$398,647,968

Intermediate Investment Pool Established in October 2007, this is a portfolio managed by the UNC Management Company, Inc. (Management Company) and is comprised of fixed income investments and investments with the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. Participation in the Intermediate Pool is open to all participants that are eligible for the UNC Chapel Hill Temporary Investment Pool, however currently the University is the only member. Fund ownership of the University's Intermediate Pool is measured using the unit value method. Under this method, each participant's investment balance is determined on a market value basis. The Intermediate Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the University Board of Trustees. 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 Intermediate Pool.

The Northern Trust Company is the custodian for the Intermediate Pool and provides the University with monthly statements defining income and market value information. Generally a minimum of 45% and a maximum of 65% of the market value of the Intermediate Pool will be invested in the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. The remaining assets of the Intermediate Pool will be invested primarily (at least 80%) in cash, money market instruments, high quality bonds, and other high quality fixed income instruments in accordance with the Investment Guidelines.

By written request to university accounting services, the purchase and sale of participation shares occur at the beginning of the month. As calculated by the Management Company, returns net of fees and expenses will be allocated 85% to the Intermediate Pool participants and 15% to the University. Statements are provided by the Management Company to each participant on a monthly basis reflecting the participants' balance and investment activity.

The following table presents the fair value of the fixed income segment of the Intermediate Pool investments by type and investments subject to interest rate risk at June 30, 2008.

<i>Intermediate Pool Investments</i>		<i>Investment Maturities (in Years)</i>			
<i>Investment Type</i>	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
<i>Debt Securities</i>					
Mutual Bond Funds	\$28,891,529	\$14,322,862	\$14,568,667		
Money Market Mutual Funds	27,370	27,370			
Total Intermediate Pool Investments	\$28,918,899	\$14,350,232	\$14,568,667	\$0	\$0

At June 30, 2008, investments in the Intermediate Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA, Aaa	A	Unrated
Mutual Bond Funds	\$28,891,529	\$14,322,862		\$14,568,667
Money Market Mutual Funds	27,370		\$27,370	
Total	\$28,918,899	\$14,322,862	\$27,370	\$14,568,667

Rating Agency: Moody's/Standard & Poor's

At June 30, 2008, the Intermediate Investment Pool had investments of \$42,946,665 in the Investment Fund.

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, 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 1A).

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 88.1 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 88.1 percent membership interest as of June 30, 2008, 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, 2008.

<i>System Fund Pool Investments</i>		<i>Investment Maturities (in Years)</i>			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
Debt Securities					
U.S. Treasuries	\$23,941,000				\$23,941,000
U.S. Agencies	5,029,983			\$57,293	4,972,690
Mortgage Pass Throughs	5,569,790			2,620,425	2,949,365
Collateralized Mortgage Obligations	3,123,387				3,123,387
Mutual Bond Funds	4,676,618			3,743,651	932,967
Money Market Mutual Funds	33,014,358	\$33,014,358			
Domestic Corporate Bonds	14,932,700			1,521,678	13,411,022
Total Debt Securities	90,287,836	\$33,014,358	\$0	\$7,943,047	\$49,330,431
Other Securities					
International Mutual Funds	247,949,641				
Other Mutual Funds	150,072,544				
Hedge Funds	903,749,346				
Limited Partnerships	906,805,825				
Domestic Stocks	98,768,843				
Foreign Stocks	5,024,341				
Other	113,637,230				
Total System Fund Pool Investments	\$2,516,295,606				

At June 30, 2008, 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	Unrated
U.S. Agencies	\$4,972,690	\$2,318,366				\$2,654,324
Mortgage Pass Throughs	5,569,790	2,949,365				2,620,425
Collateralized Mortgage Obligations	3,123,387					3,123,387
Mutual Bond Funds	4,676,618		\$773,760	\$1,341,725		2,561,133
Money Market Mutual Funds	33,014,358			33,014,358		
Domestic Corporate Bonds	14,932,700	453,134	1,017,224	6,973,866	\$6,488,476	
Total	\$66,289,543	\$5,720,865	\$1,790,984	\$41,329,949	\$6,488,476	\$10,959,269

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

Foreign Currency Risk At June 30, 2008, the System Fund Pool's exposure to foreign currency risk is as follows:

	Currency	Fair Value (U.S. Dollars)
Limited Partnerships	Euro	\$51,146,119
Limited Partnerships	British Pound Sterling	5,393,647
Limited Partnerships	Australian Dollar	1,360,209
Foreign Stock	Canadian Dollar	1,308,363
Foreign Stock	Hong Kong Dollar	1,222,883
Hedge Funds	Euro	23,333,083
Total		\$83,764,304

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

Non-Pooled Investments The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008.

<i>Non-Pooled Investments</i>		<i>Investment Maturities (in Years)</i>				
	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10	
Debt Securities						
U.S. Treasuries	\$279,235	\$25,318	\$93,172	\$82,411	\$78,334	
U.S. Agencies	372,876	82,989	239,473	50,414		
Mortgage Pass Throughs	275,957				275,957	
Collateralized Mortgage Obligations	95,322	8,864			86,458	
State and Local Government	109,313				109,313	
Asset-Backed Securities	35,000				35,000	
Mutual Bond Funds	9,599,457		157,989	8,130,099	1,311,369	
Money Market Mutual Funds	46,568,703	46,568,703				
Domestic Corporate Bonds	564,226	24,993	109,947	398,786	30,500	
Foreign Corporate Bonds	140,361			69,409	70,952	
Total Debt Securities	58,040,450	\$46,710,867	\$600,581	\$8,731,119	\$1,997,883	
Other Securities						
International Mutual Funds	7,934,212					
Other Mutual Funds	10,929,293					
Investments in Real Estate	15,513,565					
Real Estate Investment Trust	201,042					
Limited Partnerships	1,706,885					
Domestic Stocks	12,371,359					
Foreign Stocks	411,752					
Other	11,659,548					
Total Non-Pooled Investments	\$118,768,106					

At June 30, 2008, 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	\$372,876	\$367,789					\$5,087
Mortgage Pass Throughs	275,957	250,396		\$25,561			
Collateralized Mortgage Obligations	95,322	65,891		29,431			
State and Local Government	109,313			73,697	\$35,616		
Asset-backed Securities	35,000			35,000			
Mutual Bond Funds	9,599,457	217,938	\$8,000,973	771,842		\$608,704	
Money Market Mutual Funds	46,568,703	2,005,990		44,562,713			
Domestic Corporate Bonds	564,226		409,430	55,494		99,302	
Foreign Corporate Bonds	140,361	34,910	34,499			70,952	
Total	\$57,761,215	\$2,942,914	\$8,444,902	\$45,553,738	\$35,616	\$778,958	\$5,087

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

Total Investments The following table presents the fair value of the total investments at June 30, 2008.

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$33,835,336
U.S. Agencies	8,414,200
Mortgage Pass Throughs	50,480,413
Collateralized Mortgage Obligations	142,895,638
State and Local Government	3,182,832
Asset-Backed Securities	2,041,653
Mutual Bond Funds	47,296,084
Money Market Mutual Funds	165,582,007
Domestic Corporate Bonds	17,365,273
Foreign Corporate Bonds	140,361
Total Debt Securities	471,233,797
Other Securities	
International Mutual Funds	255,883,853
Other Mutual Funds	165,881,094
Investments in Real Estate	15,513,565
Real Estate Investment Trust	201,042
Hedge Funds	903,749,346
Limited Partnerships	908,512,710
Domestic Stocks	111,170,202
Foreign Stocks	5,436,093
Other	125,296,778
Total Investments	\$2,962,878,480

Total investments include \$386,270,097 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 74.3 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 carrying value of investments not held by the University is \$106,732,907 in mutual funds.

NOTE 3 Endowment Investments

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, 2008, accumulated income and appreciation of \$696,262,045 was available in the University's pooled endowment funds of which \$628,860,866 was restricted to specific purposes.

NOTE 4 Receivables

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables			
Students	\$2,927,985		\$2,927,985
Patients	85,207,384	\$44,573,838	40,633,546
Accounts	69,216,700		69,216,700
Intergovernmental	45,992,906		45,992,906
Pledges	22,559,708	563,993	21,995,715
Investment Earnings	3,733,617		3,733,617
Interest on Loans	580,265		580,265
Other	25,020		25,020
Total Current Receivables	\$230,243,585	\$45,137,831	\$185,105,754
Non-current Receivables			
Pledges	\$36,778,647	\$919,466	\$35,859,181
Notes Receivable			
Notes Receivable — Current			
Federal Loan Programs	\$2,158,031	\$96,877	\$2,061,154
Institutional Student Loan Programs	623,274	63,311	559,963
Total Notes Receivable — Current	\$2,781,305	\$160,188	\$2,621,117
Notes Receivable — Non-Current			
Federal Loan Programs	\$31,539,496	\$1,287,080	\$30,252,416
Institutional Student Loan Programs	5,052,795	139,043	4,913,752
Total Notes Receivable — Non-Current	\$36,592,291	\$1,426,123	\$35,166,168

Pledges are receivable over varying time periods ranging from one to 10 years, and have been discounted based on a projected interest rate of 4.94 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
2009	\$22,559,707
2010	16,039,146
2011	12,008,644
2012	9,140,628
2013	3,083,572
2014–2018	2,183,604
Total Pledge Receipts Expected	65,015,301
Less Discount Amount Representing Interest (4.94% Rate of Interest)	5,676,946
Present Value of Pledge Receipts Expected	59,338,355
Less Allowance for Uncollectible	1,483,459
Pledges Receivable	\$57,854,896

NOTE 5 Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance 07/01/07	Increases	Decreases	Balance 06/30/08
<i>Capital Assets, Non-depreciable</i>				
Land	\$28,759,827	\$1,061,068	\$1,367,938	\$28,452,957
Art, Literature, and Artifacts	67,269,935	2,825,038		70,094,973
Construction in Progress	535,331,669	194,385,291	63,780,866	665,936,094
Intangible	1,000,000	15,607,286		16,607,286
Total Capital Assets, Non-depreciable	632,361,431	213,878,683	65,148,804	781,091,310
<i>Capital Assets, Depreciable</i>				
Buildings	1,643,244,541	90,668,827	4,489,643	1,729,423,725
Machinery and Equipment	247,266,162	31,001,797	12,241,053	266,026,906
General Infrastructure	409,962,110	6,193,929		416,156,039
Total Capital Assets, Depreciable	2,300,472,813	127,864,553	16,730,696	2,411,606,670
<i>Less Accumulated Depreciation/Amortization for</i>				
Buildings	513,845,845	35,338,756	4,025,249	545,159,352
Machinery and Equipment	144,628,808	18,962,216	8,710,017	154,881,007
General Infrastructure	191,530,671	12,111,497		203,642,168
Total Accumulated Depreciation	850,005,324	66,412,469	12,735,266	903,682,527
Total Capital Assets, Depreciable, Net	1,450,467,489	61,452,084	3,995,430	1,507,924,143
Capital Assets, Net	\$2,082,828,920	\$275,330,767	\$69,144,234	\$2,289,015,453

NOTE 6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$45,097,135
Accrued Payroll	37,349,776
Contract Retainage	9,278,813
Intergovernmental Payables	221,381
Total Accounts Payable and Accrued Liabilities	\$91,947,105

NOTE 7 Short-term Debt

Short-term debt activity for the year ended June 30, 2008, was as follows:

	Balance 07/01/07	Draws	Redeemed	Balance 06/30/08
Commercial Paper Program	\$192,414,000	\$122,719,000	\$213,976,000	\$101,157,000

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 improvements.

Commercial paper was redeemed with proceeds from The University of North Carolina General Revenue Bonds, Series 2007 and payments from campus entities with outstanding commercial paper.

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, 2008, is presented as follows:

	Balance 07/01/07	Additions	Reductions	Balance 06/30/08	Current Portion
Bonds Payable	\$804,875,000	\$298,475,000	\$22,515,000	\$1,080,835,000	\$102,072,546
Add/Deduct Premium/Discount	(15,729,857)	4,902,670	(4,317,485)	(6,509,702)	
Deduct Deferred Charge on Refunding	(3,838,338)		(401,923)	(3,436,415)	
Total Bonds Payable	785,306,805	303,377,670	17,795,592	1,070,888,883	102,072,546
Notes Payable	1,362,000	381,891	706,891	1,037,000	1,037,000
Arbitrage Rebate Payable		42,213		42,213	42,213
Capital Leases Payable	2,404,350	1,873,804	1,473,621	2,804,533	1,173,442
Compensated Absences	107,310,377	63,733,228	53,888,920	117,154,685	7,933,678
Annuity and Life Income Payable	5,999,428	7,147,445	2,844,358	10,302,515	1,333,867
Total Long-Term Liabilities	\$902,382,960	\$376,556,251	\$76,709,382	\$1,202,229,829	\$113,592,746

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 06/30/08	Discount on Capital Appreciation Bonds	Principal Outstanding plus Capital Appreciation 06/30/08	See Table Below
<i>Housing System</i>	1997A	5.0%	11/01/17	\$9,170,000	\$9,170,000		\$0	(1)
	1997B	4.7% – 5.0%	11/01/11	7,210,000	3,985,000		3,225,000	(1)
Total Housing System				16,380,000	13,155,000		3,225,000	
<i>General Revenue</i>	2001A	5.000%–5.375%	12/01/25	89,930,000	48,440,000		41,490,000	
	2001B	variable	12/01/25	54,970,000	13,170,000		41,800,000	
	2001C	variable	12/01/25	54,970,000	13,170,000		41,800,000	
	2002B	5.0%	12/01/11	66,555,000	34,000,000		32,555,000	
	2003	2.5% – 5.0%	12/01/33	107,960,000	6,985,000		100,975,000	
	2005	3.25% – 5.00%	12/01/34	404,960,000	775,000		404,185,000	
	2007	4.45 – 5.00%	12/01/36	298,475,000			298,475,000	
Total General Revenue				1,077,820,000	116,540,000		961,280,000	
<i>Parking System</i>	1997B	5.1%	05/15/09	8,245,000	7,330,000		915,000	(2)
<i>Utilities System</i>	1997	5.25% – 5.50%	08/01/21	84,135,000		(30,418,396)	53,716,604	(4)
<i>Student Union</i>	2000	5.0%	06/01/10	12,465,000	11,490,000		975,000	(3)
<i>Student Recreation Center</i>	1997	4.7% – 5.0%	06/01/11	3,545,000	2,375,000		1,170,000	(3)
<i>U.S. EPA Project</i>	1991	9.05%	02/15/15	58,125,000	28,990,000	(7,656,627)	21,478,373	
Total Bonds Payable (principal only)				\$1,260,715,000	\$179,880,000	(\$38,075,023)	1,042,759,977	
Less: Unamortized Loss on Refunding							(3,436,415)	
Plus: Unamortized Discount							31,565,321	
Total Bonds Payable							\$1,070,888,883	

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal, Interest & Accretion	Estimate of % of Revenues Pledged
(1)	Housing Revenues	\$3,552,582	\$21,984,760	\$1,323,529	4%
(2)	Parking Revenues	\$961,665	\$9,598,309	\$950,525	10%
(3)	Student Fees	\$2,337,380	\$1,590,131	\$946,180	49%
(4)	Utilities	\$84,135,000	\$25,529,895	\$2,794,264	24%

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), UBS Financial Services, Inc. (2001C), and Bank of America Securities LLC (2001C). Effective June 25, 2008, the University changed remarketing agents for the 2001C bonds.

The University entered into a line of credit agreement in the amount of \$300,000,000 with Wachovia Bank on September 21, 2006. Under the 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 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 following table 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, 2008, 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 In order 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%. 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, 2008, rates were as follows:

	Terms	Rate
Fixed payment to Lehman	Fixed	5.24%
Variable payment from Lehman	SIFMA	1.78%
Net interest rate swap payments		3.46%
Variable rate bond coupon payments		1.60%
Synthetic interest rate on bonds		5.06%

Fair value As of June 30, 2008, the swap had a fair value of negative \$3,559,488. 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 LIBOR (London Interbank Offered Rate) due on the date of each future net settlement on the swap.

Credit risk As of June 30, 2008, 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% of their exposure. Lehman Brothers Holdings, guarantor of Lehman Brothers Special Financing, Inc., was rated A2 by Moody's, A by S&P, and A+ 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% 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% 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.

Wachovia

Objective 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 in December 1, 2036. The purpose of the transaction was to hedge the risk of rising interest rates for the University's planned issuance of long-term bonds in 2007 and 2009. Due to cash market fixed rates remaining at historically low levels at the time of the General Revenue 2007A issuance, the University decided to issue the bonds as traditional fixed-rate bonds. The University took delivery of the Wachovia swap beginning on December 1, 2007 and uses it as a portfolio hedge for its current variable rate debt, which includes General Revenue 2001 B&C bonds and the University's outstanding balance of Commercial Paper, and for a planned long-term bond issue in 2009.

Terms Under the agreement, Wachovia pays the University 67% of the 1-month LIBOR index times the notional amount, payable monthly. The University pays Wachovia a fixed rate of 3.314% on the notional amount, payable monthly. The effective date of this swap was December 1, 2007. As of June 30, 2008, rates were as follows:

	Terms	Rate
Fixed payment to Wachovia	Fixed	3.314%
Variable payment from Wachovia	LIBOR	1.648%
Net interest rate swap payments		1.666%
Weighted Average Variable Rates		1.654%
Synthetic interest rate on bonds		3.320%

Fair value As of June 30, 2008, the swap had a fair negative value of \$1,124,708.25. 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, 2008, the University was not exposed to credit risk because the swap had a negative 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 Wachovia's unsecured long-term debt, Wachovia 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 tables. The University is also subject to the same provisions. Wachovia was rated A+ by S&P, A+ by Fitch and A1 by Moody's.

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

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 be paying a rate on the bonds that may not correlate with 67 percent of the 1-month LIBOR index, altering the "fixed" cost of synthetic debt.

Termination risk The swap agreement uses the Interna-

tional 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.

Future Swaps

The University entered into an interest rate swap agreement with the Bank of New York for \$150 million to be effective December 1, 2009. The University has the option to (1) issue variable rate bonds in December 2009, 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.

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 \$53,716,604 (\$84,135,000 ultimate maturity less \$30,418,396 discount) and \$17,618,373 (\$25,275,000 ultimate maturity less \$7,656,627 discount), respectively, which is the accreted value at June 30, 2008. 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, 2008, are as follows:

Fiscal Year	Annual Requirements				
	Bonds Payable			Notes Payable	
	Principal	Interest	Swaps, Net*	Principal	Interest
2009	\$24,055,000	\$44,634,991	\$706,446	\$1,037,000	\$28,362
2010	24,470,000	43,468,243	696,671		
2011	24,905,000	42,650,253	686,378		
2012	25,530,000	41,780,668	675,652		
2013	25,860,000	41,100,393	656,708		
2014-2018	115,725,000	198,398,962	2,835,816		
2019-2023	111,450,000	185,659,041	1,756,383		
2024-2028	129,695,000	163,865,533	316,331		
2029-2033	244,540,000	127,125,906			
2033-2038	354,605,000	28,736,500			
Total Requirements	\$1,080,835,000	\$917,420,490	\$8,330,385	\$1,037,000	\$28,362

*Interest on the variable rate General Revenue Bonds 2001 B is calculated at 1.60% at June 30, 2008.
Interest on the variable rate General Revenue Bonds 2001 C is calculated at 1.55% at June 30, 2008.*

*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 $(5.24\% - 1.78\%) \times (\$22,000,000 - \text{annual swap reduction})$*

F Bond Defeasance

During the prior years, 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, 2008, the outstanding balance of the defeased Housing 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 included in the Statement of Net Assets. At June 30, 2008, 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, 2008, the outstanding balance of the defeased General Revenue Bonds, Series 2001A bonds was \$33,310,000.

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, 2008, the outstanding balance of the defeased Student Union bonds was \$0.

G Notes Payable

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Beginning Balance 07/01/07	Draws	Repayments	Principal Outstanding 06/30/08
Real Property Purchases	Bank of America	2.74%	06/30/2009	\$1,362,000	\$381,891	\$706,891	\$1,037,000

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 has a maturity date of 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 0.275 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.

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, 2008:

Fiscal Year	Amount
2009	\$1,316,499
2010	807,757
2011	496,149
2012	458,508
2013	23,651
Total Minimum Lease Payments	3,102,564
Amount Representing Interest (0.14% – 27.16% Rate of Interest)	298,031
Present Value of Future Lease Payments	\$2,804,533

Machinery and equipment acquired under capital lease amounted to \$3,863,154 at June 30, 2008.

B Operating Lease Obligations

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	\$7,030,452
2010	5,688,879
2011	3,964,195
2012	1,265,714
2013	702,100
2014–2018	95,714
Total Minimum Lease Payments	\$18,747,054

Rental expense for all operating leases during the year was \$10,513,554.

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. Legal interpretation of the sublease agreement assigned the debt obligation to the General Alumni Association.

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, 2008, the aggregate principal amount of the certificates was \$9,950,000.

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

NOTE 10 Revenues

A summary of eliminations and allowances by revenue classification 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
Operating Revenues						
<i>Student Tuition and Fees</i>	\$275,866,434		\$57,102,949			\$218,763,485
<i>Patient Services</i>	\$562,669,940			(\$8,455,843)	\$356,419,953	\$214,705,830
Sales and Services						
Residential Life	\$43,191,328		\$8,417,095			\$34,774,233
Dining	22,961,991					22,961,991
Student Union Services	475,039	\$473,531				1,508
Health, Physical Education, and Recreation Services	6,625,775		354,124			6,271,651
Bookstore	30,407,212	3,304,093	538,479			26,564,640
Parking	21,020,457	102				21,020,355
Athletic	40,465,192	23,382				40,441,810
Utilities	102,836,576	92,479,965	22,622			10,333,989
Telecommunications	17,447,017	13,779,003				3,668,014
Other Professional Income	86,255,397	354,145				85,901,252
Printing/Carolina Copy	6,170,360	5,594,610				575,750
Repairs & Maintenance	31,618,011	29,974,838				1,643,173
Materials Management and Disbursements	24,381,954	24,175,225				206,729
Other	134,777,998	39,770,906				95,007,092
Total Sales and Services	\$568,634,307	\$209,929,800	\$9,332,320	\$0	\$0	\$349,372,187
Non-Operating — Non-Capital Gifts	\$113,602,271			\$508,419		\$113,093,852

NOTE 11 Operating Expenses by Function

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$513,701,961	\$31,255,717	\$117,099,043		\$171,591		\$662,228,312
Research	216,533,081	43,684,756	97,954,960		25,951		358,198,748
Public Service	37,561,388	3,872,691	54,056,212		128,135		95,618,426
Academic Support	70,426,147	15,417,231	20,660,950		108,865		106,613,193
Student Services	13,622,862	998,825	13,812,168		472		28,434,327
Institutional Support	54,543,782	5,744,288	26,218,500		42,279		86,548,849
Operations and Maintenance of Plant	42,541,068	16,297,464	16,788,498		57,403,626		133,030,656
Student Financial Aid				\$58,058,259			58,058,259
Auxiliary Enterprises	261,827,157	43,948,250	180,055,437		8,316,312		494,147,156
Depreciation						\$66,412,469	66,412,469
Total Operating Expenses	\$1,210,757,446	\$161,219,222	\$526,645,768	\$58,058,259	\$66,197,231	\$66,412,469	\$2,089,290,395

NOTE 12 Pension Plans

A Retirement Plans

Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. 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, 2008, these rates were set at 3.05 percent of covered payroll for employers and 6 percent of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$1,042,581,959, of which \$427,283,896 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$13,032,159 and \$25,637,034, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66 percent and 2.34 percent, respectively, while employee contributions were 6 percent each year. The University made 100 percent of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$13,032,159, \$10,668,088, and \$8,587,084, 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 or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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, 2008, 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 current fiscal year, the University had a total payroll of \$1,042,581,959, of which \$418,479,945 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$28,624,028 and \$25,108,797, 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, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$6,413,466 for the year ended June 30, 2008.

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, 2008, were \$167,585.32. The voluntary contributions by employees amounted to \$3,752,722 for the year ended June 30, 2008.

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 \$26,630,282 for the year ended June 30, 2008.

NOTE 13 Other Postemployment Benefits

A Health Benefits

The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumu-

lated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the University contributed 4.1 percent of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8 percent and 3.8 percent, respectively. The University made 100 percent of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$34,676,317, \$29,918,690, and \$27,155,790, respectively. 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*. 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.

B Disability Income

The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the University made a statutory contribution of 0.52 percent of covered payroll

under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were 0.52 percent and 0.52 percent, respectively. The University made 100 percent of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$4,397,972, \$4,094,137, and \$3,716,056, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 14 Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and 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 \$1,000,000 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 operations supported

by the state's General Fund. Other operations not supported by the state's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible, except theft losses are subject to a \$1,000 per occurrence deductible. The University also purchases 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 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 healthcare 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, 2007, through June 30, 2008, the Trust Fund provided coverage on an occurrence basis of \$3,000,000 per individual and \$7,000,000 in the aggregate per claim. Effective July 1, 2006, in lieu of purchasing commercial reinsurance, participants contributed approximately \$10,000,000 to a reimbursement fund for future losses. Prior to July 1, 2006, the Trust Fund entered into an excess of loss agreement with an unaffiliated reinsurer.

For the fiscal year ending June 30, 2008, 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, 2008, University assets in the Trust Fund totaled \$38,464,813 while University liabilities totaled \$33,643,815 resulting in net assets of \$4,820,998.

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, 2008 and 2007. 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 15 *Commitments and Contingencies*

A *Commitments*

The University has commitments of \$79,569,212 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 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 North Carolina Supreme Court affirmed the Court of Appeals ruling that library fines are not civil penalties. The North Carolina Supreme Court reversed the ruling that fines for parking and traffic regulations are not civil penalties.

On August 8, 2008 a ruling was made by the Superior Court Division resulting in a judgment entered against the University of North Carolina System for \$42,368,982 to be paid into the Civil Penalty and Forfeiture Fund for distribution to the public schools pursuant to G.S. 115C-457.1 and Article IX, Section 7 of the North Carolina Constitution. Settlement of the obligation is being facilitated by the General Assembly.

The University of North Carolina at Chapel Hill, a

constituent university of the UNC System, has collected \$10,097,719 representing net fines from the Department of Public Safety from January 1, 1996 through June 30, 2005. Of that amount 10 percent may be retained by the University to fund related operating expenses. Therefore, approximately \$9,087,947 may be payable by the University. Collected fines of \$3,587,768 remain unexpended. 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 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	\$42,211,215

NOTE 16 *Related Parties*

There are 14 separately incorporated non-profit foundations associated with the University. These foundations are the Botanical Garden Foundation, Inc., The Dental Alumni Association, Inc., The Dental Foundation of North Carolina, Inc., The Educational Foundation, Inc., The General Alumni Association, The 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., The School of Social Work 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 \$23,345,891 for the year ended June 30, 2008.

NOTE 17 *Changes In Financial Accounting and Reporting*

For the fiscal year ended June 30, 2008, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- *GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*
- *GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*
- *GASB Statement No. 50, Pension Disclosures.*

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB.

GASB Statement No. 48, requires disclosures pertaining to future revenues that have been pledged in order to disclose information about which revenues will be unavailable for other purposes and how long they will continue to do so.

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to

require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 18 *Net Asset Restatement*

As of July 1, 2007, net assets as previously reported were restated due to a change in the bylaws of The School of Social Work Foundation, Inc. The changed bylaws resulted in the University not appointing a voting majority of the foundation's board. Therefore, to comply with GASB Statement No. 14 *The Financial Reporting Entity*, the University removed the blended amount from the prior year.

	Amount
July 1, 2007 Net Assets as Previously Reported	\$3,415,868,747
Restatement: Removed blending of The School of Social Work Foundation, Inc.	(6,832,494)
July 1, 2007 Net Assets as Restated	\$3,409,036,253

NOTE 19 *Subsequent Events*

On September 29, 2008, UNC Hospitals received approval from the North Carolina Department of Health and Human Services to transfer the completed Physician's Office Building (POB) to the University for use as an academic building. The cost of the POB totaled \$28,936,312 and legal transfer of the building will take place during fiscal year 2009.

Effective September 23, 2008, J.P. Morgan Chase replaced Lehman Brothers, Inc. as the remarketing agent for the \$54,970,000 General Revenue Series 2001B variable rate demand bonds. Also, any commercial paper outstanding that had been originally placed by Lehman Brothers will be remarketed by Banc of America Securities LLC when the maturities are due. Finally, the University is currently evaluating options for its floating-to-fixed rate swap with Lehman Brothers.

Subsequent to the end of the fiscal year, financial markets in the United States and around the world have deteriorated significantly. All of the assets of the Investment Fund are invested in the System Fund. Reflecting the weakness in global markets, the System Fund recorded a negative investment return in the three-month period ended September 30, 2008. Further declines in global financial markets could have a continued adverse impact on future System Fund returns.





STATISTICAL SECTION

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 seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
		<i>(as restated)</i>					
Invested in Capital Assets	\$1,290,034	\$1,211,805	\$1,119,040	\$1,017,383	\$855,740	\$771,281	\$668,386
Restricted, Non-expendable	548,151	493,305	430,316	378,234	328,735	323,961	304,097
Restricted, Expendable	1,199,280	1,086,353	853,133	736,631	648,019	559,128	645,390
Unrestricted	671,970	617,573	525,513	475,631	408,705	370,816	346,546
Total Net Assets	\$3,709,435	\$3,409,036	\$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 Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
	%	%	%	%	%	%	%
Invested in Capital Assets	34.8	35.5	38.2	39.0	38.2	38.1	34.0
Restricted, Non-expendable	14.8	14.5	14.7	14.5	14.7	16.0	15.5
Restricted, Expendable	32.3	31.9	29.2	28.2	28.9	27.6	32.9
Unrestricted	18.1	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	100.0

Net Assets by Component

percentage increase (decrease) from prior year

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
	%	%	%	%	%	%	%
		<i>(as restated)</i>					
Invested in Capital Assets	6.5	8.3	10.0	18.9	11.0	15.4	n/a
Restricted, Non-expendable	11.1	14.6	13.8	15.1	1.5	6.5	n/a
Restricted, Expendable	10.4	27.3	15.8	13.7	15.9	(13.4)	n/a
Unrestricted	8.8	17.5	10.5	16.4	10.2	7.0	n/a
Total Net Assets	8.8	16.4	12.3	16.4	10.7	3.1	n/a

Changes in Net Assets Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
<i>(as restated)</i>							
Revenues							
Operating Revenues							
Student tuition and fees, net	\$218,763	\$210,651	\$195,882	\$164,457	\$153,943	\$146,961	\$124,661
Patient services, net	214,706	197,221	184,324	172,063	172,877	131,256	137,035
Federal grants and contracts	447,793	429,059	422,229	403,100	384,618	356,845	330,403
State and local grants and contracts	51,207	45,256	41,842	39,816	39,793	34,289	38,512
Non-governmental grants and contracts	115,513	92,572	89,976	81,560	75,388	64,547	75,536
Sales and services, net	349,372	324,432	301,303	290,397	270,351	262,106	246,568
Interest earnings on loans	666	679	672	1,441	435	281	121
Other operating revenues	6,232	4,574	5,283	4,167	5,233	7,283	14,629
Total operating revenues	1,404,252	1,304,444	1,241,511	1,157,001	1,102,638	1,003,568	967,465
Expenses							
Operating Expenses							
Salaries and benefits	1,210,757	1,122,269	1,042,452	966,629	917,840	876,266	829,473
Supplies and materials	161,219	165,704	152,911	148,440	151,196	146,986	148,324
Services	526,646	462,093	432,212	407,690	380,126	377,856	364,832
Scholarships and fellowships	58,058	56,662	54,105	51,170	47,427	45,618	40,415
Utilities	66,197	60,727	56,277	47,870	46,208	43,915	45,452
Depreciation	66,413	80,827	64,475	60,102	60,589	53,076	48,517
Total operating expenses	2,089,290	1,948,282	1,802,432	1,681,901	1,603,386	1,543,717	1,477,013
Operating loss	(685,038)	(643,838)	(560,921)	(524,900)	(500,748)	(540,149)	(509,548)
Non-operating Revenues (Expenses)							
State appropriations	543,292	492,471	440,070	406,673	380,446	368,024	368,504
Non-capital grants	102,932	62,669	67,388	62,544	53,154	40,995	34,769
Non-capital gifts, net	113,094	73,637	68,824	73,693	68,517	60,888	62,404
Investment income, net	146,650	317,767	207,423	154,900	135,369	47,398	52,957
Interest & fees — capital asset related debt	(53,311)	(42,926)	(39,921)	(21,823)	(18,339)	(15,681)	(15,031)
Other non-operating revenues (expenses)	851	146	(230)	8,374	(8,132)	(1,899)	(7,662)
Net Non-operating Revenues	853,508	903,764	743,554	684,361	611,015	499,725	495,941
Income before other revenues	168,470	259,926	182,633	159,461	110,267	(40,424)	(13,607)
Capital appropriations	47,206	52,888	15,776	5,166	898	0	0
Capital grants	12,885	118,850	52,277	152,844	74,392	72,486	27,480
Capital gifts, net	11,596	15,662	13,368	11,521	6,359	7,553	8,238
Additions to endowments	60,242	39,442	56,069	37,688	24,098	21,153	23,283
Increase in Net Assets	\$300,399	\$486,768	\$320,123	\$366,680	\$216,014	\$60,768	\$45,394

Changes in Net Assets (Continued) Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
Total Revenues	\$2,443,000	(as restated) \$2,477,976	\$2,162,706	\$2,070,404	\$1,845,871	\$1,622,065	\$1,545,100
Total Expenses	2,142,601	1,991,208	1,842,583	1,703,724	1,629,857	1,561,297	1,499,706
Increase in Net Assets	\$300,399	\$486,768	\$320,123	\$366,680	\$216,014	\$60,768	\$45,394

expressed as a percent of Total Revenues / Total Expenses

	%	%	%	%	%	%	%
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Revenues

Operating Revenues							
Student tuition and fees, net	9.0	8.5	9.1	7.9	8.3	9.1	8.1
Patient services, net	8.8	8.0	8.5	8.3	9.4	8.1	8.9
Federal grants and contracts	18.3	17.3	19.6	19.6	20.8	22.0	21.3
State and local grants and contracts	2.1	1.8	1.9	1.9	2.2	2.1	2.5
Non-governmental grants and contracts	4.7	3.7	4.2	3.9	4.1	4.0	4.9
Sales and services, net	14.3	13.1	13.9	14.0	14.6	16.2	16.0
Interest earnings on loans	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Other operating revenues	0.3	0.2	0.2	0.2	0.3	0.4	0.9
Total operating revenues	57.5	52.6	57.4	55.9	59.7	61.9	62.6

Expenses

Operating Expenses							
Salaries and benefits	56.5	56.4	56.6	56.7	56.3	56.1	55.3
Supplies and materials	7.5	8.3	8.3	8.7	9.3	9.4	9.9
Services	24.6	23.2	23.5	23.9	23.3	24.2	24.3
Scholarships and fellowships	2.7	2.8	2.9	3.0	2.9	2.9	2.7
Utilities	3.1	3.0	3.1	2.8	2.8	2.8	3.0
Depreciation	3.1	4.1	3.5	3.5	3.7	3.4	3.2
Total operating expenses	85.5	78.6	83.3	81.3	86.8	95.2	95.6
Operating loss	(28.0)	(26.0)	(25.9)	(25.4)	(27.1)	(33.3)	(33.0)

Non-operating Revenues (Expenses)

State appropriations	22.4	19.9	20.3	19.6	20.6	22.7	23.8
Non-capital grants	4.2	2.5	3.1	3.0	2.9	2.5	2.3
Non-capital gifts, net	4.6	3.0	3.2	3.6	3.7	3.8	4.0
Investment income, net	6.0	12.8	9.6	7.5	7.3	2.9	3.4
Interest & fees —							
<i>capital asset related debt</i>	(2.5)	(2.2)	(2.2)	(1.3)	(1.1)	(1.0)	(1.0)
Other non-operating revenues (expenses)	0.0	0.0	0.0	0.4	(0.4)	(0.1)	(0.5)
Net non-operating revenues	34.9	36.5	34.3	33.1	33.1	30.8	32.1
Income before other revenues	6.9	10.5	8.4	7.7	6.0	(2.5)	(0.9)
Capital appropriations	1.9	2.1	0.7	0.2	0.0	0.0	0.0
Capital grants	0.4	4.8	2.5	7.4	4.1	4.4	1.8
Capital gifts, net (Note 10)	0.5	0.6	0.6	0.6	0.3	0.5	0.5
Additions to endowments	2.5	1.6	2.6	1.8	1.3	1.3	1.5
Increase in Net Assets	12.3	19.6	14.8	17.7	11.7	3.7	2.9

Note: Percent of total expenses is italicized

Changes in Net Assets (Continued) Last seven fiscal years

percentage increase (decrease) from prior year

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
	%	%	%	%	%	%	%

(as restated)

Revenues

<i>Operating Revenues</i>							
Student tuition and fees, net	3.9	7.5	19.1	6.8	4.8	17.9	n/a
Patient services, net	8.9	7.0	7.1	(0.5)	31.7	(4.2)	n/a
Federal grants and contracts	4.4	1.6	4.7	4.8	7.8	8.0	n/a
State and local grants and contracts	13.1	8.2	5.1	0.1	16.1	(11.0)	n/a
Non-governmental grants and contracts	24.8	2.9	10.3	8.2	16.8	(14.5)	n/a
Sales and services, net	7.7	7.7	3.8	7.4	3.1	6.3	n/a
Interest earnings on loans	(1.9)	1.2	(53.4)	231.3	54.8	132.2	n/a
Other operating revenues	36.2	(13.4)	26.8	(20.4)	(28.1)	(50.2)	n/a
Total operating revenues	7.7	5.1	7.3	4.9	9.9	3.7	n/a

Expenses

<i>Operating Expenses</i>							
Salaries and benefits	7.9	7.7	7.8	5.3	4.7	5.6	n/a
Supplies and materials	(2.7)	8.4	3.0	(1.8)	2.9	(0.9)	n/a
Services	14.0	6.9	6.0	7.3	0.6	3.6	n/a
Scholarships and fellowships	2.5	4.7	5.7	7.9	4.0	12.9	n/a
Utilities	9.0	7.9	17.6	3.6	5.2	(3.4)	n/a
Depreciation	(17.8)	25.4	7.3	(0.8)	14.2	9.4	n/a
Total operating expenses	7.2	8.1	7.2	4.9	3.9	4.5	n/a
Operating loss	6.4	14.8	6.9	4.8	(7.3)	6.0	n/a

Non-operating Revenues (Expenses)

State appropriations	10.3	11.9	8.2	6.9	3.4	(0.1)	n/a
Non-capital grants	64.2	(7.0)	7.7	17.7	29.7	17.9	n/a
Non-capital gifts, net	53.6	7.0	(6.6)	7.6	12.5	(2.4)	n/a
Investment income, net	(53.8)	53.2	33.9	14.4	185.6	(10.5)	n/a
Interest & fees — capital asset related debt	24.2	7.5	82.9	19.0	17.0	4.3	n/a
Other non-operating revenues (expenses)	482.9	163.5	(102.7)	203.0	(328.2)	75.2	n/a
Net non-operating revenues	(5.6)	21.5	8.6	12.0	22.3	0.8	n/a
Income before other revenues	(35.2)	42.3	14.5	44.6	372.8	(197.1)	n/a
Capital appropriations	(10.7)	235.2	205.4	475.3	n/a	n/a	n/a
Capital grants	(89.2)	127.3	(65.8)	105.5	2.6	163.8	n/a
Capital gifts, net (Note 10)	(26.0)	17.2	16.1	81.2	(15.8)	(8.3)	n/a
Additions to endowments	52.7	(29.7)	48.8	56.4	13.9	(9.1)	n/a
Increase in Net Assets	(38.3)	52.1	(12.7)	69.7	255.5	33.9	n/a

Changes in Net Assets Adjusted for Inflation Last seven fiscal years (2002 dollars)

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
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(as restated)

Revenues

<i>Operating Revenues</i>							
Student tuition and fees, net	\$172,528	\$171,591	\$165,657	\$146,412	\$142,563	\$142,160	\$124,661
Patient services, net	169,329	160,652	155,882	153,184	160,097	126,968	137,035
Federal grants and contracts	353,154	349,501	357,078	358,871	356,186	345,187	330,403
State and local grants and contracts	40,385	36,864	35,386	35,447	36,851	33,169	38,512
Non-governmental grants and contracts	91,100	75,407	76,092	72,611	69,815	62,438	75,536
Sales and services, net	275,534	264,275	254,811	258,534	250,366	253,543	246,568
Interest earnings on loans	525	553	568	1,283	403	272	121
Other operating revenues	4,915	3,726	4,468	3,710	4,846	7,045	14,629
Total operating revenues	1,107,470	1,062,569	1,049,942	1,030,052	1,021,127	970,782	967,465

Expenses

<i>Operating Expenses</i>							
Salaries and benefits	954,869	914,174	881,599	860,568	849,990	847,640	829,473
Supplies and materials	127,146	134,979	129,316	132,153	140,019	142,184	148,324
Services	415,342	376,410	365,521	362,957	352,026	365,512	364,832
Scholarships and fellowships	45,788	46,156	45,756	45,555	43,921	44,128	40,415
Utilities	52,207	49,467	47,593	42,618	42,792	42,480	45,452
Depreciation	52,377	65,840	54,526	53,507	56,110	51,342	48,517
Total operating expenses	1,647,729	1,587,026	1,524,311	1,497,358	1,484,858	1,493,286	1,477,013
Operating loss	(540,259)	(524,457)	(474,369)	(467,306)	(463,731)	(522,504)	(509,548)

Non-operating Revenues (Expenses)

State appropriations	428,470	401,155	372,166	362,052	352,322	356,001	368,504
Non-capital grants	81,178	51,049	56,990	55,681	49,225	39,656	34,769
Non-capital gifts, net	89,192	59,983	58,204	65,607	63,452	58,899	62,404
Investment income, net	115,656	258,846	175,417	137,904	125,362	45,850	52,957
Interest & fees — capital asset related debt	(42,044)	(34,967)	(33,761)	(19,429)	(16,983)	(15,169)	(15,031)
Other non-operating revenues (expenses)	671	119	(195)	7,455	(7,531)	(1,837)	(7,662)
Net non-operating revenues	673,123	736,185	628,821	609,270	565,847	483,400	495,941
Income before other revenues	132,864	211,728	154,452	141,964	102,116	(39,104)	(13,607)
Capital appropriations	37,229	43,081	13,342	4,599	832	0	0
Capital grants	10,162	96,812	44,211	136,074	68,893	70,118	27,480
Capital gifts, net	9,145	12,758	11,305	10,257	5,889	7,306	8,238
Additions to endowments	47,510	32,129	47,417	33,553	22,317	20,462	23,283
Increase in Net Assets	\$236,910	\$396,508	\$270,727	\$326,447	\$200,047	\$58,782	\$45,394
Higher Education Price Index	289.1	279.9	269.6	256.1	246.2	235.7	228.0

Changes in Net Assets Adjusted for Inflation (Continued) Last seven fiscal years (2002 dollars)

percentage increase (decrease) from prior year

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
	%	%	%	%	%	%	%

(as restated)

Revenues

Operating Revenues

Student tuition and fees, net	0.5	3.6	13.1	2.7	0.3	14.0	n/a
Patient services, net	5.4	3.1	1.8	(4.3)	26.1	(7.3)	n/a
Federal grants and contracts	1.0	(2.1)	(0.5)	0.8	3.2	4.5	n/a
State and local grants and contracts	9.6	4.2	(0.2)	(3.8)	11.1	(13.9)	n/a
Non-governmental grants and contracts	20.8	(0.9)	4.8	4.0	11.8	(17.3)	n/a
Sales and services, net	4.3	3.7	(1.4)	3.3	(1.3)	2.8	n/a
Interest earnings on loans	(5.1)	(2.6)	(55.7)	218.4	48.2	124.8	n/a
Other operating revenues	31.9	(16.6)	20.4	(23.4)	(31.2)	(51.8)	n/a
Total operating revenues	4.2	1.2	1.9	0.9	5.2	0.3	n/a

Expenses

Operating Expenses

Salaries and benefits	4.5	3.7	2.4	1.2	0.3	2.2	n/a
Supplies and materials	(5.8)	4.4	(2.1)	(5.6)	(1.5)	(4.1)	n/a
Services	10.3	3.0	0.7	3.1	(3.7)	0.2	n/a
Scholarships and fellowships	(0.8)	0.9	0.4	3.7	(0.5)	9.2	n/a
Utilities	5.5	3.9	11.7	(0.4)	0.7	(6.5)	n/a
Depreciation	(20.4)	20.7	1.9	(4.6)	9.3	5.8	n/a
Total operating expenses	3.8	4.1	1.8	0.8	(0.6)	1.1	n/a
Operating loss	3.0	10.6	1.5	0.8	(11.2)	2.5	n/a

Non-operating Revenues (Expenses)

State appropriations	6.8	7.8	2.8	2.8	(1.0)	(3.4)	n/a
Non-capital grants	59.0	(10.4)	2.4	13.1	24.1	14.1	n/a
Non-capital gifts, net	48.7	3.1	(11.3)	3.4	7.7	(5.6)	n/a
Investment income, net	(55.3)	47.6	27.2	10.0	173.4	(13.4)	n/a
Interest & fees — capital asset related debt	20.2	3.6	73.8	14.4	12.0	0.9	n/a
Other non-operating revenues (expenses)	463.9	(161.0)	(102.6)	(199.0)	310.0	(76.0)	n/a
Net non-operating revenues	(8.6)	17.1	3.2	7.7	17.1	(2.5)	n/a
Income before other revenues	(37.2)	37.1	8.8	39.0	(361.1)	187.4	n/a
Capital appropriations	(13.6)	222.9	190.1	452.8	n/a	n/a	n/a
Capital grants	(89.5)	119.0	(67.5)	97.5	(1.7)	155.2	n/a
Capital gifts, net (Note 10)	(28.3)	12.9	10.2	74.2	(19.4)	(11.3)	n/a
Additions to endowments	47.9	(32.2)	41.3	50.3	9.1	(12.1)	n/a
Increase in Net Assets	(40.3)	46.5	(17.1)	63.2	240.3	29.5	n/a

Operating Expenses by Function Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
Operating Expenses by Function							
Instruction	\$662,228	\$624,128	\$595,319	\$575,951	\$532,927	\$531,123	\$497,771
Research	358,199	312,160	285,646	271,208	257,945	247,434	237,275
Public Service	95,618	90,025	85,330	83,005	78,276	75,410	76,896
Academic Support	106,613	97,776	86,229	75,384	75,693	70,888	67,618
Student Services	28,434	25,865	23,957	21,653	20,488	19,491	18,225
Institutional Support	86,549	76,188	71,609	67,426	64,732	63,461	58,560
Operations and Maintenance of Plant	133,031	124,991	111,720	92,860	87,891	86,451	90,942
Student Financial Aid	58,058	56,662	54,105	51,170	47,427	45,618	40,415
Auxiliary Enterprises	494,147	459,660	424,042	383,142	377,418	350,765	340,794
Depreciation	66,413	80,827	64,475	60,102	60,589	53,076	48,517
Total Operating Expenses by Function	\$2,089,290	\$1,948,282	\$1,802,432	\$1,681,901	\$1,603,386	\$1,543,717	\$1,477,013

Operating Expenses by Function

expressed as a percent of the total

	%	%	%	%	%	%	%
Instruction	31.7	32.2	33.1	34.3	33.2	34.4	33.7
Research	17.2	16.0	15.8	16.1	16.1	16.0	16.0
Public Service	4.6	4.6	4.7	4.9	4.9	4.9	5.2
Academic Support	5.1	5.0	4.8	4.5	4.7	4.6	4.6
Student Services	1.3	1.3	1.3	1.3	1.3	1.3	1.2
Institutional Support	4.1	3.9	4.0	4.0	4.0	4.1	4.0
Operations and Maintenance of Plant	6.4	6.4	6.2	5.5	5.5	5.6	6.2
Student Financial Aid	2.8	2.9	3.0	3.0	3.0	3.0	2.7
Auxiliary Enterprises	23.6	23.6	23.5	22.8	23.5	22.7	23.1
Depreciation	3.2	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	100.0

Operating Expenses by Function

percentage increase (decrease) from prior year

	%	%	%	%	%	%	%
Instruction	6.1	4.8	3.4	8.1	0.3	6.7	n/a
Research	14.7	9.3	5.3	5.1	4.2	4.3	n/a
Public Service	6.2	5.5	2.8	6.0	3.8	(1.9)	n/a
Academic Support	9.0	13.4	14.4	(0.4)	6.8	4.8	n/a
Student Services	9.9	8.0	10.6	5.7	5.1	6.9	n/a
Institutional Support	13.6	6.4	6.2	4.2	2.0	8.4	n/a
Operations and Maintenance of Plant	6.4	11.9	20.3	5.7	1.7	(4.9)	n/a
Student Financial Aid	2.5	4.7	5.7	7.9	4.0	12.9	n/a
Auxiliary Enterprises	7.5	8.4	10.7	1.5	7.6	2.9	n/a
Depreciation	(17.8)	25.4	7.3	(0.8)	14.2	9.4	n/a
Total Operating Expenses by Function	7.2	8.1	7.2	4.9	3.9	4.5	n/a

Revenue Base Last seven fiscal years

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
North Carolina Population	9,270,342	9,061,032	8,856,505	8,683,242	8,541,221	8,407,248	8,320,146
North Carolina Population — 18 year olds	131,240	126,722	122,281	120,352	119,691	118,653	114,518
North Carolina Per Capita Income	\$35,444	\$33,663	\$32,338	\$30,553	\$29,246	\$28,235	\$27,566
North Carolina Unemployment rate	5.95%	4.94%	4.56%	5.33%	5.49%	6.51%	6.27%
National Institutes of Health							
Total Appropriations (000's)	\$29,465,000	\$28,626,000	\$28,586,617	\$28,495,157	\$27,887,512	\$27,066,782	\$23,296,382
percent increase from prior year	2.93%	0.14%	0.32%	2.18%	3.03%	16.18%	n/a
National Science Foundation							
Total Appropriations (000's)	\$6,064,900	\$5,917,160	\$5,580,000	\$5,472,820	\$5,577,830	\$5,309,995	\$4,789,240
percent increase from prior year	2.50%	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 Last seven fiscal years

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

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
Resident Undergraduate — UNC-CH	\$5,340	\$5,033	\$4,613	\$4,451	\$4,072	\$3,856	\$3,277
percent increase from prior year	6.10%	9.11%	3.64%	9.31%	5.60%	17.67%	n/a
AAU Public Universities (mean)	\$7,771	\$7,321	\$6,906	\$6,458	\$5,980	\$5,160	\$4,656
percent increase from prior year	6.15%	6.01%	6.94%	7.99%	15.89%	10.82%	n/a
Non-Resident Undergraduate — UNC-CH	\$20,988	\$19,681	\$18,411	\$17,549	\$15,920	\$15,140	\$13,269
percent increase from prior year	6.64%	6.90%	4.91%	10.23%	5.15%	14.10%	n/a
AAU Public Universities (mean)	\$21,821	\$20,652	\$19,579	\$18,471	\$16,849	\$15,089	\$13,656
percent increase from prior year	5.66%	5.48%	6.00%	9.63%	11.66%	10.49%	n/a
Resident Graduate — UNC-CH	\$6,236	\$5,680	\$5,014	\$4,651	\$4,269	\$4,043	\$3,449
percent increase from prior year	9.79%	13.27%	7.80%	8.95%	5.59%	17.22%	n/a
AAU Public Universities (mean)	\$9,432	\$8,913	\$8,379	\$7,812	\$7,260	\$6,315	\$5,750
percent increase from prior year	5.82%	6.37%	7.26%	7.60%	14.96%	9.83%	n/a
Non-Resident Graduate — UNC-CH	\$20,234	\$19,678	\$19,012	\$17,899	\$16,267	\$15,692	\$13,760
percent increase from prior year	2.83%	3.50%	6.22%	10.03%	3.66%	14.04%	n/a
AAU Public Universities (mean)	\$20,618	\$20,067	\$19,295	\$18,367	\$16,488	\$14,898	\$13,729
percent increase from prior year	2.75%	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; The University of North Carolina at Chapel Hill Fact Book.

Principal Revenue Payers Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
State and local grants and contracts	\$51,207	\$45,256	\$41,842	\$39,816	\$39,793	\$34,289	\$38,512
State appropriations	543,292	492,471	440,070	406,673	380,446	368,024	368,504
Capital appropriations	47,206	52,888	15,776	5,166	898	0	0
Capital grants	12,885	118,850	52,277	152,844	74,392	72,486	27,480
NC State Government	\$654,590	\$709,465	\$549,965	\$604,499	\$495,529	\$474,799	\$434,496
percent increase from prior year	(7.73%)	29.00%	(9.02%)	21.99%	4.37%	9.28%	n/a
Federal grants and contracts	\$447,793	\$429,059	\$422,229	\$403,100	\$384,618	\$356,845	\$330,403
Non-capital grants	102,932	62,669	67,388	62,544	53,154	40,995	34,769
Federal Government	\$550,725	\$491,728	\$489,617	\$465,644	\$437,772	\$397,840	\$365,172
percent increase from prior year	12.00%	0.43%	5.15%	6.37%	10.04%	8.95%	n/a

Long-term Debt Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
General Revenue Debt	\$961,280	\$678,980	\$694,575	\$338,210	\$351,430	\$190,255	\$195,810
Plus Unamortized Disc/Premium	31,898	26,821	28,050	8,098	8,662	5,409	5,867
Less Unamortized Loss on Refunding	(3,436)	(3,838)	(4,240)	(2,280)	(2,606)	(2,932)	(3,257)
Net General Revenue Debt	989,742	701,963	718,385	344,028	357,486	192,732	198,420
Revenue Bonds	81,480	83,502	85,642	112,395	114,553	181,531	186,438
Plus Unamortized Disc/Premium	(333)	(158)	(181)	(330)	(356)	(716)	(903)
Net Revenue Bonds	81,147	83,344	85,461	112,065	114,197	180,815	185,535
Total Bonds Payable	1,070,889	785,307	803,846	456,093	471,683	373,547	383,955
Notes Payable	1,037	1,362	21,054	33,519	35,000	39,333	3,800
Capital Leases Payable	2,804	2,404	379	970	1,320	927	606
Total	\$1,074,730	\$789,073	\$825,279	\$490,582	\$508,003	\$413,807	\$388,361
<i>Long Term Debt (whole dollars)</i>							
per Student FTE	\$41,503	\$30,966	\$32,954	\$19,835	\$20,893	\$17,213	\$16,514
per Dollar of Total Grants	\$1.50	\$1.25	\$1.33	\$0.84	\$0.92	\$0.83	\$0.81
per Dollar of State Appropriations	\$1.98	\$1.60	\$1.88	\$1.21	\$1.34	\$1.12	\$1.05

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
Net General Revenue Debt	\$989,742	\$701,963	\$718,385	\$344,028	\$357,486	\$192,732	\$198,420
Commercial Paper Program	101,157	192,414	117,414	141,141	8,841	19,000	1,000
Total General Revenue Debt	\$1,090,899	\$894,377	\$835,799	\$485,169	\$366,327	\$211,732	\$199,420
<i>General Revenue Debt (whole dollars)</i>							
per Student FTE	\$42,128	\$35,098	\$33,375	\$19,616	\$15,067	\$8,807	\$8,480
per Dollar of Total Grants	\$1.52	\$1.42	\$1.34	\$0.83	\$0.66	\$0.43	\$0.42
per Dollar of State Appropriations	\$2.01	\$1.82	\$1.90	\$1.19	\$0.96	\$0.58	\$0.54

Data used in the above calculations

Total Student FTE	25,895	25,482	25,043	24,733	24,314	24,041	23,517
State appropriations	\$543,292	\$492,471	\$440,070	\$406,673	\$380,446	\$368,024	\$368,504
Federal grants and contracts	\$447,793	\$429,059	\$422,229	\$403,100	\$384,618	\$356,845	\$330,403
State and local grants and contracts	51,207	45,256	41,842	39,816	39,793	34,289	38,512
Non-governmental grants and contracts	115,513	92,572	89,976	81,560	75,388	64,547	75,536
Non-capital grants	102,932	62,669	67,388	62,544	53,154	40,995	34,769
Total Grants	\$717,445	\$629,556	\$621,435	\$587,020	\$552,953	\$496,676	\$479,220

Summary of Ratios Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
(as restated)							
Composite Financial Index							
+ Primary Reserve Ratio	1.06 x	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	0.133
= Ratio / Strength Factor	7.97	7.89	6.92	6.47	5.94	4.51	4.96
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	2.79	2.76	2.42	2.26	2.08	1.58	1.74
= Ratio 10.00 Cap Subtotal	2.79	2.76	2.42	2.26	2.08	1.58	1.74
+ Return on Net Assets Ratio	8.8%	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%	2.00%
= Ratio / Strength Factor	4.40	8.35	6.15	8.20	5.35	1.55	1.20
* Weighting Factor	20%	20%	20%	20%	20%	20%	20%
= Ratio Subtotal	0.88	1.67	1.23	1.64	1.07	0.31	0.24
= Ratio 10.00 Cap Subtotal	0.88	1.67	1.23	1.64	1.07	0.31	0.24
+ Net Operating Revenues Ratio	7.3%	11.5%	9.0%	8.6%	6.3%	(2.7%)	(0.9%)
/ Strength Factor	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
= Ratio / Strength Factor	10.43	16.43	12.86	12.29	9.00	(3.86)	(1.29)
* Weighting Factor	10%	10%	10%	10%	10%	10%	10%
= Ratio Subtotal	1.04	1.64	1.29	1.23	0.90	(0.39)	(0.13)
= Ratio 10.00 Cap Subtotal	1.00	1.00	1.00	1.00	0.90	(0.39)	(0.13)
+ Viability Ratio	1.9 x	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	0.417
= Ratio / Strength Factor	4.56	5.04	4.32	5.52	6.00	5.04	6.00
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	1.60	1.76	1.51	1.93	2.10	1.76	2.10
= Ratio 10.00 Cap Subtotal	1.60	1.76	1.51	1.93	2.10	1.76	2.10
Composite Financial Index	6.31	7.83	6.45	7.06	6.15	3.26	3.95
Composite Financial Index with 10.00 Cap	6.27	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 10.00 before the weighting factor is applied so that a higher CFI does not unduly mask a weakness in a component ratio.

Summary of Ratios (Continued) Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30, 2008 2007 2006 2005 2004 2003 2002

(as restated)

Primary Reserve Ratio

Unrestricted Net Assets	\$671,970	\$617,573	\$525,513	\$475,631	\$408,705	\$370,816	\$346,546
Unrestricted Net Assets — Component Units *	28,897	28,627	23,709	20,653	17,724	n/a	n/a
Expendable Restricted Net Assets	1,199,280	1,086,353	853,133	736,632	648,019	559,128	645,390
Temporarily Restricted Net Assets — Component Units *	363,803	361,559	284,351	238,745	209,030	n/a	n/a
Expendable Net Assets	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478	\$929,944	\$991,936
Operating Expenses	\$2,089,290	\$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	53,311	42,926	39,921	21,823	18,339	15,681	15,031
Total Expenses	\$2,142,601	\$1,991,208	\$1,842,353	\$1,703,724	\$1,621,725	\$1,559,398	\$1,492,044
Expendable Net Assets	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478	\$929,944	\$991,936
Total Expenses	\$2,142,601	\$1,991,208	\$1,842,353	\$1,703,724	\$1,621,725	\$1,559,398	\$1,492,044
Ratio	1.06 x	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 Fiscal Year Ended June 30, 2008 2007 2006 2005 2004 2003 2002

(as restated)

Return on Net Assets Ratio

Change in Net assets	\$300,399	\$486,768	\$320,123	\$366,680	\$216,014	\$60,768	\$45,394
Total Net Assets (Beginning of Year)	\$3,409,036	\$2,922,268	\$2,607,879	\$2,241,199	\$2,025,186	\$1,964,418	\$1,919,024
Ratio	8.8%	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 (Continued) Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30, 2008 2007 2006 2005 2004 2003 2002

(as restated)

Net Operating Revenues Ratio

Total Operating Revenues	\$1,404,252	\$1,304,444	\$1,241,511	\$1,157,001	\$1,102,637	\$1,003,568	\$967,465
State Appropriations	543,292	492,471	440,070	406,673	380,446	368,024	368,505
Noncapital Gifts and Grants, net	216,026	136,306	136,212	136,237	121,671	101,882	97,173
Investment Income, net	146,650	317,767	207,423	154,900	135,369	47,398	52,957
Adjusted Net Operating Revenues	\$2,310,220	\$2,250,988	\$2,025,216	\$1,854,811	\$1,740,123	\$1,520,872	\$1,486,100
Income Before Other Revenues, Expenses, Gains, or Losses	\$168,470	\$259,926	\$182,633	\$159,462	\$110,267	(\$40,424)	(\$13,607)
Adjusted Net Operating Revenues	\$2,310,220	\$2,250,988	\$2,025,216	\$1,854,811	\$1,740,123	\$1,520,872	\$1,486,100
Ratio	7.3%	11.5%	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.

For the Fiscal Year Ended June 30, 2008 2007 2006 2005 2004 2003 2002

(as restated)

Viability Ratio

Unrestricted Net Assets	\$671,970	\$617,573	\$525,513	\$475,631	\$408,705	\$370,816	\$346,546
Unrestricted Net Assets — Component Units *	28,897	28,627	23,709	20,653	17,724	n/a	n/a
Expendable Restricted Net Assets	1,199,280	1,086,353	853,133	736,632	648,019	559,128	645,390
Temporarily Restricted Net Assets — Component Units *	363,803	361,559	284,351	238,745	209,030	n/a	n/a
Expendable Net Assets	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478	\$929,944	\$991,936
Bonds	\$1,070,889	\$785,307	\$803,846	\$456,093	\$471,684	\$373,548	\$383,955
Commercial Paper	101,157	192,414	117,414	141,141	8,841	19,000	1,000
Capital Leases	2,804	2,404	379	970	1,320	927	606
Notes	1,037	1,362	21,054	33,519	35,000	39,332	3,800
Notes — Component Units *	1,500	2,100	3,000	263	255	n/a	n/a
Total Adjusted University Debt	\$1,177,387	\$983,587	\$945,693	\$631,986	\$517,100	\$432,807	\$389,361
Expendable Net Assets	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478	\$929,944	\$991,936
Total Adjusted University Debt	\$1,177,387	\$983,587	\$945,693	\$631,986	\$517,100	\$432,807	\$389,361
Ratio	1.9 x	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 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.

Summary of Ratios (Continued) Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
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(as restated)

Operating Margin Excluding Gifts

Income Before Other Revenues, Expenses, Gains, or Losses	\$168,470	\$259,926	\$182,632	\$159,462	\$110,267	(\$40,424)	(\$13,607)
Less: Noncapital Gifts and Grants, net	(216,026)	(136,306)	(136,212)	(136,237)	(121,671)	(101,882)	(97,173)
Adjusted Income Before Other Revenues, Expenses, Gains or Losses	(\$47,556)	\$123,620	\$46,420	\$23,225	(\$11,404)	(\$142,306)	(\$110,780)
Total Operating Revenues	\$1,404,252	\$1,304,444	\$1,241,511	\$1,157,001	\$1,102,637	\$1,003,568	\$967,465
State Appropriations	543,292	492,471	440,070	406,673	380,446	368,024	368,505
Investment Income, net	146,650	317,767	207,423	154,900	135,369	47,398	52,957
Adjusted Net Operating Revenues less Gifts	\$2,094,194	\$2,114,682	\$1,889,004	\$1,718,574	\$1,618,452	\$1,418,990	\$1,388,927
Adjusted Income Before Other Revenues, Expenses, Gains or Losses	(\$47,556)	\$123,620	\$46,420	\$23,225	(\$11,404)	(\$142,306)	(\$110,780)
Adjusted Net Operating Revenues less Gifts	\$2,094,194	\$2,114,682	\$1,889,004	\$1,718,574	\$1,618,452	\$1,418,990	\$1,388,927
Ratio	(2.3%)	5.8%	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.

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
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(as restated)

Total Financial Resources to Direct Debt

Unrestricted Net Assets	\$671,970	\$617,573	\$525,513	\$475,631	\$408,705	\$370,816	\$346,546
Nonexpendable Restricted Net Assets	548,151	493,305	430,316	378,234	328,735	323,961	304,097
Expendable Restricted Net Assets	1,199,280	1,086,353	853,133	736,632	648,019	559,128	645,390
Total Financial Resources	\$2,419,401	\$2,197,231	\$1,808,962	\$1,590,497	\$1,385,459	\$1,253,905	\$1,296,033
Total Financial Resources	\$2,419,401	\$2,197,231	\$1,808,962	\$1,590,497	\$1,385,459	\$1,253,905	\$1,296,033
Total Notes, Bonds, Capital Leases and Commercial Paper	\$1,175,887	\$981,487	\$942,693	\$631,723	\$516,845	\$432,807	\$389,361
Ratio	2.1 x	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 (Continued) Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
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(as restated)

Expendable Resources to Debt

Unrestricted Net Assets	\$671,970	\$617,573	\$525,513	\$475,631	\$408,705	\$370,816	\$346,546
Unrestricted Net Assets — Component Units *	28,897	28,627	23,709	20,653	17,724	n/a	n/a
Expendable Restricted Net Assets	1,199,280	1,086,353	853,133	736,632	648,019	559,128	645,390
Temporarily Restricted Net Assets — Component Units *	363,803	361,559	284,351	238,745	209,030	n/a	n/a
Expendable Net Assets	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478	\$929,944	\$991,936
Total Notes, Bonds, Capital Leases and Commercial Paper	\$1,175,887	\$981,487	\$942,693	\$631,723	\$516,845	\$432,807	\$389,361
Long Term Debt — Component Units *	1,500	2,100	3,000	263	255	n/a	n/a
Less: U.S. EPA Project Bonds **	(21,478)	(23,495)	(25,349)	(27,317)	(29,221)	(30,975)	(32,591)
Total Adjusted University Debt	\$1,155,909	\$960,092	\$920,344	\$604,669	\$487,879	\$401,832	\$356,770
Expendable Net Assets	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478	\$929,944	\$991,936
Total Adjusted University Debt	\$1,155,909	\$960,092	\$920,344	\$604,669	\$487,879	\$401,832	\$356,770
Ratio	2.0 x	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 Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
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(as restated)

Direct Debt to Adjusted Cash Flow

Net Cash Used by Operating Activities	(\$641,134)	(\$570,342)	(\$492,016)	(\$460,046)	(\$348,742)	(\$382,265)	(\$440,099)
State Appropriations	543,292	492,471	440,070	406,673	380,446	368,024	368,505
Grants for Other than Capital Purposes	102,932	62,669	67,388	62,544	53,154	40,995	34,769
Non-capital Gifts	113,094	73,637	68,824	73,693	68,517	60,888	62,404
Adjusted Cash Flow from Operations	\$118,184	\$58,435	\$84,266	\$82,864	\$153,375	\$87,642	\$25,579
Total Notes, Bonds, Capital Leases and Commercial Paper	\$1,175,887	\$981,487	\$942,693	\$631,723	\$516,845	\$432,807	\$389,361
Adjusted Cash Flow from Operations	\$118,184	\$58,435	\$84,266	\$82,864	\$153,375	\$87,642	\$25,579
Ratio	9.9 x	16.8 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.

Summary of Ratios (Continued) Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30, **2008** **2007** **2006** **2005** **2004** **2003** **2002**

(as restated)

Debt Burden Ratio

Interest and Fees Paid on Capital Debt and Leases	\$52,779	\$43,676	\$40,390	\$22,644	\$20,438	\$18,303	\$21,117
Principal Paid on Capital Debt and Leases	238,672	43,344	228,037	39,608	21,900	14,044	14,130
Less: Principal Paid from Gifts and Excess Funds	(15,732)	0	0	0	0	0	0
Less: Principal Paid from Refinancing Activities	(198,244)	(19,719)	(206,539)	(19,910)	(4,333)	0	0
Debt Service	\$77,475	\$67,301	\$61,888	\$42,342	\$38,005	\$32,347	\$35,247
Operating Expenses	\$2,089,290	\$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	53,311	42,926	39,921	21,823	18,339	15,681	15,031
Fixed Asset Writedowns (if not included in Operating Expenses)	0	0	0	2,635	8,132	1,899	7,661
Less: Depreciation Expense	(66,413)	(80,827)	(64,475)	(60,102)	(60,589)	(53,076)	(48,517)
Plus: Principal Paid on Capital Debt and Leases	238,672	43,344	228,037	39,608	21,900	14,044	14,130
Less: Principal Paid from Gifts and Excess Funds	(15,732)	0	0	0	0	0	0
Less: Principal Paid from Refinancing Activities	(198,244)	(19,719)	(206,539)	(19,910)	(4,333)	0	0
Total Expenditures	\$2,100,884	\$1,934,006	\$1,799,376	\$1,665,955	\$1,586,835	\$1,522,265	\$1,465,318
Debt Service	\$77,475	\$67,301	\$61,888	\$42,342	\$38,005	\$32,347	\$35,247
Total Expenditures	\$2,100,884	\$1,934,006	\$1,799,376	\$1,665,955	\$1,586,835	\$1,522,265	\$1,465,318
Ratio	3.7%	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 (Continued) Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30, 2008 2007 2006 2005 2004 2003 2002

(as restated)

Research Expenses to Total Operating Expenses

Operating Expenses	\$2,089,290	\$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	53,311	42,926	39,921	21,823	18,339	15,681	15,031
Fixed Asset Writedowns (if not included in Operating Expenses)	0	0	0	2,635	8,132	1,899	7,661
Total Adjusted Operating Expenses	\$2,142,601	\$1,991,208	\$1,842,353	\$1,706,359	\$1,629,857	\$1,561,297	\$1,499,705
Research Expenses	\$358,199	\$312,160	\$285,646	\$271,208	\$257,945	\$247,434	\$237,275
Total Adjusted Operating Expenses	\$2,142,601	\$1,991,208	\$1,842,353	\$1,706,359	\$1,629,857	\$1,561,297	\$1,499,705
Ratio	16.7%	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 Fiscal Year Ended June 30, 2008 2007 2006 2005 2004 2003 2002

(as restated)

Net Tuition per Student

Student Tuition and Fees, net	\$218,763	\$210,651	\$195,882	\$164,457	\$153,943	\$146,961	\$124,661
Less: Scholarships and Fellowships	(58,058)	(56,662)	(54,105)	(51,170)	(47,427)	(45,618)	(40,415)
Net Tuition and Fees	\$160,704	\$153,989	\$141,777	\$113,287	\$106,516	\$101,343	\$84,246
Net Tuition and Fees	\$160,704	\$153,989	\$141,777	\$113,287	\$106,516	\$101,343	\$84,246
Undergraduate, Graduate and Professional FTE	25,895	25,482	25,043	24,733	24,314	24,041	23,517
Net Tuition per Student (whole dollars)	\$6,206	\$6,043	\$5,661	\$4,580	\$4,381	\$4,215	\$3,582

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

Summary of Ratios (Continued) Last seven fiscal years

in thousands

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
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(as restated)

Debt Service to Operations

Interest and Fees Paid on Capital Debt and Leases	\$52,779	\$43,676	\$40,390	\$22,644	\$20,438	\$18,303	\$21,117
Less: Interest and Fees Paid — U.S. EPA Project Bonds *	(683)	(977)	(1,264)	(1,534)	(1,781)	(2,013)	(2,210)
Principal Paid on Capital Debt and Leases	238,672	43,344	228,037	39,608	21,900	14,044	14,130
Less: Non-contractual Principal Paid from Gifts and Excess Funds	(15,732)	0	0	0	0	0	0
Less: Principal Paid from Refinancing Activities	(198,244)	(19,719)	(206,539)	(19,910)	(4,333)	0	0
Less: Principal Paid — U.S. EPA Project Bonds *	(3,540)	(3,245)	(3,240)	(3,065)	(2,815)	(2,585)	(2,385)
Debt Service	\$73,252	\$63,079	\$57,384	\$37,743	\$33,409	\$27,749	\$30,652
Operating Expenses	\$2,089,290	\$1,948,282	\$1,802,432	\$1,681,901	\$1,603,386	\$1,543,717	\$1,477,013
Debt Service	\$73,252	\$63,079	\$57,384	\$37,743	\$33,409	\$27,749	\$30,652
Operating Expenses	\$2,089,290	\$1,948,282	\$1,802,432	\$1,681,901	\$1,603,386	\$1,543,717	\$1,477,013
Ratio	3.5%	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 Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
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(as restated)

State Appropriation per Student

State Appropriations	\$543,292	\$492,471	\$440,070	\$406,673	\$380,446	\$368,024	\$368,505
Undergraduate, Graduate and Professional FTE	25,895	25,482	25,043	24,733	24,314	24,041	23,517
State Appropriation per Student (whole dollars)	\$20,981	\$19,326	\$17,573	\$16,443	\$15,647	\$15,308	\$15,670

Measures the institution's dependency on state appropriations.

Specific Revenue and General Revenue Bond Coverage *Last ten fiscal years*

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,	2008	2007	2006	2005	2004
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Specific Revenue Bond Coverage

Gross Operating Revenues	\$177,705	\$160,112	\$143,900	\$125,968	\$121,470
Direct Operating Expenses	114,352	115,450	105,885	90,218	90,057
Net Revenue Available for Debt Service	\$63,353	\$44,662	\$38,015	\$35,750	\$31,413
Principal	\$6,340	\$6,180	\$5,635	\$5,700	\$5,335
Interest	1,090	1,527	2,325	3,669	4,034
Specific Revenue Debt Service Requirements	\$7,430	\$7,707	\$7,960	\$9,369	\$9,369
Coverage	8.53	5.79	4.78	3.82	3.35

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004
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Available Funds General Revenue Bonds

Total Unrestricted Revenue	\$1,539,517	\$1,447,939	\$1,316,160	\$1,191,976	\$1,148,297
Less:					
State Appropriations	(543,292)	(492,471)	(440,070)	(406,673)	(380,446)
Tuition and Fees	(218,763)	(210,652)	(195,882)	(164,457)	(153,943)
Specific Revenue Debt Service Requirements	(7,430)	(7,707)	(7,960)	(9,369)	(9,369)
Plus:					
Adjusted Beginning Unrestricted Net Assets	617,573	525,513	475,631	410,110	370,816
Total Available Funds	\$1,387,605	\$1,262,622	\$1,147,879	\$1,021,587	\$975,355
Annual Increase	\$124,983	\$114,743	\$126,292	\$46,232	\$99,355
% Increase	9.9%	10.0%	12.4%	4.7%	11.3%

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004
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General Revenue Bond Coverage

Total Available Funds	\$1,387,605	\$1,262,622	\$1,147,879	\$1,021,587	\$975,355
Principal	\$16,175	\$15,595	\$15,285	\$13,220	\$11,745
Interest	38,970	32,814	28,373	14,459	10,017
General Revenue Debt Service Requirements	\$55,145	\$48,409	\$43,658	\$27,679	\$21,762
Coverage	25.16	26.08	26.29	36.91	44.82

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,	2003	2002	2001	2000	1999
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Specific Revenue Bond Coverage

Gross Operating Revenues	\$116,985	\$102,042	\$92,977	\$250,316	\$246,610
Direct Operating Expenses	90,731	73,720	64,808	214,212	208,753
Net Revenue Available for Debt Service	\$26,254	\$28,322	\$28,169	\$36,104	\$37,857
Principal	\$6,420	\$10,090	\$9,195	\$11,601	\$10,128
Interest	4,414	8,433	10,203	11,351	11,008
Specific Revenue Debt Service Requirements	\$10,834	\$18,523	\$19,398	\$22,952	\$21,136
Coverage	2.42	1.53	1.45	1.57	1.79

For the Fiscal Year Ended June 30,	2003	2002 (1)	2001	2000	1999
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Available Funds General Revenue Bonds

Total Unrestricted Revenue	\$1,055,273	\$987,708	\$1,009,353	\$924,667	\$877,492
Less:					
State Appropriations	(368,024)	(368,505)	(402,205)	(383,189)	(382,372)
Tuition and Fees	(146,961)	(124,661)	(139,319)	(121,507)	(110,400)
Specific Revenue Debt Service Requirements	(10,834)	(18,523)	(19,398)	(22,952)	(21,136)
Plus:					
Beginning Unrestricted Net Assets	346,546	392,613	354,936	347,359	310,896
Total Available Funds	\$876,000	\$868,632	\$803,367	\$744,378	\$674,480
Annual Increase	\$7,368	\$65,265	\$58,989	\$69,898	\$32,043
% Increase	0.8%	8.1%	7.9%	10.4%	5.0%

For the Fiscal Year Ended June 30,	2003	2002	2001	2000	1999
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General Revenue Bond Coverage

Total Available Funds	\$876,000	\$868,632	\$803,367	\$744,378	\$674,480
Principal	\$7,150	\$4,060	\$2,840		
Interest	8,332	7,094	5,012		
General Revenue Debt Service Requirements	\$15,482	\$11,154	\$7,852	n/a	n/a
Coverage	56.58	77.88	102.31		

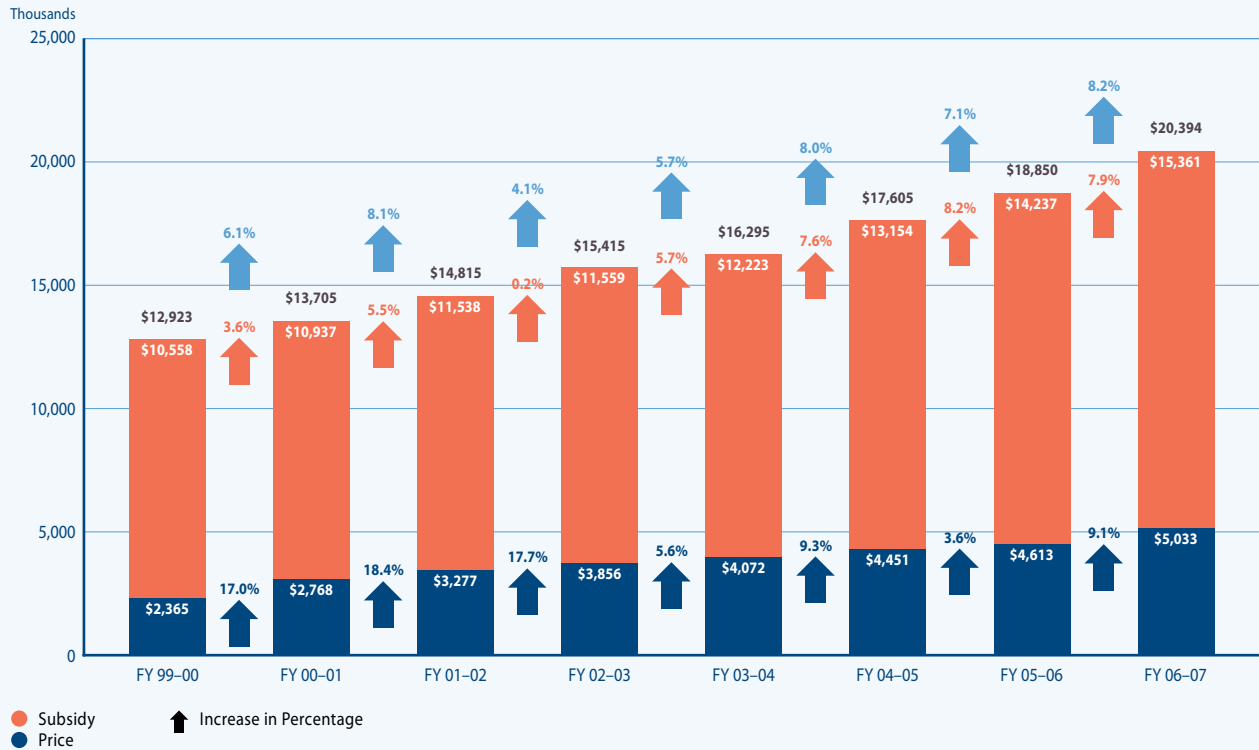
(1) For fiscal year ended June 30, 2002, the University implemented GASB Statement No. 34, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments as amended by GASB Statement No. 35, Basic Financial Statements — and Managements Discussion and Analysis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

Annual Undergraduate Educational Costs Per Student

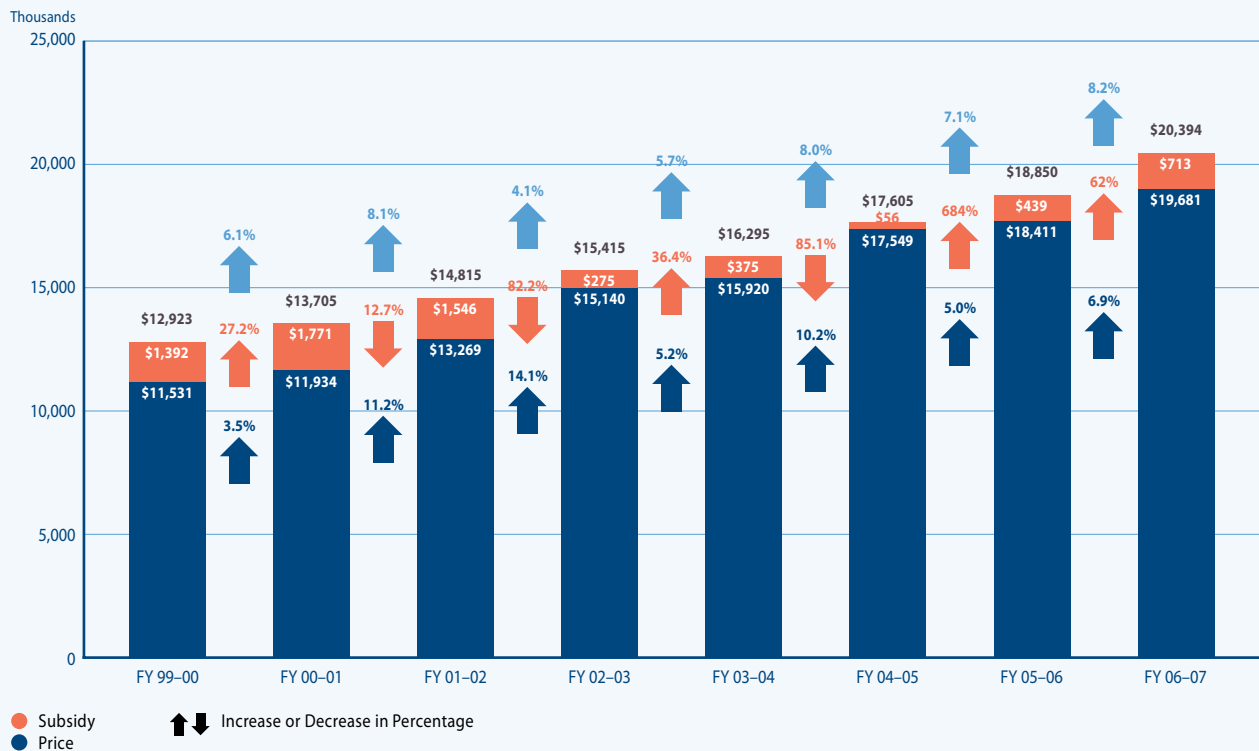
Public concern over tuition prices at colleges and universities led in 1997 to the establishment by Congress of the National Commission on the Cost of Higher Education. The task of the commission was to investigate the college cost-price conundrum and recommend ways to address it. In response, the National 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 *Last ten fiscal years (Fall Enrollment)*

Fiscal Year	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99
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Admissions — Freshmen

Applications	20,090	19,728	18,414	18,850	17,591	17,141	15,946	16,569	16,021	16,827
Accepted	6,999	6,737	6,736	6,741	6,441	6,073	6,339	6,088	6,176	6,041
Enrolled	3,893	3,807	3,751	3,589	3,516	3,460	3,687	3,415	3,396	3,437
Accepted as a Percentage of Applications	34.8%	34.1%	36.6%	35.8%	36.6%	35.4%	39.8%	36.7%	38.5%	35.9%
Enrolled as a Percentage of Accepted	55.6%	56.5%	55.7%	53.2%	54.6%	57.0%	58.2%	56.1%	55.0%	56.9%
Average SAT Scores — Total	1,302	1,292	1,299	1,287	1,283	1,267	1,257	1,251	1,245	1,230
Verbal	646	638	643	638	634	625	623	622	620	613
Math	656	654	656	649	649	642	634	629	625	617

Enrollment

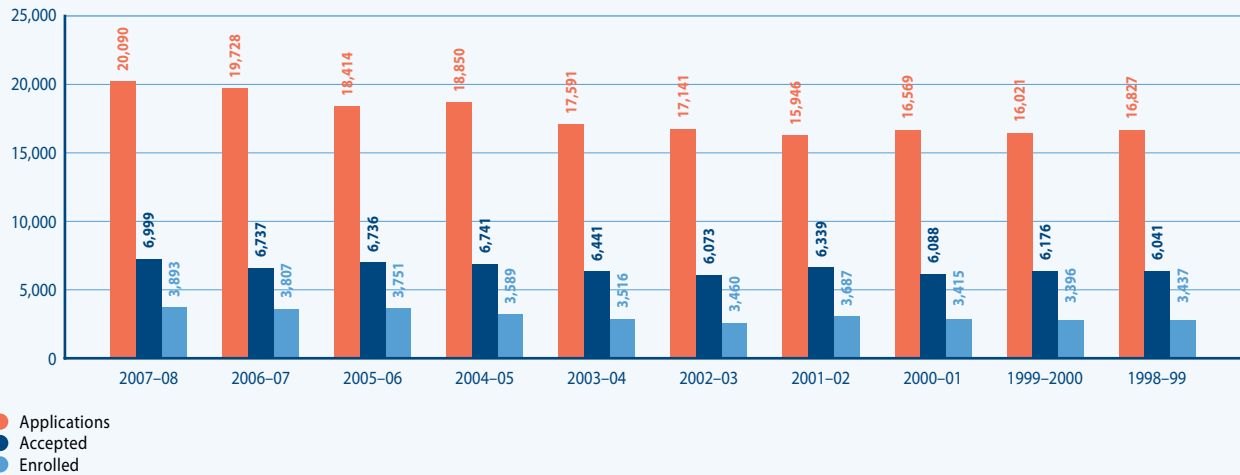
Undergraduate, Graduate and Professional FTE	25,895	25,482	25,043	24,733	24,314	24,041	23,517	23,000	22,761	21,940
Undergraduate, Graduate and Professional Headcount	28,136	27,717	27,276	26,878	26,359	26,028	25,464	24,872	24,635	24,238
Men (Headcount)	11,635	11,563	11,403	11,288	10,941	10,661	10,344	10,090	10,028	9,854
Percentage of Total	41.4%	41.7%	41.8%	42.0%	41.5%	41.0%	40.6%	40.6%	40.7%	40.7%
Women (Headcount)	16,501	16,154	15,873	15,590	15,418	15,367	15,120	14,782	14,607	14,384
Percentage of Total	58.6%	58.3%	58.2%	58.0%	58.5%	59.0%	59.4%	59.4%	59.3%	59.3%
African American (Headcount)	2,813	2,756	2,692	2,686	2,658	2,574	2,490	2,398	2,419	2,402
Percentage of Total	10.0%	9.9%	9.9%	10.0%	10.1%	9.9%	9.7%	9.6%	9.8%	9.9%
White (Headcount)	19,860	19,819	19,695	19,665	19,635	19,779	19,720	19,547	19,515	19,318
Percentage of Total	70.6%	71.5%	72.2%	73.2%	74.4%	76.0%	77.3%	78.5%	79.2%	79.7%
Other (Headcount)	5,463	5,142	4,889	4,527	4,066	3,675	3,254	2,927	2,701	2,518
Percentage of Total	19.4%	18.6%	17.9%	16.8%	15.5%	14.1%	12.9%	11.9%	11.0%	10.4%

Degrees Earned

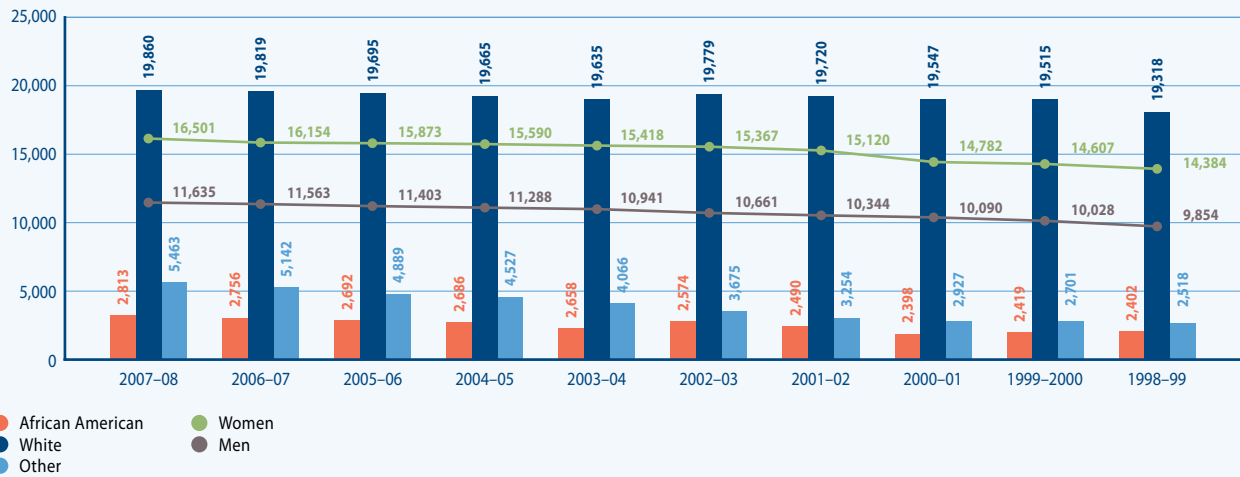
Bachelor's	3,888	3,787	3,773	3,888	3,715	3,741	3,560	3,477	3,444	3,406
Master's	1,897	1,871	1,914	1,847	1,872	1,739	1,638	1,679	1,726	1,550
Doctoral	513	512	490	459	439	412	390	398	425	374
Professional	601	601	608	610	587	672	589	599	588	571

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

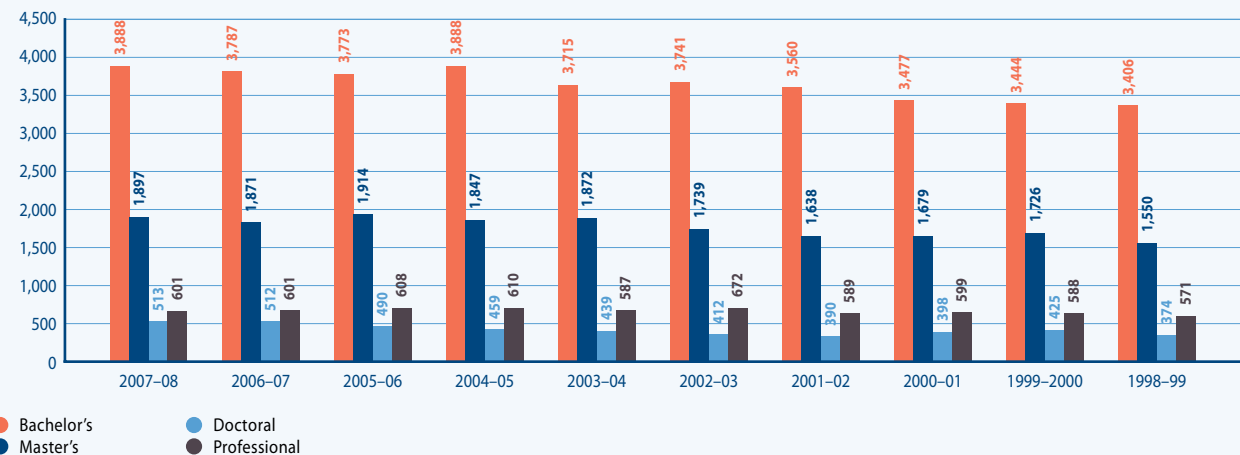
Freshman Applied, Accepted, and Enrolled



Headcount Total



Degrees Earned



Faculty and Staff Last ten fiscal years

Fall Employment of Fiscal Year	2007-08	2006-07	2005-06	2004-05	2003-04
Faculty					
Full-time	3,000	2,919	2,885	2,844	2,744
Part-time	295	303	323	330	313
Total Faculty	3,295	3,222	3,208	3,174	3,057
Percentage Tenured	46.1%	46.9%	48.1%	48.7%	45.9%
Staff and EPA Non-Faculty					
Full-time	1,610	1,501	1,374	1,307	1,227
Part-time	146	155	131	132	128
EPA Non-Faculty	1,756	1,656	1,505	1,439	1,355
Full-time	6,174	6,104	6,005	6,004	5,947
Part-time	308	317	318	321	317
SPA	6,482	6,421	6,323	6,325	6,264
Total Full-time	7,784	7,605	7,379	7,311	7,174
Total Part-time	454	472	449	453	445
Total Staff and EPA Non-Faculty	8,238	8,077	7,828	7,764	7,619
Total Faculty, Staff, and EPA Non-Faculty	11,533	11,299	11,036	10,938	10,676

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	2002-03	2001-02	2000-01	1999-2000	1998-99
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Faculty

Full-time	2,701	2,598	2,488	2,601	2,477
Part-time	307	322	294	260	260
Total Faculty	3,008	2,920	2,782	2,861	2,737
Percentage Tenured	50.5%	52.1%	53.9%	51.9%	54.6%

Staff and EPA Non-Faculty

Full-time	1,157	1,034	993	784	725
Part-time	111	97	92	63	56
EPA Non-Faculty	1,268	1,131	1,085	847	781
Full-time	5,915	5,782	5,574	5,996	5,790
Part-time	290	278	284	307	311
SPA	6,205	6,060	5,858	6,303	6,101
Total Full-time	7,072	6,816	6,567	6,780	6,515
Total Part-time	401	375	376	370	367
Total Staff and EPA Non-Faculty	7,473	7,191	6,943	7,150	6,882
Total Faculty, Staff, and EPA Non-Faculty	10,481	10,111	9,725	10,011	9,619

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.

Capital Assets Last seven fiscal years

For the Fiscal Year Ended June 30,	2008	2007	2006	2005	2004	2003	2002
Academic/Administrative buildings	127	125	122	122	122	120	120
Dormitories/Auxiliary buildings	90	90	88	83	83	79	79
Art/Library collections	6	6	6	6	6	6	6

Photo credits

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THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

FISCAL YEAR ENDED JUNE 30, 2008
CHAPEL HILL, NORTH CAROLINA
2008 Comprehensive Annual Financial Report