



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

# 2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2013 • CHAPEL HILL, NORTH CAROLINA

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

# CARROLLINA



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2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2013 • CHAPEL HILL, NORTH CAROLINA  
PREPARED BY THE CONTROLLER'S OFFICE



THE UNIVERSITY  
of NORTH CAROLINA  
at CHAPEL HILL



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# INTRODUCTORY SECTION





On University Day, October 12th, we celebrated Carolina's 220<sup>th</sup> birthday and our proud history as the first public university in America. Our ties to the birth of our nation, to the enduring ideals of *lux et libertas*, challenge all who come here to become part of a grander purpose.

Taking the oath of office that day, as the 11th chancellor of this remarkable University, was a great honor. The transformative power of public higher education is flourishing on our campus and throughout North Carolina. Carolina led the way in opening opportunities for access to education when our country was in its infancy, and countless people through the decades have worked to keep that fresh idea alive.

I believe that Carolina can be the leader in shaping the path for the great public universities in America. By preserving excellence and innovation, access and affordability, and a deep commitment to the state, we can gather strength to innovate and meet new challenges.

My mission is to chart a forward-looking trajectory for Carolina's future. Since taking office in July, I have been working with Provost James Dean and our senior leadership team to develop a powerful unifying strategy that will enable Carolina to move forward and launch a comprehensive fundraising campaign.

At this writing, these things are clear:

- Carolina began as a fresh idea in a new nation. We need to keep that freshness as we anticipate our future in a time of such rapid change.
- We will continue to develop new ways of doing business, as we already have been doing with our operational efficiency initiative called Carolina Counts, and that we will stretch even further to do in the future.
- We will make choices about the things that we do, and we will find the means to take risks and try some new things. We cannot afford to stand still in a world that is moving so quickly ahead.



- We can lower barriers. Let us de-silo this campus. Let us become more sustainable and let us leverage our cross-cutting connections and our culture of collaboration within and beyond campus.
- We will and already are intensifying our entrepreneurial activities, and they build on the extraordinary progress here and the work launched by Chancellor Holden Thorp.
- We will work across schools to develop a stronger voice and a communications strategy that will help us tell the world about Carolina's successes, and we are going to continue to work with our UNC partners to support the systemwide strategic plan and to foster new connections.
- And most of all, we will become better listeners. We want to gather input from the people here and around North Carolina to strengthen our relationships and build a shared and powerful future.

CAROL L. FOLT

*"I believe that Carolina can indeed be the leader in shaping the path for the great public university in America. We can show how you do it – to be the one that preserves excellence and innovation, access and affordability, a deep commitment to the state, and gathers strength to innovate and meet new challenges." —Carol Folt*





*To Chancellor Folt, Members of the Board of Trustees, and Friends of The University of North Carolina at Chapel Hill:*

This *Comprehensive Annual Financial Report* (CAFR) includes the financial statements for the year ended June 30, 2013, 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 and to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements. The University is a participant in Finance Improvement and Transformation (UNC FIT). UNC FIT is a collaborative project sponsored by the UNC System's General Administration that seeks to strengthen internal controls in the finance areas to ensure financial integrity and accountability and meet the requirements of Enhancing Accountability in Government through Leadership and Education (EAGLE). EAGLE is the State's internal control program that was established by the Office of the State Controller to meet the requirements of House Bill 1551, Chapter 143D "State Governmental Accountability and Internal Control Act."

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 Finance and Infrastructure 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 CAFR 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, 2013.

## PROFILE OF THE UNIVERSITY

The University of North Carolina was anticipated by the first state constitution drawn up in 1776 directing the establishing of "one or more universities" in which "all useful learning shall be duly encouraged and promoted." The American Revolution intervened and it was not until 1789, the year that George Washington became president of the new nation, that the University was chartered by the General Assembly. On October 12, 1793, the cornerstone was laid for the first campus building.

Now in its third century, UNC belongs to the select group of American and Canadian campuses forming the Association of American Universities. UNC's academic offerings span more than 100 fields, including bachelor's, master's and doctoral degrees as well as professional degrees in dentistry, medicine, pharmacy and law. Five health schools which, with UNC Hospitals, comprise one of the nation's most complete academic medical centers are integrated with liberal arts, basic sciences and high-tech academic programs.

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, 2013, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 60 sets forth criteria used to establish when a Service Concession Arrangement exists, and the various reporting and disclosure requirements related to both transferors and governmental operators in such an arrangement. GASB Statement No. 61 sets forth additional requirements for identifying component units, blending identified component units, presenting condensed combining information for blended component units, and accounting for certain equity interests. GASB Statement No. 62 was issued to incorporate into the GASB's authoritative literature certain guidance from Pre-November 1989 FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins from the AICPA Committee on Accounting Procedure. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

The financial reporting entity for the financial statements is comprised of the University and ten 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. (Chapel Hill Investment Fund), UNC Investment Fund, LLC (UNC Investment 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).

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 and 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.

The accounting and financial records of the Chapel Hill Investment Fund, UNC-CH Foundation, UNC Investment 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.

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

The University 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.

## ECONOMIC CONDITION

North Carolina is one of the largest states in the U.S. in terms of both population and total economic activity, but it has been slow to rebound from the national 18-month long recession that began in December 2007 and ended in June 2009. A strong indicator of this is in the civilian nonfarm payroll employment data.

At the December 2007 peak, there were 4,168,000 such jobs in North Carolina. In June 2013 there were 4,048,400 such jobs or 119,600 less than at the start of the recession. That represents a decrease of 2.9 percent. Fifteen states and the District of Columbia had an increase over that period while North Carolina ranked 32nd on that measure.

The picture for total civilian employment, which includes agricultural workers and the self-employed, was much brighter. In total civilian employment North Carolina was only down 14,200 employed people or 0.3 percent from the peak.

In the new book, *The Geography of Jobs*, by UC-Berkeley economist Enrico Moretti, the author explains that most of the job growth in the U.S. is in metropolitan statistical areas (MSAs) or "brain hubs." These are areas that have a high proportion of college graduates to the total labor force and generate considerable innovation. The Triangle (comprised of the Raleigh-Cary and the Durham-Chapel Hill MSAs) ranks seventh in the country on his list. That ranking attracts more students to UNC and provides a favorable job outlook in the area for many after graduation.

North Carolina had the ninth-largest economy in the nation in 2012 with total gross domestic product (GDP—the total value of all goods and services produced for final demand) of \$456.0 billion. That was below New Jersey and above Virginia.



North Carolina's GDP was 2.9 percent of the U.S. GDP, about the same as Argentina. Argentina is a member of the G-20 group, the forum for the largest economies in the world.

The Bureau of Economic Analysis (BEA) released data on personal income by state for the fiscal year on September 30, 2013. At a seasonally adjusted annual rate, total personal income in North Carolina was \$376.6 billion in the second quarter of 2013. That was fourth in the southeast, behind Florida at \$811.5 billion, Virginia at \$403.3 billion, and Georgia at \$378.8 billion. North Carolina was eleventh in the nation, between Georgia and Washington.

In terms of population, North Carolina was reported by the Census Bureau to have 9.75 million people on July 1, 2012. That ranked tenth in the country, just below Georgia and Michigan and well ahead of New Jersey, which had 8.86 million people.

Nearly all economic forecasters expect faster GDP growth for both the U.S. and North Carolina in the 2013-2014 fiscal year.

The University's fiscal stability during fiscal year 2012-2013 will serve as a bridge to an improved financial outlook for fiscal year 2013-2014 and forward. While state appropriations decreased for fiscal year 2013-2014 and absorbing the required reductions will be challenging, flexibility in managing the reductions will allow the University to mitigate harm to its core mission. The University will continue to maintain and generate sufficient resources to successfully fulfill its teaching, research, and service missions.

The University will continue to provide excellent teaching, research, and public service endeavors for students, citizens, and other constituents. Management has taken action to restructure and reduce the operating budget while protecting the academic foundation as much as possible. Carolina Counts is a program initiated to carry out key recommendations from a significant review of the campus operating structure and to address ways to make the University more efficient. The University has identified and implemented greater than \$50 million in permanent administrative savings based on a previous study of campus operations by an outside consultant. Carolina Counts, the resulting campus initiative, has helped us streamline operations and eliminate unnecessary bureaucracy, thereby reallocating resources to support the academic mission.

The University remains committed 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.

Carolina's progress, priorities, and major initiatives during fiscal 2012-2013 reflected the University's vision of becoming the nation's leading public university. Following this letter are recent highlights.

## AWARDS AND ACKNOWLEDGEMENTS



The University of North Carolina at Chapel Hill has received the award for reporting excellence for the past 18 years.

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 CAFR for the fiscal year ended June 30, 2012. This was the 18th 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.

Preparation of this CAFR 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, the Office of Sponsored Research, Student Affairs, Information Technology Services, University Development, University Communications, Institutional Research and Assessment, 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.

KEVIN R. SEITZ

*Interim Vice Chancellor for Finance and Administration*



# PROGRESS AND MAJOR INITIATIVES

FISCAL YEAR 2012–2013

## Recent Accomplishments Sustain Carolina's Prominence Among Great Research Universities



Carolina is widely recognized as one of the world's most influential and respected research universities. Every day, students, faculty and staff work together to improve the lives of people across North Carolina, the United States and the world. Fiscal 2012-2013 was full of great accomplishments that have only enhanced the University's reputation as a global higher education leader.

### HIGHLIGHTS INCLUDE THE FOLLOWING:

- Carolina enrolled almost 4,000 first-year students from a record 30,000 applications. More than 18 percent were first-generation college students.
- UNC-Chapel Hill ranks 1st among the 100 best U.S. public colleges and universities that offer students high-quality academics at an affordable price, according to Kiplinger's Personal Finance magazine. For the 12th time in a row, Carolina ranked 1st on campuses that provide the best value to in-state students.
- U.S. News & World Report's 2014 "Best Colleges" guidebook ranks Carolina the 5th best public university for the 13th consecutive year.
- Since the U.S. Rhodes Scholar program began in 1904, 48 Carolina students have been selected, including those who won in Canada. With 48, Carolina ranks first among all U.S. public research universities for producing the most Rhodes Scholars for the past 5, 10 and 25 years.
- Faculty secured more than \$777.8 million in research funding during fiscal 2013. That total is up nearly \$11 million—1.4 percent—from \$767.1 million the previous year. The funding advances important research that addresses critical issues around the world.
- Work by more than 20,600 students to help communities in North Carolina was recognized when the University made the Presidential Honor Roll for Community Service, an honor given by the Corporation for National and Community Service and the U.S. Department of Education.
- 2012–13 marked another strong fund-raising year for the University, with a total of \$272.8 million in private gifts and grants from more than 74,000 donors.

## Meet the Class of 2017 – Accomplished Inside and Outside of the Classroom

Roughly 4,000 first-year students—including award-winning researchers, artists, directors, dancers, writers, community activists and champion athletes—enrolled in fall 2013. The University received a record 30,836 applicants. The 3,960 enrolling students hail from 95 North Carolina counties, 45 states and 20 countries.

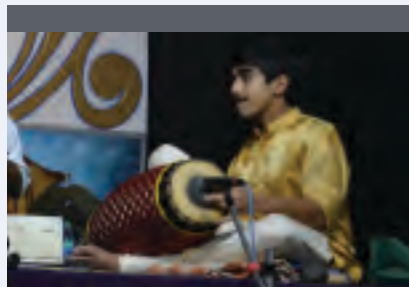
More than 78 percent graduated in the top 10 percent of their class. Almost 44 percent were among the top 10 students in their class. More than 13 percent were valedictorian or salutatorian. The incoming class scored an average 1309 on the SAT (critical reading and math).

In extracurricular achievements, 95 percent participated in community service; 74 percent played a sport; 54 percent participated in music, drama or other arts; 51 percent held a position as president of class or club; and 25 percent conducted research outside the classroom.

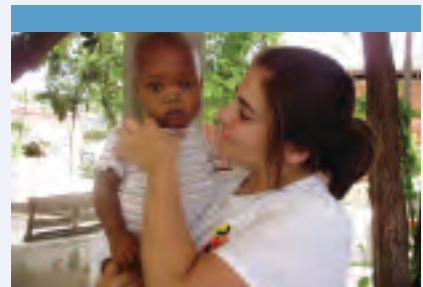
More than 18 percent were first-generation college students, and 13 percent were eligible for the Carolina Covenant, which promises qualified low-income students the chance to graduate debt-free.



First-year student Allie Polk conducted research on the therapeutic potential of glutathione (the body's most prevalent antioxidant) at the Children's National Hospital in Washington, D.C.



Arjun Raghavan, first-year student and accomplished percussionist, helped found the North Carolina Youth Classical Arts for Charity festival, which has raised \$35,000 for charity.



First-year student Maria Rojas helped build a nonprofit that grants microloan investments to support impoverished entrepreneurs around the world.

*“Credit [Carolina’s] stellar academics, reasonable sticker price and generous financial aid,” writes Susannah Snider, staff writer for Kiplinger’s Personal Finance magazine, which has ranked Carolina the number one value 12 consecutive times.*



Carolina Covenant Scholar Korde Tuttle graduated in May with highest honors and helps illustrate the program's progress in closing the achievement gap.

## Carolina Covenant Enters 10th Year; Helps Close Achievement Gap

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The Carolina Covenant enrolled its 10th class in fall 2013 with 669 new first-year and transfer students. First-year students represent 13.5 percent of the entering first-year class, the highest percentage ever. An estimated 2,600 Covenant Scholars are studying at Carolina, and more than 4,706 students have benefitted from the program, which promises qualified low-income students a debt-free education.

A recent report compared Carolina Covenant Scholars who enrolled in fall 2008 and graduated in spring 2012 to a group

of students who started at UNC in 2003 and who would have qualified for the program had it existed at the time.

The report shows that the four-year graduation rate of Covenant Scholars has grown to 74.2 percent, an increase of 17.5 percentage points compared to the 2003 group. By 2012, the gap in the four-year graduation rate between Covenant Scholars and all students narrowed by two-thirds, from a 17.6 percentage point gap to a 6.3 percentage point gap.



## Faculty Create New Knowledge Through Research

Carolina faculty secured \$777.8 million in research funding during fiscal 2013. That total is up nearly \$11 million – 1.4 percent – from \$767.1 million the previous year.

The funding comes in contracts and grants awarded by federal and state agencies, foundations, nonprofit organizations, corporations and associations for research that is helping to cure diseases and making important advances.

The National Institutes of Health (NIH) remained the University's largest funding source, providing \$366.9 million, or 66.9 percent of federal research dollars. NIH's strong and ongoing support reflects the extraordinary reputation of our health-related professional schools (dentistry, medicine, nursing, pharmacy and public health), UNC Health Care and its teaching hospitals, and basic and social science units in the College of Arts and Sciences.

The University's other top funders were the U.S. Agency for International Development, \$49.7 million (9.1 percent); National Science Foundation, \$39.3 million (7.2 percent); and U.S. Department of Health and Human Services, \$38.1 million (7 percent).

The University's multidisciplinary research centers and institutes continue to play a growing role in bringing research funding to North Carolina, accounting for roughly \$160 million of total awards in 2013. These centers and institutes attract close to \$7.70 in external funds for each \$1 of state funds invested.

## Child Hears Father's Voice for First Time

A School of Medicine clinical trial made it possible for a multidisciplinary medical team to place an auditory brain stem implant in 3-year-old Grayson Clamp who was born with no cochlear nerves and could not hear.

The surgery, performed by Dr. Craig Buchman, a professor of otolaryngology/head and neck surgery, and Dr. Matthew Ewend, chair of the department of neurosurgery, is the first of its kind performed in the United States as part of an FDA clinical trial.

The device Grayson received was originally used for patients with deafness due to auditory nerve tumors, which impact hearing. The device is now being considered to help restore hearing in children.



Three-year old Grayson Clamp reacts to the first sound he's ever heard—his father's voice.



UNC Toxicologist Rebecca Fry helped secure federal funding to extend public water lines to counties in North Carolina with high numbers of contaminated wells.

# ‘Water In Our World’ Focus of Three-Year Academic Theme

In fall 2013, Carolina started its second year of a three-year academic focus on water. The theme, “Water in Our World,” which evolved from a recommendation of the University’s 2011 Academic Plan, seeks to mobilize campus, inspire interdisciplinary research and spark new thinking around water issues.

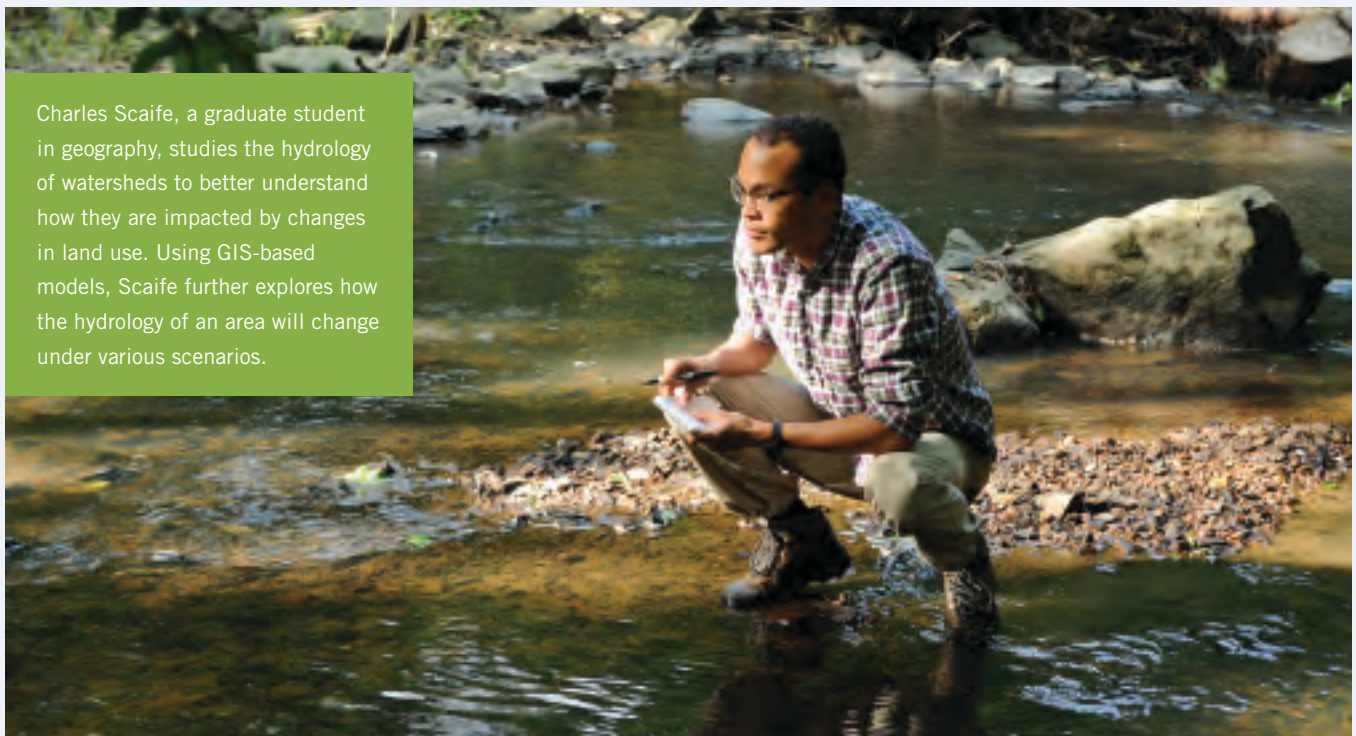
Some of that research includes: water quality and sanitary risk in low- and middle-income countries, impacts of hazardous events on drinking water and sanitation, assessments of drought vulnerability, ecosystem balance restoration of lakes, and new methods to test recreational water quality.

Research published by UNC’s Water Institute reports that 1.8 billion people around the world (28 percent of the population) use unsafe water. UNC-Chapel Hill experts say that the demand for clean water will intensify as the world’s population continues to grow.


The campus also will continue to host lectures, film screenings, exhibits, performing arts pieces and other programs about water.




Professor Mark Sobsey in the Gillings School of Global Health has simplified the testing process to determine whether water is safe to drink. The portable tests have now been used in more than two dozen countries.



Charles Scaife, a graduate student in geography, studies the hydrology of watersheds to better understand how they are impacted by changes in land use. Using GIS-based models, Scaife further explores how the hydrology of an area will change under various scenarios.



Carolina is known as one of the most beautiful campuses in the nation.



Chancellor Carol Folt joins first-year students at the pep rally.



Undergraduates celebrate Commencement.

## Carolina Counts Saves \$160 Million Over Four Years

The University in 2009 began Carolina Counts, an operational efficiency initiative, following a privately funded study conducted by Bain & Co. After taking a hard look at the campus operating structure, processes, staffing and expenses, the firm offered high-level ideas about how to make Carolina's complex organization more efficient.

In its first full year of implementation (2009–2010), Carolina Counts tracked cost savings of \$21 million per year in the recurring state-funded budget. For fiscal year 2012–2013, Carolina Counts reached recurring savings of \$58.1 million per year in state funding. During the past four fiscal years, the cumulative savings stand at \$160.1 million in state funding.



Mary Crabtree, manager of workplace safety, helped upgrade a health and safety database to make complying with state and federal safety regulations simpler and more efficient.



Carol Tresolini, vice provost for academic initiatives, realigned human resources and finance functions for smaller campus units under a unified business center.

JUNE 30, 2013

## BOARD OF TRUSTEES

WADE HAMPTON HARGROVE  
*Chair, Raleigh, NC*

BARBARA ROSSER HYDE  
*Vice Chair, Memphis, TN*

PHILLIP L. CLAY  
*Secretary, Cambridge, MA*

W. LOWRY CAUDILL  
*Durham, NC*

DONALD WILLIAMS CURTIS  
*Raleigh, NC*

ALSTON GARDNER  
*Chapel Hill, NC*

PETER T. GRAUER  
*New York, NY*

H. KEL LANDIS III  
*Raleigh, NC*

STEVEN LERNER  
*Chapel Hill, NC*

SALLIE SHUPING-RUSSELL  
*Durham, NC*

JOHN L. TOWNSEND III  
*New York, NY*

FELICIA A. WASHINGTON  
*Charlotte, NC*

CHRISTY LAMB DEN  
*Ex-Officio, Chapel Hill, NC*

JUNE 30, 2013

## CHANCELLOR'S CABINET

HOLDEN THORP  
*Chancellor\**

BRUCE W. CARNEY  
*Executive Vice Chancellor  
and Provost*

TAFFYE B. CLAYTON  
*Vice Provost for Diversity and  
Multicultural Affairs*

WINSTON B. CRISP  
*Vice Chancellor for  
Student Affairs*

LAWRENCE R. (BUBBA)  
CUNNINGHAM  
*Director of Athletics*

DOUGLAS S. DIBBERT  
*President, General  
Alumni Association*

BARBARA ENTWISLE  
*Vice Chancellor for Research*

STEPHEN FARMER  
*Vice Provost, Enrollment and  
Undergraduate Admissions*

KAREN M. GIL  
*Dean, College of Arts  
and Sciences*

KAROL K. GRAY  
*Vice Chancellor for Finance  
and Administration\*\**

JULIA S. GRUMBLES  
*Interim Vice Chancellor  
for University Advancement*

CHRIS KIULT  
*Interim Vice Chancellor  
for Information Technology and  
Chief Information Officer*

BRENDA  
RICHARDSON MALONE  
*Vice Chancellor  
for Human Resources*

MICHAEL B. MCFARLAND  
*Interim Associate Vice Chancellor  
for University Relations*

ANN E. PENN  
*Equal Opportunity/ADA Officer*

WILLIAM L. ROPER  
*Vice Chancellor for  
Medical Affairs and Dean,  
School of Medicine*

ERIN M. SCHUETTPELZ  
*Chief of Staff and  
University Secretary*

LESLIE CHAMBERS STROHM  
*Vice Chancellor  
and General Counsel*

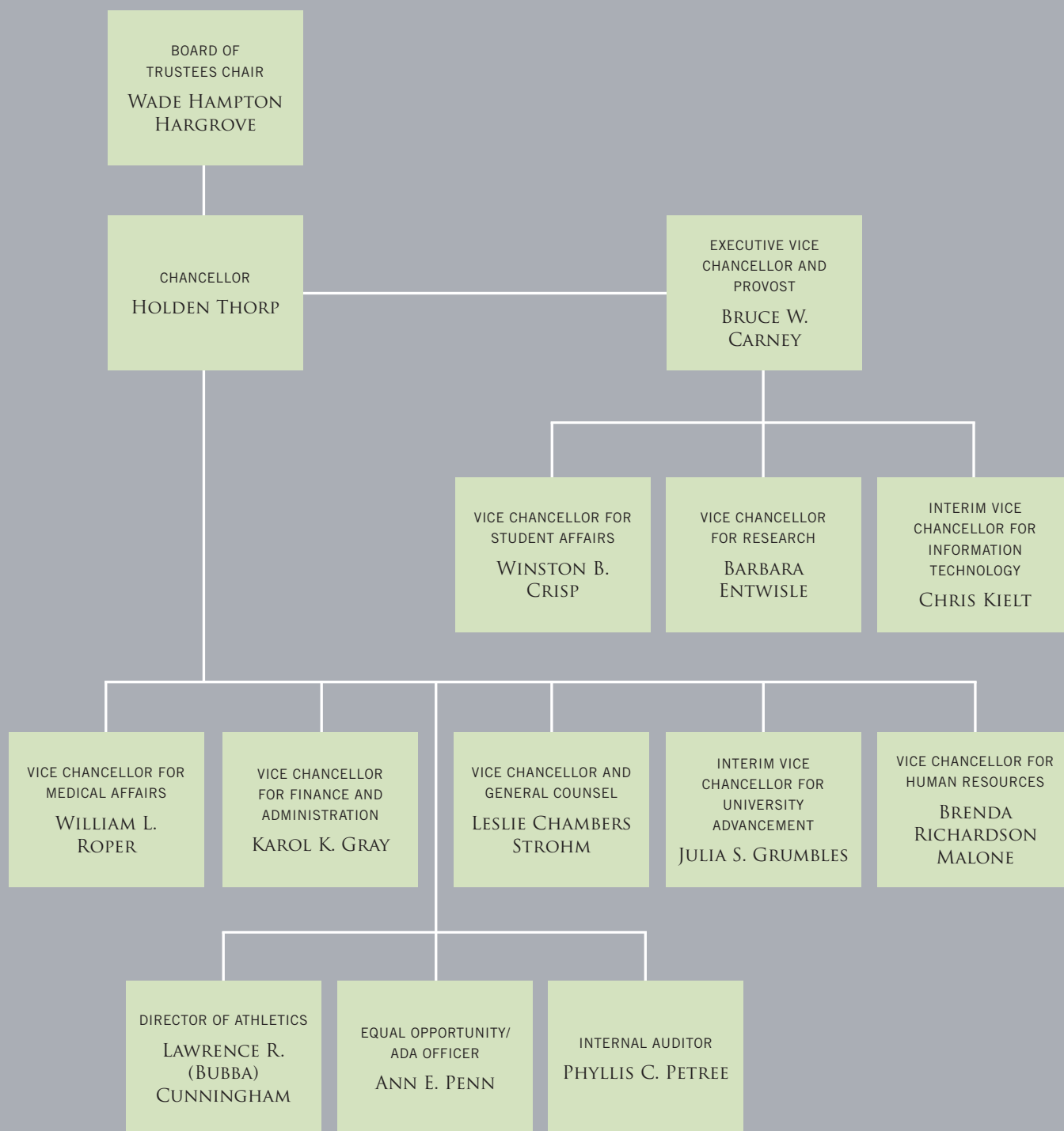
JENNIFER WILLIS  
*Director of State Relations*

\*Carol L. Folt was elected as the University's 11th chancellor effective July 1, 2013.

\*\*Kevin R. Seitz was appointed as Interim Vice Chancellor for Finance and Administration effective October 1, 2013.

JUNE 30, 2013

# ORGANIZATION CHART









Beth A. Wood, CPA  
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>

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**INDEPENDENT AUDITOR'S REPORT**

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the UNC Investment Fund, LLC, which represent 45 percent, 52 percent, and 7 percent, respectively, of the assets, net position, and revenues of the University; nor 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 statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the report 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



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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about whether the financial statements are free from material misstatement. The financial statements of the UNC Investment Fund, LLC., 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, based on our audit and the reports of the 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We, and other auditors, have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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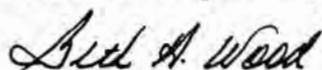
procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

The introductory and supplementary sections are presented for purposes of additional analysis and are not required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The introductory and supplementary sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance. The report on internal control and compliance has been issued under separate cover in the Financial Statement Audit Report of The University of North Carolina at Chapel Hill published by this office.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 12, 2013



# 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, 2013, with comparative information for the fiscal year ended June 30, 2012. Management has prepared the discussion and analysis to be read in conjunction with the financial statements and accompanying notes to the financial statements.

The University is a constituent institution of the 17-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 detailed information on the financial reporting entity.

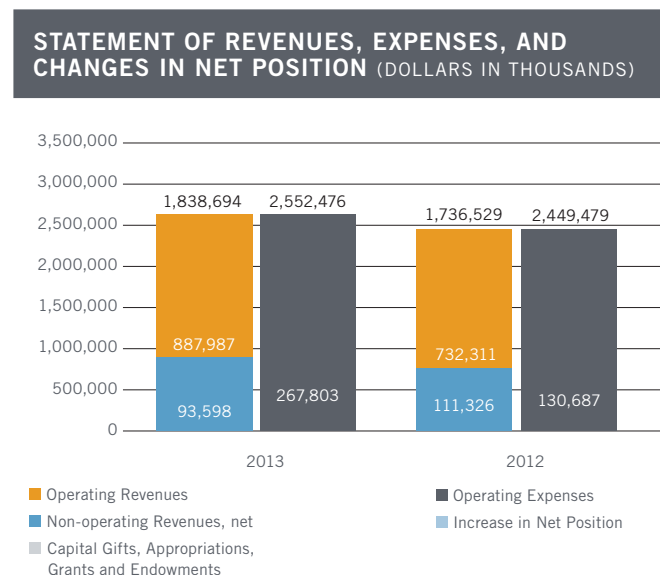
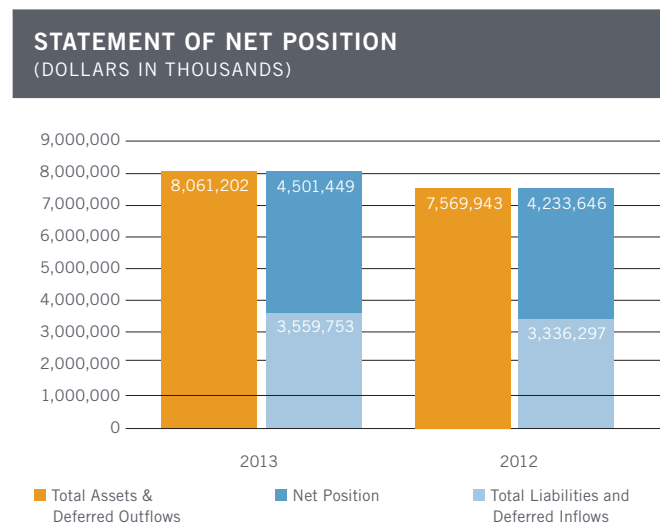
The implementation of GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, modified certain classifications. The Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, which are defined as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial

reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

The Statement amends the net asset reporting by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. To conform to the fiscal year 2012-2013 presentation standards and provide comparability, the prior year presentation has been adjusted.

## FINANCIAL HIGHLIGHTS

The University maintained its solid financial position at June 30, 2013 as the growth in operating revenues surpassed increases in operating expenses, and investment income grew substantially from the prior year. The University's total assets and deferred outflows were \$8 billion at June 30, 2013. Net position, which represents the residual interest in the University's assets and deferred outflows after deducting liabilities and deferred inflows, was \$4.5 billion at June 30, 2013. The University's net position increased by \$267.8 million in fiscal year 2012-2013 as a result of operating, non-operating, and other changes in net position. A comparison of the total assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2013 and June 30, 2012, and a comparison of the major components of the changes in net position for the two fiscal years are presented below:



Net position improved 6.3 percent at June 30, 2013 over the prior year. Total assets increased 7.2 percent from the prior year and total liabilities rose 6.7 percent for the same period. Operating revenues increased at a greater rate than operating expenses in fiscal year 2012-2013 over the prior year, 5.9 percent and 4.2 percent, respectively. Net non-operating revenues and expenses increased 21.3 percent in fiscal year 2012-2013 over the prior year, reflecting the higher investment income and increased state appropriations. As a major research university, funding from contracts and grants remained a major revenue source. Fund-raising for operational and capital needs, sales and services, and tuition and fees continued to provide important resources for 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 *Comprehensive Annual Financial Report* includes the following three financial statements.

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

Management's Discussion and Analysis provides information regarding the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

## CONDENSED STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the University at the end of the fiscal year, includes all assets and deferred outflows, all liabilities and deferred inflows, and segregates the assets and liabilities into current and non-current components. The following table summarizes the University's assets and deferred outflows, liabilities and deferred inflows, and net position on June 30, 2013 and June 30, 2012.

### ASSETS, LIABILITIES, DEFERRED RESOURCES, AND NET POSITION (DOLLARS IN THOUSANDS)

	2013	2012 (AS RESTATED)	Percent Change
<i>Assets:</i>			
Current assets	\$1,556,409	\$1,469,736	5.9
<i>Non-current assets:</i>			
Endowment, restricted and other investments	3,129,647	2,832,661	10.5
Capital assets, net	3,112,151	3,022,692	3.0
Other non-current assets	182,568	121,959	49.7
<b>Total Assets</b>	<b>7,980,775</b>	<b>7,447,048</b>	<b>7.2</b>
<b>Deferred Outflows of Resources</b>	<b>80,427</b>	<b>122,895</b>	<b>(34.6)</b>
<i>Liabilities:</i>			
Current liabilities	310,154	437,747	(29.1)
<i>Non-current liabilities:</i>			
Funds held in trust for pool participants	1,661,608	1,455,473	14.2
Long-term liabilities	1,476,431	1,289,115	14.5
Other non-current liabilities	111,560	153,962	(27.5)
<b>Total Liabilities</b>	<b>3,559,753</b>	<b>3,336,297</b>	<b>6.7</b>
<b>Deferred Inflows of Resources</b>	<b>0</b>	<b>0</b>	<b>n/a</b>
<i>Net Position:</i>			
Net Investment in Capital Assets	1,632,515	1,645,959	(0.8)
Restricted	1,896,046	1,691,595	12.1
Unrestricted	972,888	896,092	8.6
<b>Total Net Position</b>	<b>\$4,501,449</b>	<b>\$4,233,646</b>	<b>6.3</b>

### Current Assets and Liabilities

The Statement of Net Position shows that working capital, which is current assets less current liabilities, was \$1.2 billion at June 30, 2013 and \$1 billion the previous year. The working capital margin exists because many operating funds are invested in the State Treasurer's Short-Term Investment Fund, which provides liquidity and is categorized as a short-term investment. The Statement of Net Position details the current asset and current liability categories.

### Endowment, Restricted and Other Investments

Endowment investments increased 8.4 percent during 2012-2013 and were \$1.49 billion at June 30, 2013 and \$1.38 billion at June 30, 2012, and include permanent endowments, funds internally designated as endowments and similar funds such as gift annuities and charitable trusts.

The endowment assets are invested with The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund or CHIF), which is reported as a governmental external investment pool in the financial statements. The Chapel Hill 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. It is expected that all or substantially all of the assets of the Chapel Hill Investment Fund will be invested in the UNC Investment Fund, LLC (UNC Investment Fund or UNCIF).

The CHIF investment objective is to earn a long-term real rate of return of approximately 5.5 percent. This objective is intended to support the Chapel Hill Investment Fund's distribution policy of providing a stable source of spending support that is sustainable over the long-term while preserving the purchasing power of the invested funds. The distribution rate is determined annually by its Board of Directors and for the past 5 years has ranged between 5 percent and 6 percent based on the beginning market value of the Chapel Hill Investment Fund.

As reported by UNC Management Company, Inc. (Management Company), the manager of the UNC Investment Fund, the endowment assets invested in the UNC Investment Fund recorded a 12.1 percent return for fiscal year 2012-2013, exceeding both the Strategic Investment Policy Portfolio (SIPP) return of 10.4 percent and the primary objective of earning a real rate of return plus 5.5 percent. All seven major asset classes produced positive returns for the fiscal year 2012-2013.

Over the long term, UNCIF's 10-year annualized performance of 9.2 percent has surpassed its primary objective of providing a real rate of return plus 5.5 percent. UNCIF's ten year return exceeds both the SIPP benchmark and the Global 70/30 Index (comprised of 70 percent invested in the MSCI All Country World Index and 30 percent in the Barclay's U.S. Aggregate Bond Index) which returned 8.7 percent and 7.0 percent respectively, and ranks in the top quartile of the BNY Mellon Endowment and Foundation Universe.

Over the intermediate term, UNCIF's performance reflects the sharp decline in financial markets witnessed in 2007-2008 with a 5-year annualized return of 2.5 percent. During this volatile period, the Global 70/30 Index returned 3.6 percent versus the 6.9 percent rate of return to achieve a 5.5 percent real return. For the trailing 3-year period, which excludes the 2007-2008 financial crises, UNCIF has returned 9.7 percent.

A policy for the University Statutory Endowment (established pursuant to NC General Statute 116-36) addresses the provisions of the Uniform Prudent Management

of Institutional Funds Act (UPMIFA). The policy indicates that campus departments shall examine the endowment-supported activity for the upcoming fiscal year for possible deferment of program expenses, and then pursue alternative funding for essential activities, and finally shall consult with donors regarding other funding options for program support. Invasion of endowment principal is an option of last resort and will only be done consistent with approved limitations to preserve the endowment principal's value. There was no invasion of principal necessary for the fiscal year 2012-2013 distribution of earnings as market returns provided for a full distribution without reduction.

Restricted investments of \$1.6 billion at June 30, 2013 include funds of affiliated entities that are neither part of the University's reporting entity nor reported discretely but invested through UNCIF. Other investments include bond reserves and related funds of \$37.4 million.

### **Capital Assets and Debt Management**

The University completed two major capital projects this year, the Koury Oral Sciences Building and the Genome Sciences Building, part of a larger Bell Tower Development. Funding these projects came largely through state appropriations, University overhead receipts, and external gifts. The Imaging Research Building, the largest capital project to date, is nearing completion and will be ready for occupancy by the end of calendar 2013. Funding for this 343,000 square foot building came from state appropriations. Moving forward through 2017, the University six year capital plan submitted for approval includes \$575 million worth of projects for possible funding subject to the financial climate. These funds will support continuing capital needs that are funded from a variety of sources, including debt.

Carolina North (formerly known as the Horace Williams property) is an approximately 963 acre parcel of land about 1.5 miles from the main campus of the University. Plans for this project have evolved since planning began in 1995. On September 26, 2007, the Board of Trustees approved a plan for development of 250 acres. On July 1, 2009, the University and the Town of Chapel Hill entered into a development agreement with a 20-year term allowing for up to 3 million square feet of development on 133 acres of the Carolina North Tract. Planning for the initial projects, the Collaborative Science Building and supporting infrastructure, is under way. Construction will proceed once financial plans are final and all project approvals have been received.

Carolina North will be a living and learning community that will include teaching, office and research space for University uses, corporate space in partnership with University activities, service and retail facilities and housing. It is envisioned that

development will occur in phases. Each phase will consist of mixed uses creating a community, with each community being integrated into the previous phases. Full development of Carolina North is expected to take at least 50 years and will proceed as demand for space and resources permit. While it is anticipated that a variety of funding sources will be utilized for Carolina North, a comprehensive financing plan for Carolina North has not yet been developed.

A summary of changes in capital assets is disclosed in Note 5. Capital assets, net of accumulated depreciation and amortization, at June 30, 2013 and June 30, 2012, were as follows:

CAPITAL ASSETS (DOLLARS IN THOUSANDS)			
	2013	2012	Percent Change
<i>Capital Assets:</i>			
Construction in progress	\$231,972	\$219,371	5.7
Land and other non-depreciable assets	189,931	170,112	11.7
Buildings	1,869,324	1,831,488	2.1
General infrastructure	588,089	571,015	3.0
Machinery, equipment, and computer software	232,835	230,706	0.9
<b>Total</b>	<b>\$3,112,151</b>	<b>\$3,022,692</b>	<b>3.0</b>

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 \$18.0 million at June 30, 2013 and \$132.7 million at June 30, 2012.

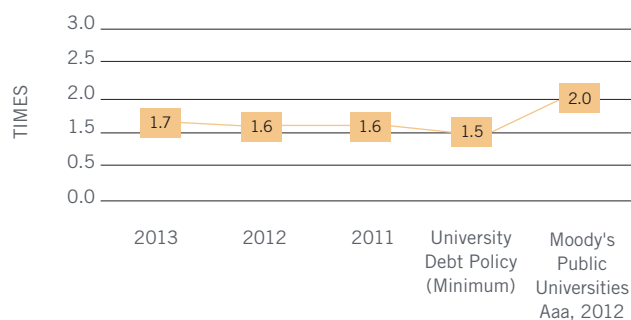
The University maintains a combination of variable and fixed rate debt, consistent with its debt management policy. The interest rate on the commercial paper program for fiscal year 2012-2013 was 0.16 percent and for 2011-2012 was 0.15 percent. Interest rates on the University's variable rate, long-term bonds were 0.60 percent for fiscal year 2012-2013 and 0.09 percent for fiscal year 2011-2012. Interest rates on fixed rate, long-term bonds are disclosed in Note 8B of the financial statements. These rates reflect direct interest rates and do not reflect any impact from the interest rate swaps as referenced in Note 9.

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 unrestricted, expendable restricted, and temporarily restricted net position to funded debt and serves as a relative indicator of financial health or cushion. The *debt service to operations ratio* provides an indicator of the University's ability to repay annual principal and interest relative to its overall

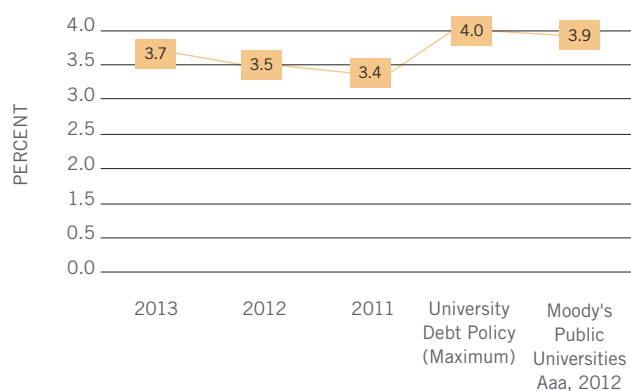
operating expenses. Each ratio is compared to the University's debt policy standard and the appropriate peer group comparison for fiscal year 2011-2012 (the latest available numbers). At June 30, 2013, the *expendable resources to debt ratio* was 1.7 times, and the *debt service to operations ratio* was 3.7 percent.

The University continues to maintain its long-term bond ratings of Aaa/AA+/AAA from Moody's Investor Services, Standard & Poor's and Fitch Ratings, respectively.

#### EXPENDABLE RESOURCES TO DEBT



#### DEBT SERVICE TO OPERATIONS



#### Other Non-current Assets and Liabilities

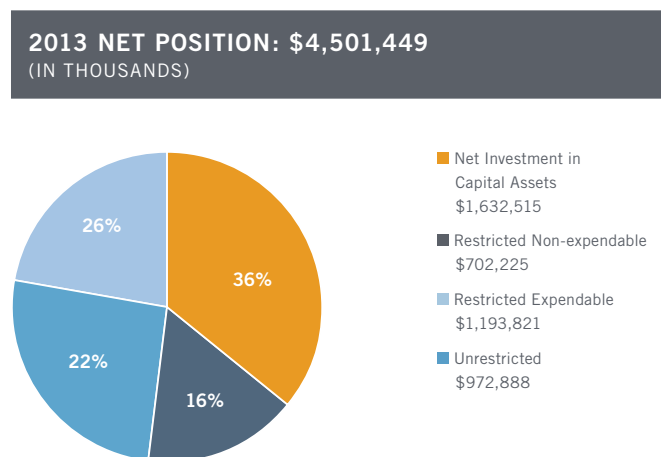
Other non-current assets were \$183 million at June 30, 2013 and \$122 million at June 30, 2012, a 49.7 percent increase. The increase resulted from additional restricted cash and cash equivalents at June 30, 2013 from the construction fund of the 2012AB General Revenue Bonds and from unrestricted funds provided for capital improvements.

Non-current liabilities were \$3.2 billion at June 30, 2013 and \$2.9 billion at June 30, 2012, and include funds held in trust for the University's affiliated foundations and other campuses

in the UNC System and their affiliates of \$1.7 billion and \$1.5 billion, 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 UNC Investment Fund. The increase in funds held in trust of 14.2 percent over the prior year resulted from additional participant contributions and net investment gains.

### Net Position

Net position represents the value of the University's assets and deferred outflows after liabilities and deferred inflows are deducted. The University's net position was \$4.5 billion at June 30, 2013, an increase of \$267.8 million over the prior year. Net investment in capital assets 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 position includes 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 position includes resources in which the University is legally obligated to spend the resources in accordance with restrictions provided by external parties. Unrestricted net position is 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.



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

The Statements of Revenues, Expenses, and Changes in Net Position present the University's results of operations. The statements for the fiscal year ended June 30, 2013 and the prior year are summarized as follows:

UNIVERSITY OPERATIONS (DOLLARS IN THOUSANDS)			
	2013	2012	Percent Change
<i>Operating Revenues:</i>			
Student tuition and fees, net	\$348,049	\$320,535	8.6
Grants and contracts	761,196	725,846	4.9
Sales and services, net	720,520	681,151	5.8
Other	8,929	8,997	(0.8)
<b>Total Operating Revenues</b>	<b>1,838,694</b>	<b>1,736,529</b>	<b>5.9</b>
<b>Operating Expenses</b>	<b>2,552,476</b>	<b>2,449,479</b>	<b>4.2</b>
<b>Operating Loss</b>	<b>(713,782)</b>	<b>(712,950)</b>	<b>0.1</b>
<i>Non-operating Revenues (Expenses):</i>			
State appropriations	515,121	486,492	5.9
Non-capital gifts and grants	250,442	280,785	(10.8)
Investment income	191,969	33,134	479.4
Interest and fees on debt	(70,119)	(64,321)	9.0
Federal interest subsidy on debt	2,174	2,274	(4.4)
Other net non-operating expenses	(1,600)	(6,053)	(73.6)
<b>Net Non-operating</b>	<b>887,987</b>	<b>732,311</b>	<b>21.3</b>
<b>Income Before Other Changes</b>	<b>174,205</b>	<b>19,361</b>	<b>799.8</b>
Capital appropriations	2,285	0	
Capital grants	44,177	78,133	(43.5)
Capital gifts	23,182	5,630	311.8
Additions to permanent endowments	23,954	27,563	(13.1)
<b>Increase in Net Position</b>	<b>267,803</b>	<b>130,687</b>	<b>104.9</b>
<b>Net Position – July 1</b>	<b>4,233,646</b>	<b>4,102,959</b>	<b>3.2</b>
<b>Net Position – June 30</b>	<b>\$4,501,449</b>	<b>\$4,233,646</b>	<b>6.3</b>

Fiscal year 2012-2013 revenues and other changes total \$2,891,998 and expenses total \$2,624,195.

Fiscal year 2011-2012 revenues and other changes total \$2,650,540 and expenses total \$2,519,853.



## 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 \$84.6 million for fiscal year 2012-2013 and \$75.7 million for the prior year. Net revenues from student tuition and fees increased 8.6 percent over the prior year. Tuition rates increased for fiscal year 2012-2013 by 13.6 percent for undergraduate residents, 6.5 percent for undergraduate non-residents and graduate non-residents, and 15.6 percent for graduate residents.

Revenues from operating grants and contracts increased 4.9 percent over the prior year. Discussion of grants and contracts in terms of awards provides another useful perspective. Faculty secured \$777.8 million in research funding during fiscal year 2012-2013, as compared to \$767.1 million the previous year. The funding comes in contracts and grants awarded by federal and state agencies, foundations, non-profit organizations, corporations and associations. One factor contributing to the increase was diversifying funding sources and bringing in more awards from foundations and private industry and business. New, innovative research facilities and infrastructure have made possible ground-breaking interdisciplinary scientific research, which contributes to obtaining research awards.

The National Institutes of Health (NIH) remained the University's largest funding source, and provided \$366.9 million, or 66.9 percent of federal research dollars. NIH's strong and ongoing support reflects positively on the University's health-related professional schools (dentistry, medicine, nursing, pharmacy and public health), UNC Health Care and its teaching hospitals, and basic and social science units in the College of Arts and Sciences.

The University's other top funders were the U.S. Agency for International Development, \$49.7 million (9.1 percent); National Science Foundation, \$39.3 million (7.2 percent); and U.S. Department of Health and Human Services, \$38.1 million (7 percent). The University's multidisciplinary research centers and institutes continue to play a growing role in bringing research funding to North Carolina, accounting for approximately \$160 million of total awards in fiscal year 2012-2013.

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 Chapel Hill Investment Fund to support University administrative services.

## Operating Expenses

The University's operating expenses were \$2.6 billion for the fiscal year ended June 30, 2013, an increase of 4.2 percent over the prior year. The operating expenses are reported by natural classification in the financial statements and by functional classification in Note 12. The following tables illustrate the University's operating expenses by natural classification and by functional classification.

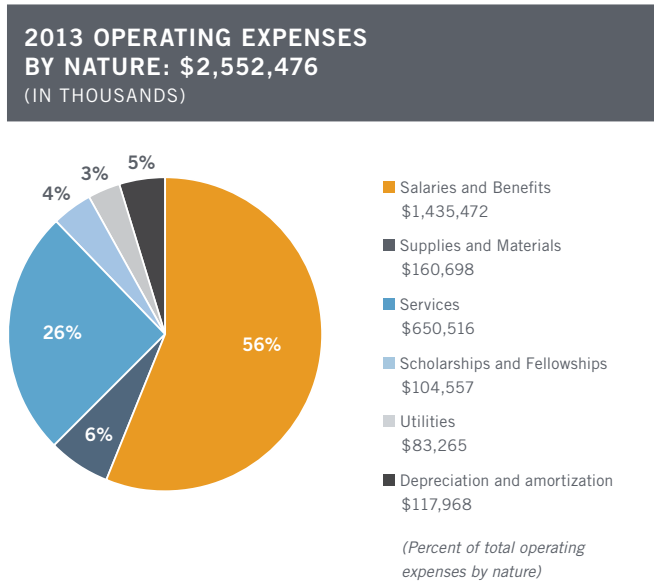
### OPERATING EXPENSES BY NATURE (DOLLARS IN THOUSANDS)

	2013	2012	Percent Change
Salaries and benefits	\$1,435,472	\$1,375,758	4.3
Supplies and materials	160,698	164,899	(2.5)
Services	650,516	617,589	5.3
Scholarships and fellowships	104,557	96,871	7.9
Utilities	83,265	80,832	3.0
Depreciation and amortization	117,968	113,530	3.9
<b>Total Operating Expenses</b>	<b>\$2,552,476</b>	<b>\$2,449,479</b>	<b>4.2</b>

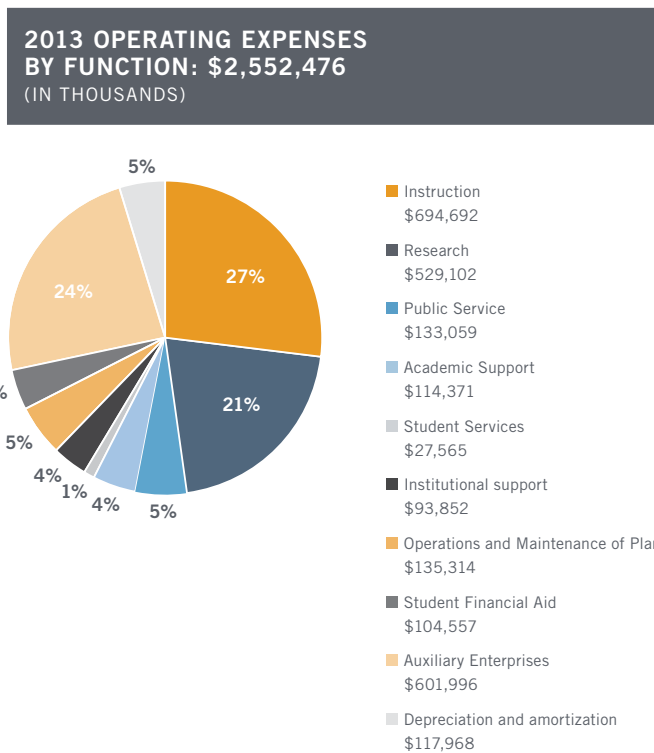
### OPERATING EXPENSES BY FUNCTION (DOLLARS IN THOUSANDS)

	2013	2012	Percent Change
Instruction	\$694,692	\$682,857	1.7
Research	529,102	472,102	12.1
Public service	133,059	122,989	8.2
Academic support	114,371	111,719	2.4
Student services	27,565	25,992	6.1
Institutional support	93,852	84,400	11.2
Operations and maintenance of plant	135,314	140,417	(3.6)
Student financial aid	104,557	96,871	7.9
Auxiliary enterprises	601,996	598,602	0.6
Depreciation and amortization	117,968	113,530	3.9
<b>Total Operating Expenses</b>	<b>\$2,552,476</b>	<b>\$2,449,479</b>	<b>4.2</b>

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



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



Operating expense categories changed at varying rates, although the overall rate of increase was 4.2 percent. Scholarships and fellowships incurred the highest increase of 7.9 percent, and expenses for services increased 5.3 percent. The other operating expense categories by natural classification incurred minimal changes. Operating expenses by functional classification recorded the same increases for depreciation and amortization and for student financial aid as the natural classification categories, 3.9 percent and 7.9 percent respectively. For the other functional classifications, research expenses recorded the highest increase, 12.1 percent over the prior year.

### 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.

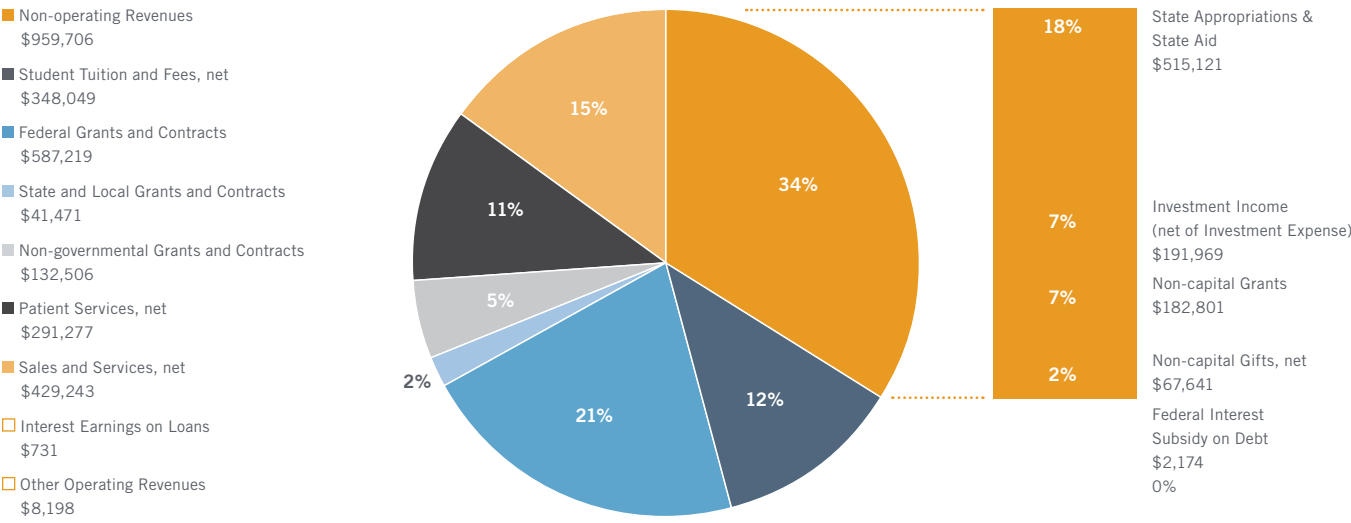
State appropriations totaled \$515.1 million for fiscal year 2012-2013, a net increase of 5.9 percent, or \$28.6 million, from the state appropriations of \$486.5 million received during the prior year. The level of state appropriations was increased by \$15 million in partial restoration of a previous reduction to the School of Medicine, by \$6.4 million for operating funds for new buildings, and by \$6.1 million for salary increases for faculty and staff. The net amount of other budget increases and budget reductions was \$1.1 million.

Non-capital gifts and grants decreased 10.8 percent to \$250.4 million and include expendable gifts and federal and other awards that are not considered to be operating revenues. Investment income for fiscal year 2012-2013 was \$192 million, an increase of \$158.8 million from the prior year. Investment income 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 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 \$2.8 billion for fiscal year 2012-13.

**2013 TOTAL REVENUES BY SOURCE; \$2,798,400**  
(IN THOUSANDS)



**Other Changes in Net Position**

Capital grants of \$44.2 million for fiscal year 2012-2013 and \$78.1 million for fiscal year 2011-2012 are for capital construction projects. Capital gifts of \$23.2 million for fiscal year 2012-2013 and \$5.6 million for the prior year include funding for construction projects and contributed improvements to facilities. Non-expendable gifts and funds from the State’s program to match gifts for distinguished professorship endowments resulted in additions to permanent endowments of \$24 million during fiscal year 2012-2013 and \$27.6 million during fiscal year 2011-12.

**ECONOMIC OUTLOOK**

The University’s state appropriations budget for fiscal year 2013-2014 is \$483.9 million, a net decrease of \$31.2 million from the prior year. State appropriations of \$5.6 million for operating funds for new buildings were approved as well as \$1.5 million for student enrollment growth. Decreases in state appropriations consisted of a \$15 million reduction to the School of Medicine’s budget, a \$21 million campus-wide reduction to be allocated with management flexibility, and \$2.3 million in non-recurring reductions from the prior year. Absorbing the required reductions will be challenging, but flexibility in managing the reductions will allow the University to mitigate harm to its core mission.

Tuition rates increased for fiscal year 2013-2014 by 10.3 percent for undergraduate residents, 6.1 percent for undergraduate

non-residents, 6.5 percent for graduate residents, and 6.8 percent for graduate non-residents. The University continues to return a portion of tuition revenue to students in the form of need-based aid and continues to provide 100 percent of documented need-based aid to students.

Consistency and growth in sponsored awards is a proven and reliable source in support of the University’s research mission. Philanthropic efforts continue to demonstrate success. Invested endowment funds provide an important distribution of earnings in support of the University’s operating budget. The University’s strong debt credit ratings of Aaa, AA+, and AAA allow it to obtain competitive financing for capital construction.

Faculty secured \$777.8 million in research funding during fiscal year 2012-2013 through contracts and grants awarded by federal and state agencies, foundations, non-profit organizations, corporations and associations. Fund-raising has been a cornerstone resource for the University. Fiscal year 2012-2013 marked another strong fund-raising year for the University, with a total of \$272.8 million in private gifts and grants from more than 74,000 donors.

The University’s investment management operation is separately organized as the UNC Management Company, Inc. (Management Company), 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. As of June 30, 2013, the Management Company managed invested assets of \$3.6 billion in the UNC Investment Fund.

## STATEMENT OF NET POSITION

JUNE 30, 2013

Assets		Net Position	
<i>Current Assets:</i>		<b>Net investment in capital assets</b>	<b>\$1,632,514,621</b>
Cash and cash equivalents	\$520,221,683	<i>Restricted for</i>	
Restricted cash and cash equivalents	422,430,733	<i>Non-expendable:</i>	
Short-term investments	253,815,589	Scholarships and fellowships	151,055,890
Restricted short-term investments	99,103,886	Research	19,526,488
Receivables, net (Note 4)	204,555,326	Library acquisitions	29,814,653
Due from primary government	2,032,607	Endowed professorships	326,708,263
Due from State of North Carolina component units	25,472,956	Departmental uses	125,413,899
Inventories	24,061,297	Loans	19,742,286
Notes receivable, net (Note 4)	4,233,203	Other	29,963,465
Other assets	481,491	<b>Total non-expendable</b>	<b>702,224,944</b>
<b>Total current assets</b>	<b>1,556,408,771</b>	<i>Expendable:</i>	
<i>Non-Current Assets:</i>		Scholarships and fellowships	204,084,821
Restricted cash and cash equivalents	129,058,132	Research	25,985,636
Receivables, net (Note 4)	13,496,825	Library acquisitions	52,276,939
Restricted due from primary government	707,475	Endowed professorships	358,133,821
Endowment investments	1,493,831,720	Departmental uses	340,012,935
Restricted investments	1,598,446,047	Instruction and educational agreements	6,993,876
Other investments	37,369,282	Plant improvements	21,988,160
Notes receivable, net (Note 4)	30,986,928	Capital projects	110,950,326
Investment in joint venture (Note 18)	8,318,917	Debt service	73,394,790
Capital assets - non-depreciable (Note 5)	421,903,520	<b>Total expendable</b>	<b>1,193,821,304</b>
Capital assets - depreciable, net (Note 5)	2,690,247,480	<b>Unrestricted</b>	<b>972,888,373</b>
<b>Total non-current assets</b>	<b>6,424,366,326</b>	<b>Total net position</b>	<b>\$4,501,449,242</b>
<b>Total assets</b>	<b>7,980,775,097</b>		
<b>Deferred Outflows of Resources</b>			
Accumulated decrease in fair value of hedging derivatives	80,426,992		
<b>Total deferred outflows of resources</b>	<b>80,426,992</b>		
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts payable and accrued liabilities (Note 6)	94,513,457		
Due to primary government	5,871		
Due to State of North Carolina component units	11,956,995		
Deposits payable	4,961,988		
Funds held for others	1,564,069		
Unearned revenue	32,310,194		
Interest payable	13,013,661		
Short-term debt	18,000,000		
Long-term liabilities - current portion (Note 8)	133,827,699		
<b>Total Current Liabilities</b>	<b>310,153,934</b>		
<i>Non-Current Liabilities:</i>			
U.S. Government grants refundable	31,133,388		
Funds held in trust for pool participants	1,661,607,675		
Hedging derivative liability (Note 9)	80,426,992		
Long-term liabilities (Note 8)	1,476,430,858		
<b>Total non-current liabilities</b>	<b>3,249,598,913</b>		
<b>Total liabilities</b>	<b>3,559,752,847</b>		
<b>Total assets less liabilities</b>	<b>\$4,501,449,242</b>		

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Revenues**
*Operating Revenues:*

Student tuition and fees, net (Note 11)	\$348,049,137
Patient services, net (Note 11)	291,277,004
Federal grants and contracts	587,218,757
State and local grants and contracts	41,470,836
Non-governmental grants and contracts	132,506,396
Sales and services, net (Note 11)	429,242,943
Interest earnings on loans	730,469
Other operating revenues	8,198,356
<b>Total operating revenues</b>	<b>1,838,693,898</b>

**Expenses**
*Operating Expenses:*

Salaries and benefits	1,435,472,273
Supplies and materials	160,698,127
Services	650,515,754
Scholarships and fellowships	104,556,613
Utilities	83,265,203
Depreciation and amortization	117,968,088
<b>Total operating expenses</b>	<b>2,552,476,058</b>
<b>Operating loss</b>	<b>(713,782,160)</b>

**Non-Operating Revenues (Expenses)**

State appropriations	515,120,948
Non-capital grants—student financial aid	18,010,874
Other non-capital grants	164,789,877
Non-capital gifts, net (Note 11)	67,641,050
Investment income (net of investment expense of \$5,302,553)	191,969,113
Interest and fees on debt	(70,119,020)
Federal interest subsidy on debt	2,174,090
Other non-operating expenses	(1,599,709)
<b>Net non-operating revenues</b>	<b>887,987,223</b>
<b>Income before other revenues, expenses, gains, or losses</b>	<b>174,205,063</b>
Capital appropriations	2,284,500
Capital grants	44,177,306
Capital gifts	23,182,356
Additions to endowments	23,954,007
<b>Increase in net position</b>	<b>267,803,232</b>

**Net Position**

<b>Net position - July 1, 2012</b>	<b>4,233,646,010</b>
<b>Net position - June 30, 2013</b>	<b>\$4,501,449,242</b>

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, 2013

**Cash Flows from Operating Activities**

Received from customers	\$1,807,745,177
Payments to employees and fringe benefits	(1,434,411,578)
Payments to vendors and suppliers	(916,661,123)
Payments for scholarships and fellowships	(104,556,613)
Loans issued	(2,524,473)
Collection of loans	6,489,899
Interest earned on loans	641,003
Other payments	(14,769,982)
<b>Net cash used by operating activities</b>	<b>(658,047,690)</b>

**Cash Flows from Non-Capital Financing Activities**

State appropriations	515,120,948
Non-capital grants - student financial aid	17,990,011
Other non-capital grants	164,789,877
Non-capital gifts	91,400,859
Additions to endowments	23,954,007
William D. Ford direct lending receipts	170,451,707
William D. Ford direct lending disbursements	(174,055,719)
Related activity agency receipts	469,034,593
Related activity agency disbursements	(294,157,781)
Other payments	(5,448,936)
<b>Net cash provided by non-capital financing activities</b>	<b>979,079,566</b>

**Cash Flows from Capital Financing and Related Financing Activities**

Proceeds from capital debt	373,613,636
Capital grants	42,941,243
Capital appropriations	2,284,500
Capital gifts	46,138
Acquisition and construction of capital assets	(188,344,991)
Principal paid on capital debt and leases	(277,654,782)
Interest and fees paid on capital debt and leases	(67,684,985)
Federal interest subsidy on debt received	2,174,090
<b>Net cash used by capital financing and related financing activities</b>	<b>(112,625,151)</b>

**Cash Flows from Investing Activities**

Proceeds from sales and maturities of investments	3,051,481,141
Investment income	149,494,720
Purchase of investments and related fees	(3,244,667,385)
<b>Net cash used by investing activities</b>	<b>(43,691,524)</b>

**Net increase in cash and cash equivalents** **164,715,201**

**Cash and cash equivalents - July 1, 2012** **906,995,347**

**Cash and cash equivalents - June 30, 2013** **\$1,071,710,548**

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

**Reconciliation Of Net Operating Loss To Net Cash Used By Operating Activities**

Operating loss	(\$713,782,160)
<i>Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:</i>	
Depreciation and amortization expense	117,968,088
Allowances and write-offs	5,208,952
<i>Changes in assets and liabilities:</i>	
Receivables, net	(33,959,039)
Inventories	(2,227,040)
Notes receivable, net	3,978,414
Other assets	(18,774)
Accounts payable and accrued liabilities	(32,322,246)
Due to primary government	2,821
U.S. government grants refundable	66,603
Unearned revenue	(11,198,252)
Compensated absences	8,234,943
<b>Net cash used by operating activities</b>	<b>(\$658,047,690)</b>

**Non-Cash Investing, Capital, and Financing Activities**

Assets acquired through the assumption of a capital lease	\$1,081,131
Assets acquired through a gift	\$23,136,218
Change in fair value of investments	\$42,898,592
Loss on disposal of capital assets	(\$5,135,304)
Amortization of bond premiums/discounts	(\$1,363,727)

**Reconciliation of Cash and Cash Equivalents**

<i>Current assets:</i>	
Cash and cash equivalents	\$520,221,683
Restricted cash and cash equivalents	422,430,733
<i>Non-current assets:</i>	
Restricted cash and cash equivalents	129,058,132
<b>Total cash and cash equivalents - June 30, 2013</b>	<b>\$1,071,710,548</b>

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

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

Assets	UNC-CH Arts and Sciences Foundation, Inc.	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina, Inc.
<i>Current assets</i>			
Cash and cash equivalents	\$15,515,884	\$10,658,671	\$51,528,682
Promises to give, net	3,938,338	2,431,585	3,361,660
Contributions receivable from split-interest agreements		3,460,383	
Accounts receivable	525,052		
Funds held in trust	1,465,639		
Other current assets			344,452
<b>Total current assets</b>	<b>21,444,913</b>	<b>16,550,639</b>	<b>55,234,794</b>
<i>Property and equipment</i>			
Building			562,178
Leasehold interest - building	3,750,483		
Furniture and equipment	595,729		414,368
Vehicle	26,422		28,011
Allowance for depreciation	(1,332,407)		(565,458)
<b>Total property and equipment</b>	<b>3,040,227</b>		<b>439,099</b>
<i>Other assets</i>			
Investments	160,926,404	181,548,799	165,008,751
Promises to give, net	9,750,837		3,815,866
Split-interest agreements	1,772,500		
Cash surrender value of life insurance		2,302,019	
Other assets			4,023,491
<b>Total other assets</b>	<b>172,449,741</b>	<b>183,850,818</b>	<b>172,848,108</b>
<b>Total non-current assets</b>	<b>175,489,968</b>	<b>183,850,818</b>	<b>173,287,207</b>
<b>Total assets</b>	<b>\$196,934,881</b>	<b>\$200,401,457</b>	<b>\$228,522,001</b>
<b>Liabilities and Net Assets</b>			
<i>Current liabilities</i>			
Accounts payable and accrued expenses	\$169,424		\$243,650
Current portion of long-term debt	420,000		
Annuities payable		\$62,088	
<b>Total current liabilities</b>	<b>589,424</b>	<b>62,088</b>	<b>243,650</b>
<i>Long-term liabilities</i>			
Deferred revenue			77,879
Charitable remainder trusts			32,065
<b>Total long-term liabilities</b>			<b>109,944</b>
<b>Total liabilities</b>	<b>589,424</b>	<b>62,088</b>	<b>353,594</b>
<i>Net assets</i>			
Unrestricted	31,746,232		8,328,424
Temporarily restricted	73,884,916	91,115,799	142,145,858
Permanently restricted	90,714,309	109,223,570	77,694,125
<b>Total net assets</b>	<b>196,345,457</b>	<b>200,339,369</b>	<b>228,168,407</b>
<b>Total liabilities and net assets</b>	<b>\$196,934,881</b>	<b>\$200,401,457</b>	<b>\$228,522,001</b>

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, 2013

Support and Revenue	UNC-CH Arts and Sciences Foundation, Inc.	The Educational Foundation Scholarship Endowment Trust	The Medical Foundation of North Carolina, Inc.
<i>Support</i>			
Contributions	\$11,440,881	\$2,376,348	\$15,708,434
Development assessment fee	2,421,674		
Change in value of split-interest agreements	230,952		65,195
Contributed services and facilities	82,675		1,730,349
Actuarial adjustment of annuities payable		4,777	
Endowment investment return designated for current operations		9,342,999	
<b>Total support</b>	<b>14,176,182</b>	<b>11,724,124</b>	<b>17,503,978</b>
<i>Revenue</i>			
Interest and dividends			2,534,634
Net unrealized and realized gains on investments	16,736,032		16,690,635
Investment income	1,904,198		
Other income	67,328		984,788
<b>Total revenue</b>	<b>18,707,558</b>		<b>20,210,057</b>
<b>Total support and revenue</b>	<b>32,883,740</b>	<b>11,724,124</b>	<b>37,714,035</b>
<b>Expenses</b>			
<i>Program services</i>			
Grants	8,015,133		16,745,035
Scholarship expense distribution		9,333,684	
Annuity payments		9,315	
Other expenses		224,700	
<b>Total program services</b>	<b>8,015,133</b>	<b>9,567,699</b>	<b>16,745,035</b>
<i>Supporting services</i>			
Fundraising expenses	2,818,582		3,238,708
Management and general	1,162,986		2,290,047
<b>Total supporting services</b>	<b>3,981,568</b>		<b>5,528,755</b>
<b>Total expenses</b>	<b>11,996,701</b>	<b>9,567,699</b>	<b>22,273,790</b>
Loss (Recovery) from bad debt	231,527		
<b>Total expenses and bad debt expense</b>	<b>12,228,228</b>	<b>9,567,699</b>	<b>22,273,790</b>
<b>Changes in Nets Assets from Operations</b>	<b>20,655,512</b>	<b>2,156,425</b>	<b>15,440,245</b>
<b>Other Changes</b>			
Endowment investment return in excess of amounts designated for current operations		10,802,344	
<b>Changes in Net Assets</b>			
Unrestricted	3,910,994		512,889
Temporarily restricted	14,154,505	10,807,121	12,329,307
Permanently restricted	2,590,013	2,151,648	2,598,049
<b>Total changes in net assets</b>	<b>20,655,512</b>	<b>12,958,769</b>	<b>15,440,245</b>
<b>Net Assets—Beginning of Year</b>	<b>175,689,945</b>	<b>187,380,600</b>	<b>212,728,162</b>
<b>Net Assets—End of Year</b>	<b>\$196,345,457</b>	<b>\$200,339,369</b>	<b>\$228,168,407</b>

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

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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 (GAAP), 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. (Chapel Hill Investment Fund), UNC Investment Fund, LLC (UNC Investment 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), component units of the University, are reported as if they were part of the University.

The Chapel Hill Investment Fund is governed by a board consisting of eight to 11 ex officio directors and two to four elected directors. Ex officio directors include all of the members of the Board of Trustees of the Endowment Fund

of the University, which includes the chair of the University Board of Trustees and the chancellor, 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 Chapel Hill Investment Fund Board. The ex officio directors of the Chapel Hill Investment Fund may elect one or two directors by unanimous written consent. The Chapel Hill 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 Chapel Hill Investment Fund are officials or appointed by officials of the University and the Chapel Hill 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 UNC Investment Fund was organized by the Chapel Hill 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 managed 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 Chapel Hill Investment Fund contributed and assigned all of its assets to the UNC Investment Fund effective January 1, 2003, in exchange for its membership interest in the UNC Investment Fund. Upon such contribution and assignment, and in consideration thereof, the UNC Investment Fund has assumed all liabilities and obligations of the Chapel Hill Investment Fund in respect of such contributed assets. At June 30, 2013, the Chapel Hill Investment Fund membership interest was approximately 66 percent of the UNC Investment Fund total membership interests. Because the Chapel Hill Investment Fund is the organizer and controlling member of the UNC Investment Fund, the financial statements of the UNC Investment 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 and administrative 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, the vice chancellor for finance and administration, the chair of the University Board of Trustees, the chair of the Board of Directors of the Chapel Hill 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 chair 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 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 seven ex officio directors and up to 15 elected directors. Ex officio directors include the dean of the School of Education, as well as the school's associate dean for academic programs, 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 Chapel Hill Investment Fund, UNC Investment 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.

Condensed combining information regarding blended component units is provided in Note 19.

**Discretely Presented Component Units** – The Medical Foundation of North Carolina, Inc. (Medical Foundation), The University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc. (Arts and Sciences Foundation), and The Educational Foundation Scholarship Endowment Trust (Educational Foundation Trust) 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 one ex officio director, the Dean of the UNC School of Medicine, and up to 33 elected directors, which serve staggered terms. Two other ex officio directors, the President of UNC Health Care and the President of the Medical

Foundation, have no voting rights on any matters. Its purpose is to support educational, scientific, and public service efforts of the University's School of Medicine and UNC Health Care System. Historically, the University's School of Medicine has been the major recipient of financial support from the Medical Foundation rather than UNC Health Care System. 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 is 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 is 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, 2013, the Medical Foundation, the Arts and Sciences Foundation, and the Educational Foundation Trust distributed in total \$34,093,852 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 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.

## 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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF 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 are generally 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 or third party administrators. 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. The majority of private equity limited partnerships and real assets limited partnerships are subject to fair value estimation, which includes discounted cash flow and transaction comparison. The estimated fair value of these investments is \$1.16 billion.

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. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

#### **F. RECEIVABLES**

Receivables consist of tuition and fees charged to students and charges to patients for services provided by the UNC Faculty Physicians and the Dental Faculty Practices. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied, and notes receivables from loans to students. 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 except for intangible assets which are capitalized when the value or cost is \$100,000 or greater and internally generated software which is capitalized when the value or cost is \$1,000,000 or greater.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 12 to 75 years for buildings,

and 3 to 30 years for equipment. Amortization is computed using the straight-line method over the estimated useful lives of the assets, from 3 to 20 years for computer software.

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 for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

#### 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. The assets associated with this liability are included in restricted investments, cash, and other similar asset accounts.

#### 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, 2013 is \$31,486,720.

#### L. NON-CURRENT LONG-TERM LIABILITIES

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

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

The University's net position is classified as follows:

**Net Investment in Capital Assets** – 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 Net Investment in Capital Assets.

**Restricted Net Position – Non-expendable** – Non-expendable restricted net position includes 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 Position – Expendable** – Expendable restricted net position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Position** – Unrestricted net position includes 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 Position. 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 non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. 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 Nonexpendable 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 either 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, and repairs and maintenance services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

## **NOTE 2. 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. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$932,077,694 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted



average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2013 was \$149,265. The carrying amount of the University's deposits not with the State Treasurer was \$139,483,589 and the bank balance was \$139,714,859. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$137,144,231 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, Management Company, Chapel Hill Investment Fund, UNC Investment 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. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. The Management Company does not hold endowment funds.

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. 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, participant activity is recorded on a cost basis in the UNC-Chapel Hill Money Market System. This is the official means of recording activity in the Temporary Pool. 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 Bank of New York Mellon 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 generally highly liquid and include U.S. government securities, collateralized mortgage obligations, asset-backed securities, corporate bonds, and mutual funds. The University has elected to invest a portion of the Temporary Pool assets in the Chapel Hill 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 by policy and approved by 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, 2013.

TEMPORARY POOL INVESTMENTS		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
<i>Debt Securities</i>					
U.S. Treasuries	\$59,920,450		\$59,920,450		
U.S. Agencies	94,356,115	\$11,908,560	17,507,668	\$3,447,098	\$61,492,789
Collateralized Mortgage Obligations	54,892,134	4,800,332		212,941	49,878,861
Asset-backed Securities	1,630,736	1,137,231		493,505	
Money Market Mutual Funds	67,578,346	67,578,346			
Domestic Corporate Bonds	17,605,732	32,938	17,572,794		
<b>Total Debt Securities</b>	<b>295,983,513</b>	<b>\$85,457,407</b>	<b>\$95,000,912</b>	<b>\$4,153,544</b>	<b>\$111,371,650</b>
<i>Other Securities</i>					
Domestic Stocks	30,000				
<b>Total Temporary Pool Investments</b>	<b>\$296,013,513</b>				

The University has elected to invest \$43,310,645 of the Temporary Pool assets in the UNC Chapel Hill Investment Fund. The disclosures for these investments are not included here. The disclosures for this portion of the Temporary Investment Pool can be found under the heading UNC Chapel Hill Investment Fund, Inc.

At June 30, 2013, 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	\$94,356,115		\$94,356,115				
Collateralized Mortgage Obligations	54,892,134		42,921,587	\$160,193	\$29,124	\$7,058,148	\$4,723,082
Asset-backed Securities	1,630,736				493,505	1,137,231	
Money Market Mutual Funds	67,578,346	\$67,578,346					
Domestic Corporate Bonds	17,605,732		4,051,860	13,553,872			
<b>Total</b>	<b>\$236,063,063</b>	<b>\$67,578,346</b>	<b>\$141,329,562</b>	<b>\$13,714,065</b>	<b>\$522,629</b>	<b>\$8,195,379</b>	<b>\$4,723,082</b>

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 Position and Statement of Operations and Changes in Net Position as of and for the period ended June 30, 2013, are as follows:

<b>STATEMENT OF NET POSITION</b>	
JUNE 30, 2013	
	Amount
<i>Assets:</i>	
Cash in Bank	\$64,988,900
State Treasurer Investment Fund	75,000,000
Accounts Receivable	21
Accrued Investment Income	789,825
Deferred Loss	102,256
Chapel Hill Investment Fund	43,310,645
Investments	296,013,513
<b>Total Assets</b>	<b>\$480,205,160</b>
<i>Liabilities:</i>	
Accounts Payable	74,812
<b>Total Liabilities</b>	<b>74,812</b>
<i>Net Position As Held in Trust for All Pool Participants:</i>	
Internal Portion	299,993,648
External Portion	180,136,700
<b>Total Net Position</b>	<b>480,130,348</b>
<b>Total Liabilities and Net Position</b>	<b>\$480,205,160</b>

<b>STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION</b>	
FOR THE FISCAL YEAR ENDED JUNE 30, 2013	
	Amount
<i>Increase in Net Position from Operations:</i>	
Revenues: Investment Income	\$4,503,033
Expenses: Investment Management	(495,328)
<b>Net Increase in Net Position Resulting from Operations</b>	<b>4,007,705</b>
<i>Distributions to Participants:</i>	
Distributions Paid and Payable	(4,007,705)
<i>Share Transactions:</i>	
Net Share Purchases	1,363,243
<b>Total Increase in Net Position</b>	<b>1,363,243</b>
<i>Net Position:</i>	
Beginning of Year	478,767,105
<b>End of Year</b>	<b>\$480,130,348</b>

**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 UNC-Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill Investment Fund). 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 Bank of New York Mellon 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 percent and a maximum of 65 percent of the market value of the Intermediate Pool will be invested in the Chapel Hill Investment Fund. The remaining assets of the Intermediate Pool will be invested primarily (at least 80 percent) in cash, money market instruments, high quality bonds, and other high quality fixed income instruments in accordance with 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 percent to the Intermediate Pool participants and 15 percent 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 investments by type and investments subject to interest rate risk at June 30, 2013.

INTERMEDIATE POOL INVESTMENTS		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
<i>Debt Securities</i>					
Debt Mutual Funds	\$12,371,654		\$12,371,654		
Money Market Mutual Funds	9,691,259	\$9,691,259			
<b>Total Intermediate Pool Investments</b>	<b>\$22,062,913</b>	<b>\$9,691,259</b>	<b>\$12,371,654</b>	<b>\$0</b>	<b>\$0</b>

At June 30, 2013, investments in the Intermediate Pool had the following credit quality distribution for securities with credit exposure:

Investment Type	Fair Value	AAA, Aaa	AA, Aa
Debt Mutual Funds	\$12,371,654		\$12,371,654
Money Market Mutual Funds	9,691,259	\$9,691,259	
<b>Total</b>	<b>\$22,062,913</b>	<b>\$9,691,259</b>	<b>\$12,371,654</b>

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

At June 30, 2013, the Intermediate Investment Pool had investments of \$29,961,804 in the Chapel Hill Investment Fund. The disclosures for these investments are not included here. The disclosures for this portion of the Intermediate Investment Pool can be found under the heading UNC Chapel Hill Investment Fund, Inc.

**UNC Chapel Hill Foundation Investment Fund, Inc. (Chapel Hill 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 Chapel Hill Investment Fund and are included in the University's reporting entity (internal portion). Other affiliated organizations (external portion) in the Chapel Hill Investment Fund are not included in the University's reporting entity. Fund ownership of the Chapel Hill 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 Chapel Hill Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants.

The Chapel Hill Investment Fund is not registered with the SEC and is not subject to any formal oversight other than that provided by the Chapel Hill Investment Fund Board of Directors (See Note 1A).

The Chapel Hill Investment Fund is the primary participant of UNC Investment Fund, LLC (UNC Investment Fund) and on a monthly basis receives a unitization report from the Management Company defining change in book and market value, applicable realized gains and losses and expenses. The Chapel Hill 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 Chapel Hill Investment Fund. The University has not provided or obtained any legally binding guarantees during the period to support the value for the Chapel Hill Investment Fund. The audited financial statements for the Chapel Hill 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 Chapel Hill Investment Fund consists of an approximate 66 percent membership in the UNC Investment Fund categorized below.

**UNC Investment Fund, LLC (UNC Investment Fund)** - This is a non-profit limited liability company exempt from income tax pursuant to Section 501(c)(3) organized under the laws of the State of North Carolina. It was established in December 2002 by the Chapel Hill 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 Chapel Hill Investment Fund, with an approximate 66 percent membership interest as of June 30, 2013, is the predominant member of the UNC Investment Fund.

The University's reporting entity portion of the Chapel Hill Investment Fund and the Management Company's portion of the UNC Investment Fund are characterized as the internal portion. Other affiliated organizations in the Chapel Hill Investment Fund in addition to other members of the UNC Investment Fund not included in the University's reporting entity are characterized as the external portion. The external portion of the UNC Investment Fund is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants. Membership interests of the UNC Investment Fund are measured using the unit value method. Under this method, each member's investment balance is determined on a market value basis.

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

The Bank of New York Mellon is the custodian for the UNC Investment Fund and provides the University with monthly statements defining income and market value information. The UNC Investment Fund uses a unit basis to determine each member's market value and to distribute the fund's earnings. The University has not provided or obtained any legally binding guarantees during the period to support the value for the UNC Investment Fund investments. The audited financial statements for the UNC Investment Fund may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

The following table presents the fair value of the UNC Investment Fund investments by type and investments subject to interest rate risk at June 30, 2013.

UNC INVESTMENT FUND POOL INVESTMENTS		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities</i>					
U.S. Treasuries	\$19,302,803	\$4,070,548	\$7,587,145	\$7,645,110	
U.S. Agencies	7,253,954	774,266		3,434,777	\$3,044,911
Mortgage Pass Throughs	2,113,021	2,113,021			
Collateralized Mortgage Obligations	19,563,951	13,397,728			6,166,223
Asset-backed Securities	18,024,413	12,679,974			5,344,439
Debt Mutual Funds	75,120,493			73,672,592	1,447,901
Money Market Mutual Funds	111,539,220	111,539,220			
Domestic Corporate Bonds	3,669,080	419,970	2,660,515		588,595
<b>Total Debt Securities</b>	<b>256,586,935</b>	<b>\$144,994,727</b>	<b>\$10,247,660</b>	<b>\$84,752,479</b>	<b>\$16,592,069</b>
<i>Other Securities</i>					
International Equity Index Funds	85,474,650				
Equity Index Funds	8,703,319				
Real Estate Investment Trust	27,420,103				
Long/Short Hedge Funds	637,594,642				
Diversifying Hedge Funds	348,227,261				
Hedge Funds in Liquidation	19,272,097				
Long Only Equity Funds	772,361,801				
Private Equity Limited Partnerships	712,297,964				
Real Assets Limited Partnerships	482,988,947				
Domestic Stocks	164,755,588				
Foreign Stocks	10,397,318				
<b>Total UNC Investment Fund Pool Investments</b>	<b>\$3,526,080,625</b>				

At June 30, 2013, investments in the UNC Investment Fund Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA, Aaa	AA, Aa	A	BBB, BAA	BB, Ba and below
U.S. Agencies	\$7,253,954		\$7,253,954			
Mortgage Pass Throughs	2,113,021					\$2,113,021
Collateralized Mortgage Obligations	19,563,951	\$17,847				19,546,104
Asset-backed Securities	18,024,413				\$1,156,097	16,868,316
Debt Mutal Funds	75,120,493				75,120,493	
Money Market Mutual Funds	111,539,220	111,539,220				
Domestic Corporate Bonds	3,669,080			\$3,249,110		419,970
<b>Total</b>	<b>\$237,284,132</b>	<b>\$111,557,067</b>	<b>\$7,253,954</b>	<b>\$3,249,110</b>	<b>\$76,276,590</b>	<b>\$38,947,411</b>

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

*Foreign Currency Risk:* At June 30, 2013, the UNC Investment Fund Pool's exposure to foreign currency risk is as follows:

	Currency	Fair Value (U.S. Dollars)
Private Equity Limited Partnerships	Euro	\$84,567,468
Real Assets Limited Partnerships	Euro	22,355,245
Other Hedge Funds	Euro	27,505,679
Private Equity Limited Partnerships	British Pound Sterling	8,844,204
Real Assets Limited Partnerships	British Pound Sterling	3,661,679
Private Equity Limited Partnerships	Australian Dollar	7,680,573
Private Equity Limited Partnerships	Canadian Dollar	7,058,548
Foreign Stocks	Canadian Dollar	10,397,317
<b>Total</b>		<b>\$172,070,713</b>

*Investment Derivatives:* At June 30, 2013, the UNC Investment Fund is invested in derivative instruments of \$77,757,605. Disclosures are provided in Note 9 Derivative Instruments.

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013.

<b>NON POOLED INVESTMENTS</b>		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
<i>Debt Securities</i>					
U.S. Treasuries	\$2,485,846		\$31,341	\$2,425,868	\$28,637
U.S. Agencies	100,070		68,704	31,366	
Mortgage Pass Throughs	64,158			32,621	31,537
Collateralized Mortgage Obligations	17,918				17,918
State and Local Government	116,896	\$3,289		40,060	73,547
Asset-backed Securities	6,848				6,848
Debt Mutual Funds	4,765,604	18,777	1,022,628	3,240,575	483,624
Money Market Mutual Funds	49,230,291	49,230,291			
Domestic Corporate Bonds	778,579		32,775	745,804	
Foreign Government Bonds	33,253				33,253
<b>Total Debt Securities</b>	<b>57,599,463</b>	<b>\$49,252,357</b>	<b>\$1,155,448</b>	<b>\$6,516,294</b>	<b>\$675,364</b>
<i>Other Securities</i>					
International Equity Index Funds	4,976,992				
Equity Index Funds	8,618,136				
Investments in Real Estate	2,283,303				
Real Estate Investment Trust	98,107				
Private Equity Limited Partnerships	2,090,788				
Real Assets Limited Partnerships	2,132,394				
Domestic Stocks	15,118,686				
Foreign Stocks	445,897				
Other	12,251,421				
<b>Total Non-Pooled Investments</b>	<b>\$105,615,187</b>				

At June 30, 2013, 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	\$100,070		\$100,070				
Mortgage Pass Throughs	64,158	\$92	33,266		\$30,800		
Collateralized Mortgage Obligations	17,918						\$17,918
State and Local Government	116,896	4,768	3,743	\$3,974	83,987	\$6,264	14,160
Asset-backed Securities	6,848						6,848
Debt Mutual Funds	4,765,604	69,717	1,162,159	2,016,814	670,939	709,691	136,284
Money Market Mutual Funds	49,230,291	49,179,274		51,017			
Domestic Corporate Bonds	778,579				745,804	32,775	
Foreign Corporate Bonds	33,253			33,253			
<b>Total</b>	<b>\$55,113,617</b>	<b>\$49,253,851</b>	<b>\$1,299,238</b>	<b>\$2,105,058</b>	<b>\$1,531,530</b>	<b>\$748,730</b>	<b>\$175,210</b>

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

*Foreign Currency Risk:* At June 30, 2013, the Non-Pooled Investments exposure to foreign currency risk is as follows:

	Currency	Fair Value (U.S. Dollars)
Foreign Stocks	British Pound Sterling	\$46,915
Foreign Stocks	Australian Dollar	22,944
Foreign Stocks	Euro	48,949
<b>Total</b>		<b>\$118,808</b>



**Total Investments** – The following table presents the fair value of the total investments at June 30, 2013.

Investment Type	Fair Value
<i>Debt Securities</i>	
U.S. Treasuries	\$81,709,099
U.S. Agencies	101,710,139
Mortgage Pass Throughs	2,177,179
Collateralized Mortgage Obligations	74,474,003
State and Local Government	116,896
Asset-backed Securities	19,661,997
Debt Mutual Funds	92,257,751
Money Market Mutual Funds	238,039,116
Domestic Corporate Bonds	22,053,391
Foreign Government Bonds	33,253
<b>Total Debt Securities</b>	<b>632,232,824</b>
<i>Other Securities</i>	
International Equity Index Funds	90,451,642
Equity Index Funds	17,321,455
Investments in Real Estate	2,283,303
Real Estate Investment Trust	27,518,210
Long/Short Hedge Funds	637,594,642
Diversifying Hedge Funds	348,227,261
Hedge Funds in Liquidation	19,272,097
Long Only Hedge Funds	772,361,801
Private Equity Limited Partnerships	714,388,752
Real Assets Limited Partnerships	485,121,341
Domestic Stocks	179,904,274
Foreign Stocks	10,843,215
Other	12,251,421
<b>Total Investments</b>	<b>\$3,949,772,238</b>

Total investments include \$467,205,714 held in the UNC Investment 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 56.7 percent of the UNC Investment 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. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Medical Foundation reports under the FASB reporting model, disclosures of the various

investment risks are not required. The following is an analysis of investments not held by the University:

Investment Type	Carrying Value
Money Market Funds	\$992,876
Common Stock	67,808
Mutual Funds - Equity Oriented	23,702,511
Mutual Funds - Credit Oriented	8,305,414
International Equity Fund	7,261,096
Certificate of Deposit	256,618
<b>Total Investments</b>	<b>\$40,586,323</b>

### NOTE 3. ENDOWMENT INVESTMENTS

Substantially all of the investments of the University's endowment funds are pooled in the Chapel Hill Investment Fund. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may appropriate expenditures from eligible non-expendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible non-expendable endowment funds. Investment return of the University's pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual distributions from the Chapel Hill 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) unless the Board determines otherwise. 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, 2013, accumulated income and appreciation of \$568,093,934 was available in the University's pooled endowment funds of which \$514,662,587 was restricted to specific purposes including scholarships and fellowships, research, library acquisitions, professorships, departmental and other uses. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

## NOTE 4. RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<i>Current Receivables</i>			
Students	\$6,079,466	\$2,919,725	\$3,159,741
Student Sponsors	153,457		153,457
Patients	128,203,925	92,325,274	35,878,651
Accounts	38,477,527		38,477,527
Auxiliary	25,697,257		25,697,257
Intergovernmental	89,029,677		89,029,677
Pledges	10,210,103	226,835	9,983,268
Investment Earnings	1,123,162		1,123,162
Interest on Loans	1,004,751		1,004,751
Other	47,835		47,835
<b>Total Current Receivables</b>	<b>\$300,027,160</b>	<b>\$95,471,834</b>	<b>\$204,555,326</b>
<i>Non-current Receivables</i>			
<b>Pledges</b>	<b>\$13,839,630</b>	<b>\$342,805</b>	<b>\$13,496,825</b>
<i>Notes Receivable</i>			
Notes Receivable - Current:			
<b>Institutional Student Loan Programs</b>	<b>\$4,602,853</b>	<b>\$369,650</b>	<b>\$4,233,203</b>
Notes Receivable - Non-current:			
Federal Loan Programs	\$26,007,006	\$1,974,452	\$24,032,554
Institutional Student Loan Programs	7,452,359	497,985	6,954,374
<b>Total Notes Receivable - Non-current</b>	<b>\$33,459,365</b>	<b>\$2,472,437</b>	<b>\$30,986,928</b>

Pledges are receivable over varying time periods ranging from one to 10 years, and have been discounted based on a projected interest rate of 0.27 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
2014	\$10,206,504
2015	4,904,001
2016	2,382,835
2017	1,686,987
2018	1,522,424
2019-2023	3,498,974
<b>Total Pledge Receipts Expected</b>	<b>24,201,725</b>
Less Discount Amount Representing Interest (0.27% Rate of Interest)	151,992
<b>Present Value of Pledge Receipts Expected</b>	<b>24,049,733</b>
Less Allowance for Doubtful Accounts	569,640
<b>Pledges Receivable</b>	<b>\$23,480,093</b>

## NOTE 5. CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance 07/01/12	Increases	Decreases	Balance 06/30/13
<i>Capital Assets, Non-depreciable</i>				
Land	\$63,073,143	\$539,890	\$124,080	\$63,488,953
Art, Literature, and Artifacts	84,539,558	1,738,365	808	86,277,115
Construction in Progress	219,371,294	71,740,703	59,139,522	231,972,475
Computer Software in Development	21,499,500	17,665,477		39,164,977
Other Intangible Assets	1,000,000			1,000,000
<b>Total Capital Assets, Non-depreciable</b>	<b>389,483,495</b>	<b>91,684,435</b>	<b>59,264,410</b>	<b>421,903,520</b>
<i>Capital Assets, Depreciable</i>				
Buildings	2,601,861,263	95,794,207	2,941,044	2,694,714,426
Machinery and Equipment	377,808,352	32,986,463	16,499,462	394,295,353
General Infrastructure	853,344,759	51,361,645		904,706,404
Computer Software	49,196,387			49,196,387
<b>Total Capital Assets, Depreciable</b>	<b>3,882,210,761</b>	<b>180,142,315</b>	<b>19,440,506</b>	<b>4,042,912,570</b>
Less Accumulated Depreciation/Amortization for				
Buildings	770,373,574	57,919,483	2,902,389	825,390,668
Machinery and Equipment	190,769,138	22,996,731	11,402,813	202,363,056
General Infrastructure	282,330,082	34,287,169		316,617,251
Computer Software	5,529,410	2,764,705		8,294,115
<b>Total Accumulated Depreciation/Amortization</b>	<b>1,249,002,204</b>	<b>117,968,088</b>	<b>14,305,202</b>	<b>1,352,665,090</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>2,633,208,557</b>	<b>62,174,227</b>	<b>5,135,304</b>	<b>2,690,247,480</b>
<b>Capital Assets, Net</b>	<b>\$3,022,692,052</b>	<b>\$153,858,662</b>	<b>\$64,399,714</b>	<b>\$3,112,151,000</b>

## NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, are as follows:

	Amount
<i>Current Accounts Payable and Accrued Liabilities</i>	
Accounts Payable	\$44,004,822
Accrued Payroll	34,044,280
Contract Retainage	4,657,647
Intergovernmental Payables	7,441,847
Investment Derivatives Liability	4,364,861
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$94,513,457</b>

## NOTE 7. SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2013, is presented as follows:

	Balance 07/01/12	Draws	Repayments	Balance 06/30/13
Commercial Paper Program	132,650,000	7,000,000	121,650,000	18,000,000

The University manages a commercial paper ("CP") program under the issuer name of the Board of Governors of the University of North Carolina that provides up to \$500,000,000 in short-term financing for the University's and North Carolina State University's ("NCSU") capital improvement programs. Under this CP program, the University is authorized to issue up to \$400,000,000 and NCSU is authorized to issue up to

\$100,000,000. Contingent liquidity needs for the entire CP program are provided by the University of North Carolina at Chapel Hill and supported by a pledge of the University's available funds.

The University will typically utilize the commercial paper program for construction financing and will periodically issue long-term bonds to refund the outstanding balances under this program in order to provide permanent financing for these

capital improvement projects.

At its June 2012 meeting, the Board of Governors for the University of North Carolina issued a resolution to limit the

cumulative amount of outstanding commercial paper for the University of North Carolina at Chapel Hill under this program to \$250,000,000. This resolution does not impact NCSU.

## 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, 2013, is presented as follows:

	Balance 07/01/12	Additions	Reductions	Balance 06/30/13	Current Portion
Revenue Bonds Payable	\$1,185,085,000	\$368,095,000	\$149,205,000	\$1,403,975,000	\$125,374,821
Add/Deduct Premium/Discount	14,831,939		(41,440)	14,873,379	
Deduct Unamortized Cost on Refunding	(1,828,727)	(1,481,364)	(76,197)	(3,233,894)	
<b>Total Revenue Bonds Payable</b>	<b>1,198,088,212</b>	<b>366,613,636</b>	<b>149,087,363</b>	<b>1,415,614,485</b>	<b>125,374,821</b>
Notes Payable	45,940,778		683,786	45,256,992	580,359
Capital Leases Payable	54,374	1,081,131	370,603	764,902	280,038
Compensated Absences	126,505,129	72,720,663	64,485,720	134,740,072	6,130,694
Annuity and Life Income Payable	15,285,244	183,265	1,586,403	13,882,106	1,461,787
<b>Total Long-Term Liabilities</b>	<b>\$1,385,873,737</b>	<b>\$440,598,695</b>	<b>\$216,213,875</b>	<b>\$1,610,258,557</b>	<b>\$133,827,699</b>

Additional information regarding capital lease obligations is included in Note 10.

### B. REVENUE BONDS PAYABLE

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/13	Accretion on Capital Apprecia tion Bonds	Principal Outstanding 06/30/13	See Table Below
General Revenue	2001A	5.375%	12/01/2012	\$89,930,000	\$89,930,000		\$0	
	2001B	4.494%*	12/01/2025	54,970,000	25,760,000		29,210,000	
	2001C	3.234%*	12/01/2025	54,970,000	25,760,000		29,210,000	
	2003	5.000%	12/01/2013	107,960,000	105,445,000		2,515,000	
	2005A	4.250 - 5.000%	12/01/2034	404,960,000	12,010,000		392,950,000	
	2007	4.450 - 5.000%	12/01/2036	298,475,000	0		298,475,000	
	2009A	3.000 - 5.000%	12/01/2028	97,735,000	11,160,000		86,575,000	
	2009B	5.757%**	12/01/2039	112,805,000	0		112,805,000	
	2012A	4.295%*	12/01/2018	100,000,000	0		100,000,000	
	2012B	5.125%*	12/01/2020	100,000,000	0		100,000,000	
	2012C	0.350 - 3.596%	12/01/2033	127,095,000	0		127,095,000	
	2012D	1.400%*	08/18/2016	41,000,000	0		41,000,000	
<b>Total General Revenue Bonds</b>				<b>1,589,900,000</b>	<b>270,065,000</b>		<b>1,319,835,000</b>	
Utilities System	1997	5.350 - 5.500%	08/01/2021	30,379,142	8,415,000	39,373,481	61,337,623	(1)
U.S. EPA Project	1991	9.050%	02/15/2015	36,678,921	49,705,000	20,640,555	7,614,476	
<b>Total Revenue Bonds Payable (principal only)</b>				<b>\$1,656,958,063</b>	<b>\$328,185,000</b>	<b>\$60,014,036</b>	<b>1,388,787,099</b>	
Less: Unamortized Loss on Refunding							(3,233,893)	
Less: Unamortized Discount							(128,150)	
Plus: Unamortized Premium							30,189,429	
<b>Total Revenue Bonds Payable</b>							<b>\$1,415,614,485</b>	

\* For variable rate debt, interest rates in effect at June 30, 2013 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

\*\* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32% (for Fiscal Year 2013) of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Ref	Revenue Source	Current Year				Estimate of % of Revenues Pledged
		Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	
(1)	Utilities Revenues	\$75,720,000	\$40,285,470	\$8,415,000	\$0	6%

### 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 \$54.97 million (2001B) and \$54.97 million (2001C) that each has 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; Housing System, Series 2000; 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; J.P. Morgan Securities, Inc. (2001B) and Banc of America Securities, LLC (2001C). Effective September 23, 2008, J.P. Morgan Securities, Inc. replaced Lehman Brothers, Inc.

The University entered into line of credit agreements in the amount of \$200 million with Wells Fargo Bank, N.A. (“the Bank”) and \$200 million with J.P. Morgan Chase, N.A. (“the Bank”) on September 21, 2011. Under each 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 each line of credit agreement, the University may, at any time and for any reason, reduce the commitment by any amount upon 30 days prior written notice to the Bank.

The University is required to pay a quarterly facility fee for each line of credit in the amount of 0.38 percent per annum based on the size of the commitment. If a long-term debt rating assigned by Standard & Poor’s (S&P), Fitch Ratings (Fitch) or Moody’s Investors Service (Moody’s) is lowered, the facility fee assigned to the rating in the below table shall apply. In the event of a split rating (i.e., one or more of the rating agency’s ratings is at a different level than the rating of either of the other rating agencies), the facility fee rate shall be determined as follows: (i) if two of the three ratings appear in the same level, the facility fee rate shall be based on that level; (ii) if no two ratings appear in the same level, the facility fee rate shall be based on the level which includes the middle of the three ratings.

S&P	Fitch	Moody’s	Facility Fee
AA	AA	Aa2	0.48%
AA-	AA-	Aa3	0.58%
A+	A+	A1	0.68%
A	A	A2	0.78%
A- or lower	A- or lower	A3 or lower	1.78%

The University will pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the bank rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under each line of credit agreement, draws to purchase bonds will accrue interest at the bank rate payable on the same interest date as provided in the Series Indenture for the original bonds. The University is required to begin making a series of six fully amortizing semi-annual principal payments on bonds held by the Bank six months after the date of funding. Commercial Paper Bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by 1/6<sup>th</sup> of the original amount of the Commercial Paper Bonds for a period of up to five rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

Each line of credit agreement expires on September 21, 2014 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. At June 30, 2013, no purchase drawings had been made under the line of credit.

### **General Revenue, Series 2012D**

On December 14, 2012, the University issued a bond to be designated "The University of North Carolina at Chapel Hill General Revenue Bond (Kenan Stadium Improvements Phase II), Series 2012D" to The Educational Foundation, Inc. (the "Owner") in exchange for certain improvements to Kenan Stadium on the University's campus known as "Kenan Stadium Improvements, Phase 2 - Carolina Student Athlete Center for Excellence". The 2012D Bond was issued in the amount of \$41,000,000 and matures on August 18, 2016.

Interest will be payable on the 2012D Bond on the maturity date or, if sooner, the prepayment date of the bond as permitted under the tender option or the prepayment options as referenced below. The unpaid principal balance of the 2012D Bond, together with all accrued and unpaid interest thereon will be due and payable in full on the maturity date in the event that the tender option or prepayment option is not exercised in advance of the maturity date.

The University shall be responsible for calculating the interest due on the 2012D Bond and reporting such amount to the Owner and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). Payments of principal and interest on the bond shall be made directly by the University to the Owner under the terms of the bond documents and the Trustee shall have no responsibility for making such payments. The University shall promptly notify the Trustee in writing of any such payments. Any payments of principal and interest on the 2012D Bond made directly by the University to the Owner will be credited against The Board of Governors of the University of North Carolina's (the "Board") obligation to cause payments to be made with respect to the 2012D Bond to the Debt Service Fund under the General Indenture.

The 2012D Bond may be tendered by the Owner for payment by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the University and the Trustee.

The 2012D Bond may be prepaid by the University, on behalf of the Board, in whole or in part without premium or penalty on any business day on or after 90 days prior written notice to the Owner and the Trustee.

When payment is due at maturity or upon exercise of the tender or prepayment options, the University may use proceeds from a long-term bond issue or proceeds from the issuance of Commercial Paper at the time of the payment to fund the obligation under the bond.

The unpaid principal balance of the 2012D Bond outstanding from time to time will bear interest at the Adjusted LIBOR Rate. "Adjusted LIBOR Rate" means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/16 of 1.0 percent) by adding (1) the One Month LIBOR plus (2) 1.0 percent per annum, which shall be adjusted monthly on the first day of each LIBOR Interest Period; provided, however, for any particular LIBOR Interest Period, the Adjusted LIBOR Rate will not be less than 1.4 percent per annum.

With respect to other terms and conditions, this bond is not supported by any other letters of credit or standby liquidity agreements and does not contain any take-out agreements.

### **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 \$61,337,624 (\$84,135,000 ultimate maturity less \$14,382,376 discount less \$8,415,000 principal paid) and \$7,614,475 (\$25,275,000 ultimate maturity less \$805,525 accreted principal less \$16,855,000 principal paid), respectively, which is the accreted value at June 30, 2013. These bonds mature in the years from 2013 to 2021.

## E. ANNUAL REQUIREMENTS

The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

Fiscal Year	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net*	Principal	Interest
2014	\$30,205,000	\$49,486,815	\$10,082,953	\$580,359	\$1,920,008
2015	30,840,000	49,003,532	9,919,332	10,185,051	1,823,981
2016	43,881,667	48,520,738	7,583,171	641,263	1,710,016
2017	102,293,333	47,369,891	5,858,227	674,071	1,677,208
2018	77,645,000	46,517,501	3,218,914	708,558	1,642,721
2019-2023	241,725,000	220,351,087	4,687,864	32,467,690	5,455,773
2024-2028	163,600,000	196,514,019	759,205		
2029-2033	285,425,000	153,015,389			
2034-2038	405,095,000	42,947,645			
2039-2043	23,265,000	1,351,888			
<b>Total Requirements</b>	<b>\$1,403,975,000</b>	<b>\$ 855,078,505</b>	<b>\$42,109,666</b>	<b>\$45,256,992</b>	<b>\$14,229,707</b>

Interest on the variable rate General Revenue Bonds 2001B is calculated at 0.04% at June 30, 2013.

Interest on the variable rate General Revenue Bonds 2001C is calculated at 0.05% at June 30, 2013.

Interest on the variable rate General Revenue Bonds 2012A is calculated at 0.58% at June 30, 2013.

Interest on the variable rate General Revenue Bonds 2012B is calculated at 0.88% at June 30, 2013.

Interest rates on General Revenue Bonds 2001 Series B and Series C are reset each week by the remarketing agent based upon a combination of the University's credit rating and market conditions. Interest rates on General Revenue Bonds 2012 Series A and Series B are based on the 1-month LIBOR index rate plus an interest rate spread of 45 and 75 basis points for 2012 Series A and Series B, respectively. 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 9 Derivative Instruments.

\*Computed using  $(5.240\% - 0.060\%) \times (\$22,000,000 - \text{annual swap reduction})$ ;  $(3.314\% - 0.1304\%) \times \$89,830,000$  notional amount; and,  $(4.375\% - 0.1304\%) \times \$150,000,000$  notional amount.

The fiscal year 2014 principal requirements include demand bonds principal payments due for 2014 only. This differs from the amount disclosed as current in Note 8A Changes in Long-term Liabilities as the current portion of bonds payable includes all outstanding principal for the demand bonds. See Note 8C Demand Bonds.

The 2012AB Bonds have a maturity date of December 1, 2041. However, the bonds are issued initially in the Index Mode extending to the initial index tender dates of December 1, 2015 for Series 2012A and December 1, 2017 for Series 2012B. While in this mode, the bonds will bear interest at the index rate, which will be the rate per annum determined monthly equal to 67.0 percent of One Month LIBOR plus an applicable spread of 0.45 percent (45 basis points) for the 2012A Bonds and 0.75 percent (75 basis points) for the 2012B Bonds.

The 2012AB Bonds of each series in an Index Mode are subject to redemption, at the option of the University, in whole or in part, on any business day during the period beginning six months prior to the index tender date for such 2012AB Bonds, to and including such index tender date, at a redemption price equal to 100 percent of the principal amount of 2012AB Bonds called for redemption, plus accrued interest, if any, to the date of redemption. In addition, and also at the discretion of the

University during the period beginning six months prior to the index tender date for such 2012AB Bonds, the interest rate can be reset which would trigger a redemption requirement and a remarketing.

If the funds available to purchase 2012AB Bonds of a series tendered on an index tender date are not sufficient to pay the purchase price of all such 2012AB Bonds, a Delayed Remarketing Period will commence on such index tender date and the failure to purchase such tendered 2012AB Bonds will not constitute an event of default under the Indentures. The Delayed Remarketing Period will continue to (but not include) the earlier of (a) the date on which all such 2012AB Bonds are successfully remarketed or (b) the date on which all of such 2012AB Bonds have been deemed to have been paid and are no longer outstanding.

During a Delayed Remarketing Period for a Series of 2012AB Bonds, unless the 2012AB Bonds of such Series have been remarketed, the 2012AB Bonds of such Series shall be subject to special mandatory redemption. Beginning with the first such June 1 or December 1 that occurs not less than six months following the date of commencement of the applicable Delayed Remarketing Period and ending on the sixth June 1 or December 1, the 2012AB Bonds shall be repaid in six

equal (or as equal as possible) semi-annual installments on the special mandatory redemption date established herein. The final installment will be due and payable no later than the sixth special mandatory redemption date after the commencement of the applicable Delayed Remarketing Period.

The Annual Requirements presents the 2012AB Bonds as amortizing in six semi-annual payments as set forth in the Delayed Remarketing Period, to be fully paid off in a period of three years after the respective index tender date established herein. If the bonds are successfully remarketed or refunded into a new bond in the future, and, therefore, not subject to the three-year amortization schedule after the initial index tender date, the total principal payments due in 2016 will reduce by \$16,667,000 to \$27,214,667, total principal payments in 2017 will reduce by \$33,334,000 to \$68,959,333, total principal payments in 2018 will reduce by \$50,001,000 to \$27,644,000, total principal payments in 2019 will reduce by \$49,999,000 to \$28,361,000, total principal payments in 2020 will reduce by \$33,334,000 to \$27,984,333, and total principal payments in 2021 will reduce by \$16,665,000 to \$27,866,667.

#### F. BOND DEFEASANCE

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

##### Current Refunding

On July 10, 2012, the University issued The University of North Carolina at Chapel Hill Taxable General Revenue Refunding Bonds, Series 2012C refunding bonds with an average interest rate of 2.62 percent, for the portion of funds used to refund the Series 2001A Bonds. The bonds were issued for a current refunding of \$32,680,000 of outstanding The

University of North Carolina at Chapel Hill General Revenue Bonds, Series 2001A Bonds with an average interest rate of 5.01 percent. The refunding was undertaken to reduce total debt service payments by \$8,176,781 over the next 14 years and resulted in an economic gain of \$6,707,058.

##### Advance Refunding

On July 10, 2012, the University issued The University of North Carolina at Chapel Hill Taxable General Revenue Refunding Bonds, Series 2012C refunding bonds with an average interest rate of 3.09 percent for the portion of funds used to refund the Series 2003 Bonds. The bonds were issued to advance refund \$87,315,000 of outstanding The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2003 Bonds with an average interest rate of 4.97 percent. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$15,680,723 over the next 22 years and resulted in an economic gain of \$11,765,613. On June 30, 2013, the outstanding balance was \$87,315,000 for the defeased The University of North Carolina at Chapel Hill General Revenue Bonds, Series 2003 Bonds.

#### G. NOTES PAYABLE

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/13	Principal Outstanding 06/30/13
Real Property Purchase	Bank of America	1.565%	12/15/2014	\$9,250,000		\$9,250,000
Real Property Purchase	Bank of America	1.345%	06/30/2015	411,896	\$86,896	325,000
Real Property Purchase	Aviva	5.000%	01/01/2022	36,500,000	818,008	35,681,992
<b>Total Notes Payable</b>				<b>\$46,161,896</b>	<b>\$904,904</b>	<b>\$45,256,992</b>



The UNC-Chapel Hill Foundation, part of the University's reporting entity, has a line of credit agreement issued by Bank of America with a commitment amount of up to \$3,000,000 to finance the costs of projects benefiting the Foundation and/or the University, subject to the approval of the Board of Directors of the Foundation. Prior to the maturity date of June 30, 2013, the Foundation renewed the line of credit in the same commitment amount and with a new maturity date of June 30, 2015. Under the commitment, advances under the line of credit accrue interest at the variable rate of the LIBOR Market Index plus 1.15 percent. An unused commitment fee is due each quarter calculated as 0.24 percent of the difference between the commitment amount and the average balance outstanding for the quarter and paid in arrears on a quarterly basis. If the Foundation utilizes the line of credit to purchase an asset on behalf of the University, and later sells such asset to the University, the University reimburses the Foundation the principal amount of the draw and all accrued interest and associated transaction expenses.

On July 1, 2009, the UNC Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings Inc., (collectively, the "Borrowers"; individually, the "Foundation", former, or "Real Estate Holdings", the latter), entered into a loan agreement with the Bank of America, N.A. for \$45,750,000 to fund the acquisition of student housing and rental real property.

On December 15, 2011, Real Estate Holdings transferred the condominiumized unit of Granville Towers to a newly established single asset limited liability corporation Granville Towers LLC of which Real Estate Holdings is the sole member. On the same date, Granville Towers LLC obtained a loan from Aviva Life and Annuity Company in the amount of \$36,500,000 (Aviva Loan) for which the proceeds were used to pay down the referenced purchase financing with Bank of America in the original amount of \$45,750,000. This Aviva loan is secured by a first deed of trust on the condominium unit of Granville Towers. In general, the loan is non-recourse

to both Real Estate Holdings and the Foundation, except for in the following instances: fraud, misrepresentation; delinquent taxes or other assessments; misapplication of potential condemnation awards or loss between the difference in the loan amount and insurance proceeds; environmental issue on the property; and a bankruptcy filing. Loan payments are based upon a 30-year amortization, but the loan carries an actual maturity date of January 1, 2022. During the committed term of this loan, the interest rate is fixed at 5 percent, and the monthly payments of principal and interest in the combined amount of \$195,939.89; all outstanding principal and accrued but unpaid interest is due at said maturity.

On December 15, 2011, the Borrowers executed a modification agreement with Bank of America with respect to the above loan in the original amount of \$45,750,000. The original principal balance of \$45,750,000 was paid down by \$36,500,000 with proceeds from the Aviva loan; the original maturity date of July 1, 2012, was extended to December 15, 2014; and the interest rate was changed to LIBOR plus 1.37 percent. Interest payments are made quarterly, and the principal balance of the loan is due at maturity. The loan is unsecured, but is governed by a loan agreement with financial and other covenants on the Borrowers.

#### 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. DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2013, are as follows:

Type	Notional Amount	Classification	Change in Fair Value		Fair Value at June 30, 2013	
			Increase (Decrease)	Classification	Asset (Liability)	
<i>Hedging Derivative Instruments</i>						
<i>Cash Flow Hedges</i>						
Pay-fixed interest rate swap	\$100,000,000	Deferred outflow of resources	\$14,345,992	Hedging derivative liability		(\$19,505,220)
Pay-fixed interest rate swap	\$150,000,000	Deferred outflow of resources	28,121,990	Hedging derivative liability		(60,921,772)
			<b>\$42,467,982</b>			<b>(\$80,426,992)</b>
<i>Investment Derivative Instruments</i>						
Pay Fixed Interest Rate Swap 2001B Bonds	\$18,590,000	Investment Income	\$1,382,137	Accounts Payable		(\$4,203,778)
Forward Foreign Currency	(a)	Investment Income	(161,083)	Accounts Payable		(161,083)
U.S. Dollar Equity Futures	\$58,486,693	Investment Income	(1,631,578)	Other Investments		56,855,115
Foreign Equities Futures	(b)	Investment Income	318,468	Other Investments		21,063,573
			<b>(\$92,056)</b>			<b>73,553,827</b>

(a) 70 million euros

(b) 2.1 billion yen

Hedging derivative instruments held at June 30, 2013, are as follows:

Type	Objective	Notional Amount	Effective Start Date	Termination End Date	Terms
Pay-Fixed Interest Rate Swap	Hedge changes in cash flows on variable rate debt	\$100,000,000	12/01/07	12/01/36	Pay 3.314%, Receive 67% 1 Mo. LIBOR
Pay -Fixed Interest Rate Swap	Hedge changes in cash flows on variable rate debt	\$150,000,000	12/01/11	12/01/41	Pay 4.375%, Receive 67% 1 Mo. LIBOR

The fair values of interest rate swaps at the University were provided either by their financial advisor or by the counterparty. The method used by their financial advisor calculated 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 were then discounted using the spot rates implied by the current yield curve for London Interbank Offered Rate (LIBOR) due on the date of each future net settlement on the swap. The method used by their counterparty calculated the present value of all expected future payments on the swap based on forward curves discounted at current market rates.

### Hedging Derivative Risks

**Credit risk:** As of June 30, 2013, the University was not exposed to credit risk on its interest rate swaps because the

swaps had negative fair values. However, should interest rates change and the fair value of swaps become positive, the University would be exposed to the credit risk of counterparties in the amount of the derivative's positive fair value less collateral postings by such counterparties.

**Interest rate risk:** The University is exposed to interest rate risk on its interest rate swaps which is largely offset (or expected to be offset) by rates paid on variable-rate debt. In addition, the fair values of these instruments are highly sensitive to changes in interest rates. Because rates have declined significantly since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2013. The fair values are calculated as of June 30, 2013. As rates rise, the value of the swaps will increase, and as rates fall the fair value of the swaps will decrease.

**Basis risk:** The University is exposed to basis risk on the swaps to the extent there is a mismatch between variable bond rates paid and swap index rates received.

**Termination risk:** The swap agreements use the International Swaps and Derivatives Association (ISDA) 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 swaps may mandatorily terminate if the University fails to perform under terms of the contract.

**Rollover risk:** The University is exposed to rollover risk on the \$100,000,000 swap based upon the maturity date of the underlying debt and due to the form of the debt as variable rate demand bonds.

### Investment Derivative Risks

**Credit Risk:** As of June 30, 2013, 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 become 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 the counterparty would be required to collateralize 103 percent of their exposure.

The University does not have a formal policy regarding requiring collateral or other security to support investment derivative instruments subject to credit risk.

**Interest Rate Risk:** The University is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. Because rates have changed since the effective date of the swap, the swap has a negative fair value of \$4,203,778 as of June 30, 2013. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The negative fair value is the calculated value as of June 30, 2013. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap decreases. The University pays 5.24 percent and receives the Securities Industry and Financial Markets Association (SIFMA) Swaps Index rate. On June 30, 2013, SIFMA was 0.06 percent. The interest rate swap has a notional amount of \$18,590,000 and matures November 1, 2025.

**Foreign Currency Risk:** Foreign currency forward contracts are utilized from time to time to minimize the risk and exposure to fluctuations in the exchange rates of foreign

currencies. Futures contracts based in foreign currency obligate the buyer to purchase an asset (or seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. See Note 2 Deposits and Investments for further information about the University's exposure to foreign currency risk.

## NOTE 10. LEASE OBLIGATIONS

### A. CAPITAL LEASE OBLIGATIONS

Capital lease obligations for machinery and 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, 2013:

Fiscal Year	Amount
2014	\$316,229
2015	316,229
2016	200,937
<b>Total Minimum Lease Payments</b>	<b>833,395</b>
Amount Representing Interest (4.380% - 4.834% Rate of Interest)	68,493
<b>Present Value of Future Lease Payment</b>	<b>\$764,902</b>

Machinery and equipment acquired under capital lease amounted to \$1,081,131 at June 30, 2013. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$58,983 at June 30, 2013.

### B. OPERATING LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases for equipment, buildings and land consist of the following at June 30, 2013:

Fiscal Year	Amount
2014	\$5,456,592
2015	4,865,302
2016	2,435,905
2017	1,760,564
2018	1,390,029
2019-2023	3,065,445
<b>Total Minimum Lease Payments</b>	<b>\$18,973,837</b>

Rental expense for all operating leases during the year was \$25,514,360.

## NOTE 11. REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Less Indigent Care and Contractual Adjustments	Net Revenues
<i>Operating Revenues</i>						
<b>Student Tuition and Fees</b>	<b>\$433,403,019</b>		<b>\$84,594,412</b>	<b>\$759,470</b>		<b>\$348,049,137</b>
<b>Patient Services</b>	<b>\$773,109,086</b>			<b>\$13,308,776</b>	<b>\$468,523,306</b>	<b>\$291,277,004</b>
<i>Sales and Services</i>						
Professional Income	\$127,394,570	\$5,890,110				\$121,504,460
Residential Life	77,146,059	48,240	\$9,954,308			67,143,511
Athletic	53,186,651	27,948				53,158,703
Dining	33,425,270					33,425,270
Utilities	131,729,963	98,989,618				32,740,345
Parking	25,440,390	362,783				25,077,607
Student Stores	27,619,776	4,925,613	996,834			21,697,329
Other	56,876,109	35,609,212				21,266,897
UNC Management Company	8,144,856					8,144,856
Health, Physical Education, and Recreation Services	8,262,837		224,790			8,038,047
Trademark License Program	7,477,148					7,477,148
School of Government	5,963,668					5,963,668
Rental Property	4,963,306					4,963,306
Gene Therapy Center	3,870,725	76,455				3,794,270
Telecommunications	16,845,255	13,234,539				3,610,716
KFBS Center	2,958,449					2,958,449
Printing/Carolina Copy	3,447,212	1,655,602				1,791,610
Performing Arts Series	1,778,191					1,778,191
Repairs and Maintenance	26,877,556	25,331,745				1,545,811
ERP Student Fees	1,425,533					1,425,533
Doubletree Carolina Inn	1,385,985					1,385,985
Student Union Services	490,448	172,496				317,952
Materials Management and Distribution	9,918,243	9,884,964				33,279
<b>Total Sales and Services</b>	<b>\$636,628,200</b>	<b>\$196,209,325</b>	<b>\$11,175,932</b>	<b>\$0</b>	<b>\$0</b>	<b>\$429,242,943</b>
<b>Non-operating - Non-capital Gifts</b>	<b>\$66,909,388</b>			<b>(\$731,662)</b>		<b>\$67,641,050</b>

\* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

## NOTE 12. OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation and Amortization	Total
Instruction	\$553,167,375	\$23,010,728	\$118,174,503		\$339,645		\$694,692,251
Research	297,143,435	48,578,686	183,371,458		8,393		529,101,972
Public Service	65,317,057	8,143,384	59,366,363		232,293		133,059,097
Academic Support	73,694,808	13,823,665	26,699,681		153,143		114,371,297
Student Services	16,111,971	978,314	10,473,535		750		27,564,570
Institutional Support	64,505,527	4,613,575	24,690,202		42,495		93,851,799
Operations and Maintenance of Plant	43,519,640	5,346,976	15,324,838		71,122,430		135,313,884
Student Financial Aid				\$104,556,613			104,556,613
Auxiliary Enterprises	322,012,460	56,202,799	212,415,174		11,366,054		601,996,487
Depreciation and Amortization						\$117,968,088	117,968,088
<b>Total Operating Expenses</b>	<b>\$1,435,472,273</b>	<b>\$160,698,127</b>	<b>\$650,515,754</b>	<b>\$104,556,613</b>	<b>\$83,265,203</b>	<b>\$117,968,088</b>	<b>\$2,552,476,058</b>

## NOTE 13. PENSION PLANS

### A. RETIREMENT PLANS

Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System (TSERS) 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 TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chair of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33 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 \$1,199,696,468, of which \$460,281,538 was covered under

the TSERS. Total employer and employee contributions for pension benefits for the year were \$38,341,452 and \$27,616,892, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44 percent and 4.93 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, 2013, 2012, and 2011, which were \$38,341,452, \$33,975,672, and \$23,308,729, 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.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 TSERS. 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, 2013, 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 \$1,199,696,468, of which \$512,970,775 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$35,087,201 and \$30,778,247, respectively.

#### **B. DEFERRED COMPENSATION AND SUPPLEMENTAL RETIREMENT INCOME PLANS**

Internal Revenue Code 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. The plan administrator is Prudential Financial, Inc. No costs are incurred by the University. The voluntary contributions by employees amounted to \$10,082,858 for the year ended June 30, 2013.

Internal Revenue Code Section 401(k) Plan - All members of the TSERS 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. The plan administrator is Prudential Financial, Inc. 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, 2013, were \$132,160. The voluntary contributions by employees amounted to \$3,603,121 for the year ended June 30, 2013.

Internal Revenue Code 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. The plan administrators are Fidelity Investments and TIAA-CREF. No costs are incurred by the University. The voluntary contributions by employees amounted to \$25,659,532 for the year ended June 30, 2013.

## **NOTE 14. 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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 accumulated 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

of the 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 established by the General Assembly.

For the current fiscal year, the University contributed 5.30 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, 2012, and 2011, were 5.0 percent and 4.9 percent, respectively. The University made 100 percent of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$51,582,373, \$47,027,478, and \$46,527,281, 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.osc.nc.gov> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

## 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 by the General Assembly. For the fiscal year ended June 30, 2013, the University made a statutory contribution of 0.44 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, 2012, and 2011, 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, 2013, 2012, and 2011, which were \$4,282,310, \$4,890,858, and \$4,937,589, 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 15. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Settled claims have not exceeded coverage in any of the past three fiscal years.

**Public Officers and Employees Liability Insurance** - The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the state provides excess public officers' and employees' liability insurance up to \$10,000,000 per employee through a contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

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

**Fire and Other Property Loss** - The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the state. Such coverage is provided at no cost to the University for operations supported by the state's General Fund. Other operations not supported by the state's General Fund are charged for the coverage. The University has opted to purchase additional

coverages offered by the Fund. Examples of this additional coverage include special form (all-risk) and business interruption insurance for certain property exposures. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

**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 \$10,000,000 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. The private insurance company pays 90 percent of each loss less a \$75,000 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 discretely presented component unit 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 work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk 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 Faculty Physicians (UNC Faculty Physicians), 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 UNC Faculty Physicians and 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 Insurance Commissioner, the Director of the Office of State Budget and Management, the State Treasurer (each serving at the pleasure of the appointer); and nine members appointed 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, 2012 through June 30, 2013, 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, 2013, 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, 2013, University assets in the Trust Fund totaled \$29,312,184 while University liabilities totaled \$22,810,869 resulting in net assets of \$6,501,315.

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. Copies of this report may be obtained from The University of North Carolina Health Care System, 211 Friday Center Drive, Hedrick Building, Room 2029, Chapel Hill, NC 27517.

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

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

## NOTE 16. COMMITMENTS AND CONTINGENCIES

### A. COMMITMENTS

The University has commitments of \$122,907,471 for various capital improvements projects that include construction and completion of new buildings, and renovations of existing buildings.

The UNC Investment Fund, LLC (UNC Investment Fund) has entered into agreements with limited partnerships to invest capital. These agreements represent the funding of capital over a designated period of time and are subject to adjustments. As of June 30, 2013, the UNC Investment Fund had approximately \$619,559,355 unfunded committed capital.

### B. PENDING LITIGATION AND CLAIMS

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 are as follows:

Purpose	Amount
Pledges to permanent endowments	\$24,317,543

## NOTE 17. 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 Morehead-Cain Scholarship Fund, 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., James B. Hunt, Jr. Institute for Educational Leadership and Policy 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 position, or operational transactions of these organizations, except for support from each organization to the University. This support totaled \$34,029,213 for the year ended June 30, 2013.

## NOTE 18. INVESTMENT IN JOINT VENTURE

The University is a member of the Southern Observatory for Astronomical Research Consortium (SOAR), a joint venture accounted for under the equity method. The University is partners with Michigan State University, the Association of Universities for Research in Astronomy, and the Ministry of Science and Technology of the Federal Republic of Brazil. SOAR designed, constructed, and now operates a 4.0-meter telescope with instrumentation and related support buildings located at Cerro Pachon, a mountain in central Chile. The SOAR agreement allocates the University 16.7 percent of observing time until 2023. The audited financial statements for SOAR may be obtained from the University Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270, or by calling (919) 962-1370.

## NOTE 19. BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2013, is presented as follows:

CONDENSED STATEMENT OF NET POSITION						
JUNE 30, 2013						
	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	Other Blended Component Units *	Eliminations	Total
<i>Assets:</i>						
Current Assets			\$31,667,031	\$34,128,351		\$65,795,382
Capital Assets			48,857,216	378,959		49,236,175
Other Non-current Assets	\$3,550,013,667	\$2,339,057,247	300,372,221	123,247,124	(\$4,359,262,998)	1,953,427,261
<b>Total Assets</b>	<b>3,550,013,667</b>	<b>2,339,057,247</b>	<b>380,896,468</b>	<b>157,754,434</b>	<b>(4,359,262,998)</b>	<b>2,068,458,818</b>
<b>Deferred Outflows of Resources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>Liabilities:</i>						
Current Liabilities			7,060,216	2,266,771		9,326,987
Non-current Liabilities	6,242,772	1,162,876	91,681,500	5,515,906	1,522,402,268	1,627,005,322
<b>Total Liabilities</b>	<b>6,242,772</b>	<b>1,162,876</b>	<b>98,741,716</b>	<b>7,782,677</b>	<b>1,522,402,268</b>	<b>1,636,332,309</b>
<b>Deferred Inflows of Resources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>Net Position:</i>						
Net Investment in Capital Assets			18,471,946	1,999,365		20,471,311
Restricted - Non-expendable	3,543,770,895	2,337,894,371	124,107,384	96,340,888	(5,881,665,266)	220,448,272
Restricted - Expendable			98,425,590	35,558,161		133,983,751
Unrestricted			41,149,832	16,073,343		57,223,175
<b>Total Net Position</b>	<b>\$3,543,770,895</b>	<b>\$2,337,894,371</b>	<b>\$282,154,752</b>	<b>\$149,971,757</b>	<b>(\$5,881,665,266)</b>	<b>\$432,126,509</b>

\*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, U.N.C. Law Foundation, Inc., and The University of North Carolina at Chapel Hill School of Education Foundation, Inc.

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	UNC Investment Fund, LLC	The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	The University of North Carolina at Chapel Hill Foundation, Inc.	Other Blended Component Units *	Eliminations	Total
<i>Operating Revenues:</i>						
Sales and Services			\$13,057,409	\$8,177,454		\$21,234,863
Other Operating Revenues			1,930,267	23,244,403		25,174,670
<b>Total Operating Revenues</b>			<b>14,987,676</b>	<b>31,421,857</b>		<b>46,409,533</b>
<i>Operating Expenses:</i>						
Operating Expenses			11,243,545	25,656,029		36,899,574
Depreciation			1,427,831	148,346		1,576,177
<b>Total Operating Expenses</b>			<b>12,671,376</b>	<b>25,804,375</b>		<b>38,475,751</b>
<b>Operating Income</b>			<b>2,316,300</b>	<b>5,617,482</b>		<b>7,933,782</b>
<i>Non-Operating Revenues (Expenses):</i>						
Investment Income, Net	\$399,812,889	\$267,259,046	29,201,011	10,869,042	(\$667,071,935)	40,070,053
Other, Net	(31,348,534)	(68,342,770)	(18,766,285)	(8,710,297)	99,691,304	(27,476,582)
<b>Net Non-operating Revenues (Expenses)</b>	<b>368,464,355</b>	<b>198,916,276</b>	<b>10,434,726</b>	<b>2,158,745</b>	<b>(567,380,631)</b>	<b>12,593,471</b>
Additions to Endowments			4,245,187	5,773,618		10,018,805
<b>Increase (Decrease) in Net Position</b>	<b>368,464,355</b>	<b>198,916,276</b>	<b>16,996,213</b>	<b>13,549,845</b>	<b>(567,380,631)</b>	<b>30,546,058</b>
<i>Net Position:</i>						
<b>Net Position, July 1, 2012</b>	<b>3,175,306,540</b>	<b>2,138,978,095</b>	<b>265,158,539</b>	<b>136,421,912</b>	<b>(5,314,284,635)</b>	<b>401,580,451</b>
<b>Net Position, June 30, 2013</b>	<b>\$3,543,770,895</b>	<b>\$2,337,894,371</b>	<b>\$282,154,752</b>	<b>\$149,971,757</b>	<b>(\$5,881,665,266)</b>	<b>\$432,126,509</b>

\*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, U.N.C. Law Foundation, Inc., and The University of North Carolina at Chapel Hill School of Education Foundation, Inc.

**CONDENSED STATEMENT OF CASH FLOWS**  
JUNE 30, 2013

	The University of North Carolina at Chapel Hill Foundation, Inc.	Other Blended Component Units*	Total
Net Cash Provided by Operating Activities	\$2,443,396	\$6,013,308	\$8,456,704
Net Cash Used by Non-capital Financing Activities	(12,821,421)	(6,309,450)	(19,130,871)
Net Cash Used by Capital and Related Financing Activities	(3,706,384)	(214,760)	(3,921,144)
Net Cash Provided by Investing Activities	11,136,727	1,439,471	12,576,198
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(2,947,682)</b>	<b>928,569</b>	<b>(2,019,113)</b>
Cash and Cash Equivalents, July 1, 2012	32,870,978	22,472,712	55,343,690
Cash and Cash Equivalents, June 30, 2013	\$29,923,296	\$23,401,281	\$53,324,577

\*Other Blended Component Units include UNC Management Company, Inc., The Kenan-Flagler Business School Foundation, U.N.C. Law Foundation, Inc., and The University of North Carolina at Chapel Hill School of Education Foundation, Inc.







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## NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(AS RESTATED)									
Net Investment in Capital Assets	\$1,632,515	\$1,645,959	\$1,587,446	\$1,420,104	\$1,338,833	\$1,290,034	\$1,211,805	\$1,119,040	\$1,017,383	\$855,740
Restricted, Non-expendable	702,225	700,687	656,723	621,873	586,175	548,151	493,305	430,316	378,234	328,735
Restricted, Expendable	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280	1,086,353	853,133	736,631	648,019
Unrestricted	972,888	896,092	851,254	778,439	700,280	671,970	617,573	525,513	475,631	408,705
<b>Total Net Position</b>	<b>\$4,501,449</b>	<b>\$4,233,646</b>	<b>\$4,102,959</b>	<b>\$3,711,598</b>	<b>\$3,462,442</b>	<b>\$3,709,435</b>	<b>\$3,409,036</b>	<b>\$2,928,002</b>	<b>\$2,607,879</b>	<b>\$2,241,199</b>

EXPRESSED AS A PERCENT OF THE TOTAL

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	%	%	%	%	%	%	%	%	%	%
Net Investment in Capital Assets	36.3	38.9	38.7	38.3	38.7	34.8	35.5	38.2	39.0	38.2
Restricted, Non-expendable	15.6	16.5	16.0	16.7	16.9	14.8	14.5	14.7	14.5	14.7
Restricted, Expendable	26.5	23.4	24.6	24.0	24.2	32.3	31.9	29.2	28.2	28.9
Unrestricted	21.6	21.2	20.7	21.0	20.2	18.1	18.1	17.9	18.3	18.2
<b>Total Net Position</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

PERCENTAGE INCREASE (DECREASE) FROM PRIOR YEAR

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	%	%	%	%	%	%	%	%	%	%
	(AS RESTATED)									
Net Investment in Capital Assets	(0.8)	3.7	11.8	6.1	3.8	6.5	8.3	10.0	18.9	n/a
Restricted, Non-expendable	0.2	6.7	5.6	6.1	6.9	11.1	14.6	13.8	15.1	n/a
Restricted, Expendable	20.5	(1.7)	13.1	6.5	(30.2)	10.4	27.3	15.8	13.7	n/a
Unrestricted	8.6	5.3	9.4	11.2	4.2	8.8	17.5	10.5	16.4	n/a
<b>Total Net Position</b>	<b>6.3</b>	<b>3.2</b>	<b>10.5</b>	<b>7.2</b>	<b>(6.7)</b>	<b>8.8</b>	<b>16.4</b>	<b>12.3</b>	<b>16.4</b>	<b>n/a</b>

## CHANGES IN NET POSITION

### LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>REVENUES</b>										
<i>Operating Revenues</i>										
Student tuition and fees, net	\$348,049	\$320,535	\$289,897	\$249,083	\$236,960	\$218,763	\$210,651	\$195,882	\$164,457	\$153,943
Patient services, net	291,277	280,671	280,035	242,757	237,966	214,706	197,221	184,324	172,063	172,877
Federal grants and contracts	587,220	578,702	571,288	530,368	471,680	447,793	429,059	422,229	403,100	384,618
State and local grants and contracts	41,471	41,953	38,251	37,679	29,091	51,207	45,256	41,842	39,816	39,793
Non-governmental grants and contracts	132,506	105,191	146,081	120,674	123,649	115,513	92,572	89,976	81,560	75,388
Sales and services, net	429,243	400,480	373,706	354,439	321,505	349,372	324,432	301,303	290,397	270,351
Interest earnings on loans	730	849	842	790	801	666	679	672	1,441	435
Other operating revenues	8,198	8,148	4,836	6,485	7,835	6,232	4,574	5,283	4,167	5,233
<b>Total operating revenues</b>	<b>1,838,694</b>	<b>1,736,529</b>	<b>1,704,936</b>	<b>1,542,275</b>	<b>1,429,487</b>	<b>1,404,252</b>	<b>1,304,444</b>	<b>1,241,511</b>	<b>1,157,001</b>	<b>1,102,638</b>
<b>EXPENSES</b>										
<i>Operating Expenses</i>										
Salaries and benefits	1,435,472	1,375,758	1,379,178	1,340,749	1,309,862	1,210,757	1,122,269	1,042,452	966,629	917,840
Supplies and materials	160,698	164,899	162,999	156,404	174,501	161,219	165,704	152,911	148,440	151,196
Services	650,516	617,589	614,928	538,784	533,023	526,646	462,093	432,212	407,690	380,126
Scholarships and fellowships	104,557	96,871	91,140	69,083	58,557	58,058	56,662	54,105	51,170	47,427
Utilities	83,265	80,832	81,471	81,210	77,636	66,197	60,727	56,277	47,870	46,208
Depreciation and amortization	117,968	113,530	102,724	90,861	70,747	66,413	80,827	64,475	60,102	60,589
<b>Total operating expenses</b>	<b>2,552,476</b>	<b>2,449,479</b>	<b>2,432,440</b>	<b>2,277,091</b>	<b>2,224,326</b>	<b>2,089,290</b>	<b>1,948,282</b>	<b>1,802,432</b>	<b>1,681,901</b>	<b>1,603,386</b>
<b>Operating loss</b>	<b>(713,782)</b>	<b>(712,950)</b>	<b>(727,504)</b>	<b>(734,816)</b>	<b>(794,839)</b>	<b>(685,038)</b>	<b>(643,838)</b>	<b>(560,921)</b>	<b>(524,900)</b>	<b>(500,748)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>										
State appropriations	515,121	486,492	520,198	509,691	518,276	543,292	492,471	440,070	406,673	380,446
State aid - federal recovery funds	0	0	14,480	32,062	20,051	0	0	0	0	0
Non-capital grants – federal student financial aid	18,011	17,899	18,946	17,099	10,170	0	0	0	0	0
Non-capital grants	164,790	163,440	175,600	155,014	143,846	102,932	62,669	67,388	62,544	53,154
Non-capital gifts, net	67,641	99,446	93,166	75,881	87,226	113,094	73,637	68,824	73,693	68,517
Investment income (loss), net	191,969	33,134	208,184	103,605	(296,904)	146,650	317,767	207,423	154,900	135,369
Interest and fees on debt	(70,118)	(64,321)	(56,765)	(64,261)	(52,465)	(53,311)	(42,926)	(39,921)	(21,823)	(18,339)
Federal interest subsidy on debt	2,174	2,274	2,273	1,130	0	0	0	0	0	0
Other non-operating revenues (expenses)	(1,600)	(6,053)	(2,670)	(14,219)	2,359	851	146	(230)	8,374	(8,132)
<b>Net non-operating revenues</b>	<b>887,988</b>	<b>732,311</b>	<b>973,412</b>	<b>816,002</b>	<b>432,559</b>	<b>853,508</b>	<b>903,764</b>	<b>743,554</b>	<b>684,361</b>	<b>611,015</b>
<b>Income before other revenues</b>	<b>174,206</b>	<b>19,361</b>	<b>245,908</b>	<b>81,186</b>	<b>(362,280)</b>	<b>168,470</b>	<b>259,926</b>	<b>182,633</b>	<b>159,461</b>	<b>110,267</b>
Capital appropriations	2,285	0	0	0	12,539	47,206	52,888	15,776	5,166	898
Refund of prior years capital appropriations	0	0	(81)	(444)	(3,317)	0	0	0	0	0
Capital grants	44,177	78,133	91,864	86,117	27,124	12,885	118,850	52,277	152,844	74,392
Capital gifts	23,182	5,630	9,149	50,688	34,686	11,596	15,662	13,368	11,521	6,359
Additions to endowments	23,953	27,563	44,521	31,609	44,255	60,242	39,442	56,069	37,688	24,098
<b>Increase (Decrease) in Net Position</b>	<b>\$267,803</b>	<b>\$130,687</b>	<b>\$391,361</b>	<b>\$249,156</b>	<b>(\$246,993)</b>	<b>\$300,399</b>	<b>\$486,768</b>	<b>\$320,123</b>	<b>\$366,680</b>	<b>\$216,014</b>



## CHANGES IN NET POSITION (CONT D)

### LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Total Revenues	\$2,891,998	\$2,650,540	\$2,883,317	\$2,605,171	\$2,330,019	\$2,443,000	\$2,477,976	\$2,162,706	\$2,070,404	\$1,845,871
Total Expenses	2,624,195	2,519,853	2,491,956	2,356,015	2,577,012	2,142,601	1,991,208	1,842,583	1,703,724	1,629,857
<b>Increase (Decrease) in Net Position</b>	<b>\$267,803</b>	<b>\$130,687</b>	<b>\$391,361</b>	<b>\$249,156</b>	<b>(\$246,993)</b>	<b>\$300,399</b>	<b>\$486,768</b>	<b>\$320,123</b>	<b>\$366,680</b>	<b>\$216,014</b>

EXPRESSED AS A PERCENT OF TOTAL REVENUES / TOTAL EXPENSES

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>REVENUES</b>	%	%	%	%	%	%	%	%	%	%
<i>Operating Revenues</i>										
Student tuition and fees, net	12.0	12.1	10.1	9.6	10.2	9.0	8.5	9.1	7.9	8.3
Patient services, net	10.1	10.6	9.7	9.3	10.2	8.8	8.0	8.5	8.3	9.4
Federal grants and contracts	20.4	21.8	19.8	20.5	20.4	18.3	17.3	19.6	19.6	20.8
State and local grants and contracts	1.4	1.6	1.3	1.4	1.2	2.1	1.8	1.9	1.9	2.2
Non-governmental grants and contracts	4.6	4.0	5.1	4.6	5.3	4.7	3.7	4.2	3.9	4.1
Sales and services, net	14.8	15.1	13.0	13.6	13.8	14.3	13.1	13.9	14.0	14.6
Interest earnings on loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Other operating revenues	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.3
<b>Total operating revenues</b>	<b>63.6</b>	<b>65.5</b>	<b>59.1</b>	<b>59.2</b>	<b>61.4</b>	<b>57.5</b>	<b>52.6</b>	<b>57.4</b>	<b>55.9</b>	<b>59.7</b>
<b>EXPENSES</b>										
<i>Operating Expenses</i>										
Salaries and benefits	54.7	54.6	55.3	56.9	50.8	56.5	56.4	56.6	56.7	56.3
Supplies and materials	6.1	6.5	6.5	6.6	6.8	7.5	8.3	8.3	8.7	9.3
Services	24.8	24.5	24.7	22.9	20.7	24.6	23.2	23.5	23.9	23.3
Scholarships and fellowships	4.0	3.8	3.7	2.9	2.3	2.7	2.8	2.9	3.0	2.9
Utilities	3.2	3.2	3.3	3.4	3.0	3.1	3.0	3.1	2.8	2.8
Depreciation and amortization	4.5	4.5	4.1	3.9	2.7	3.1	4.1	3.5	3.5	3.7
<b>Total operating expenses</b>	<b>88.3</b>	<b>92.4</b>	<b>84.4</b>	<b>87.4</b>	<b>95.5</b>	<b>85.5</b>	<b>78.6</b>	<b>83.3</b>	<b>81.3</b>	<b>86.8</b>
<b>Operating loss</b>	<b>(24.7)</b>	<b>(26.9)</b>	<b>(25.3)</b>	<b>(28.2)</b>	<b>(34.1)</b>	<b>(28.0)</b>	<b>(26.0)</b>	<b>(25.9)</b>	<b>(25.4)</b>	<b>(27.1)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>										
State appropriations	17.8	18.4	18.0	19.6	22.2	22.4	19.9	20.3	19.6	20.6
State aid – federal recovery funds	0.0	0.0	0.5	1.2	0.9	0.0	0.0	0.0	0.0	0.0
Non-capital grants – federal student financial aid	0.6	0.7	0.7	0.7	0.4	0.0	0.0	0.0	0.0	0.0
Non-capital grants	5.7	6.2	6.1	6.0	6.2	4.2	2.5	3.1	3.0	2.9
Non-capital gifts, net	2.3	3.8	3.2	2.9	3.7	4.6	3.0	3.2	3.6	3.7
Investment income (loss), net	6.6	1.3	7.2	4.0	(11.5)	6.0	12.8	9.6	7.5	7.3
Interest and fees on debt	(2.7)	(2.6)	(2.3)	(2.7)	(2.0)	(2.5)	(2.2)	(2.2)	(1.3)	(1.1)
Federal interest subsidy on debt	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-operating revenues (expenses)	(0.1)	(0.2)	(0.1)	(0.6)	0.1	0.0	0.0	0.0	0.4	(0.5)
<b>Net non-operating revenues</b>	<b>30.7</b>	<b>27.6</b>	<b>33.9</b>	<b>31.3</b>	<b>18.6</b>	<b>34.9</b>	<b>36.5</b>	<b>34.3</b>	<b>33.1</b>	<b>33.1</b>
<b>Income before other revenues</b>	<b>6.0</b>	<b>0.7</b>	<b>8.6</b>	<b>3.1</b>	<b>(15.5)</b>	<b>6.9</b>	<b>10.5</b>	<b>8.4</b>	<b>7.7</b>	<b>6.0</b>
Capital appropriations	0.1	0.0	0.0	0.0	0.5	1.9	2.1	0.7	0.2	0.0
Refund of prior years capital appropriations	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0
Capital grants	1.6	3.0	3.2	3.3	0.9	0.4	4.8	2.5	7.4	4.1
Capital gifts	0.8	0.2	0.3	1.9	1.5	0.5	0.6	0.6	0.6	0.3
Additions to endowments	0.8	1.0	1.5	1.2	1.9	2.5	1.6	2.6	1.8	1.3
<b>Increase (Decrease) in Net Position</b>	<b>9.3</b>	<b>4.9</b>	<b>13.6</b>	<b>9.6</b>	<b>(10.6)</b>	<b>12.3</b>	<b>19.6</b>	<b>14.8</b>	<b>17.7</b>	<b>11.7</b>

Note: Percent of total expenses is italicized

**CHANGES IN NET POSITION (CONT D)**  
LAST TEN FISCAL YEARS

PERCENTAGE INCREASE (DECREASE) FROM PRIOR YEAR

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(AS RESTATED)									
<b>REVENUES</b>										
<i>Operating Revenues</i>										
Student tuition and fees, net	8.6	10.6	16.4	5.1	8.3	3.9	7.5	19.1	6.8	n/a
Patient services, net	3.8	0.2	15.4	2.0	10.8	8.9	7.0	7.1	(0.5)	n/a
Federal grants and contracts	1.5	1.3	7.7	12.4	5.3	4.4	1.6	4.7	4.8	n/a
State and local grants and contracts	(1.1)	9.7	1.5	29.5	(43.2)	13.1	8.2	5.1	0.1	n/a
Non-governmental grants and contracts	26.0	(28.0)	21.1	(2.4)	7.0	24.8	2.9	10.3	8.2	n/a
Sales and services, net	7.2	7.2	5.4	10.2	(8.0)	7.7	7.7	3.8	7.4	n/a
Interest earnings on loans	(14.0)	0.8	6.6	(1.4)	20.3	(1.9)	1.0	(53.4)	231.3	n/a
Other operating revenues	0.6	68.5	(25.4)	(17.2)	25.7	36.2	(13.4)	26.8	(20.4)	n/a
<b>Total operating revenues</b>	<b>5.9</b>	<b>1.9</b>	<b>10.5</b>	<b>7.9</b>	<b>1.8</b>	<b>7.7</b>	<b>5.1</b>	<b>7.3</b>	<b>4.9</b>	<b>n/a</b>
<b>EXPENSES</b>										
<i>Operating Expenses</i>										
Salaries and benefits	4.3	(0.2)	2.9	2.4	8.2	7.9	7.7	7.8	5.3	n/a
Supplies and materials	(2.5)	1.2	4.2	(10.4)	8.2	(2.7)	8.4	3.0	(1.8)	n/a
Services	5.3	0.4	14.1	1.1	1.2	14.0	6.9	6.0	7.3	n/a
Scholarships and fellowships	7.9	6.3	31.9	18.0	0.9	2.5	4.7	5.7	7.9	n/a
Utilities	3.0	(0.8)	0.3	4.6	17.3	9.0	7.9	17.6	3.6	n/a
Depreciation and amortization	3.9	10.5	13.1	28.4	6.5	(17.8)	25.4	7.3	(0.8)	n/a
<b>Total operating expenses</b>	<b>4.2</b>	<b>0.7</b>	<b>6.8</b>	<b>2.4</b>	<b>6.5</b>	<b>7.2</b>	<b>8.1</b>	<b>7.2</b>	<b>4.9</b>	<b>n/a</b>
<b>Operating loss</b>	<b>0.1</b>	<b>(2.0)</b>	<b>(1.0)</b>	<b>(7.6)</b>	<b>16.0</b>	<b>6.4</b>	<b>14.8</b>	<b>6.9</b>	<b>4.8</b>	<b>n/a</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>										
State appropriations	5.9	(6.5)	2.1	(1.7)	(4.6)	10.3	11.9	8.2	6.9	n/a
State aid – federal recovery funds	0.0	(100.0)	(54.8)	59.9	n/a	n/a	n/a	n/a	n/a	n/a
Non-capital grants – federal student financial aid	0.6	(5.5)	10.8	68.1	n/a	n/a	n/a	n/a	n/a	n/a
Non-capital grants	0.8	(6.9)	13.3	7.8	39.7	64.2	(7.0)	7.7	17.7	n/a
Non-capital gifts, net	(32.0)	6.7	22.8	(13.0)	(22.9)	53.6	7.0	(6.6)	7.6	n/a
Investment income (loss), net	479.4	(84.1)	100.9	134.9	(302.5)	(53.8)	53.2	33.9	14.4	n/a
Interest and fees on debt	9.0	13.3	(11.7)	22.5	(1.6)	24.2	7.5	82.9	19.0	n/a
Federal interest subsidy on debt	(4.4)	0.0	101.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Other non-operating revenues (expenses)	(73.6)	126.7	(81.2)	(702.8)	177.2	482.9	163.5	(102.7)	203.0	n/a
<b>Net non-operating revenues</b>	<b>21.3</b>	<b>(24.8)</b>	<b>19.3</b>	<b>88.6</b>	<b>(49.3)</b>	<b>(5.6)</b>	<b>21.5</b>	<b>8.6</b>	<b>12.0</b>	<b>n/a</b>
<b>Income before other revenues</b>	<b>799.8</b>	<b>(92.1)</b>	<b>202.9</b>	<b>122.4</b>	<b>(315.0)</b>	<b>(35.2)</b>	<b>42.3</b>	<b>14.5</b>	<b>44.6</b>	<b>n/a</b>
Capital appropriations	0.0	0.0	0.0	(100.0)	(73.4)	(10.7)	235.2	205.4	475.3	n/a
Refund of prior years capital appropriations	0.0	(100.0)	(81.8)	(86.6)	n/a	n/a	n/a	n/a	n/a	n/a
Capital grants	(43.5)	(14.9)	6.7	217.5	110.5	(89.2)	127.3	(65.8)	105.5	n/a
Capital gifts	311.8	(38.5)	(82.0)	46.1	199.1	(26.0)	17.2	16.1	81.2	n/a
Additions to endowments	(13.1)	(38.1)	40.8	(28.6)	(26.5)	52.7	(29.7)	48.8	56.4	n/a
<b>Increase (Decrease) in Net Position</b>	<b>104.9</b>	<b>(66.6)</b>	<b>57.1</b>	<b>200.9</b>	<b>(182.2)</b>	<b>(38.3)</b>	<b>52.1</b>	<b>(12.7)</b>	<b>69.7</b>	<b>n/a</b>



## CHANGES IN NET POSITION ADJUSTED FOR INFLATION

LAST TEN FISCAL YEARS (2004 DOLLARS)

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>REVENUES</b>										
<i>Operating Revenues</i>										
Student tuition and fees, net	\$263,469	\$248,364	\$229,091	\$201,095	\$193,270	\$182,599	\$185,439	\$178,167	\$157,613	\$153,943
Patient services, net	220,494	217,476	221,298	195,987	194,091	179,213	173,616	167,654	164,902	172,877
Federal grants and contracts	444,519	448,403	451,460	428,187	384,714	373,768	377,707	384,043	386,324	384,618
State and local grants and contracts	31,393	32,507	30,228	30,420	23,727	42,742	39,840	38,058	38,159	39,793
Non-governmental grants and contracts	100,306	81,506	115,441	97,425	100,851	96,417	81,492	81,839	78,166	75,388
Sales and services, net	324,932	310,309	295,321	286,153	262,227	291,617	285,602	274,053	278,311	270,351
Interest earnings on loans	553	658	665	638	653	556	598	611	1,381	435
Other operating revenues	6,206	6,313	3,822	5,236	6,390	5,202	4,027	4,805	3,994	5,233
<b>Total operating revenues</b>	<b>1,391,872</b>	<b>1,345,536</b>	<b>1,347,326</b>	<b>1,245,141</b>	<b>1,165,923</b>	<b>1,172,114</b>	<b>1,148,321</b>	<b>1,129,230</b>	<b>1,108,850</b>	<b>1,102,638</b>
<b>EXPENSES</b>										
<i>Operating Expenses</i>										
Salaries and benefits	1,086,637	1,065,996	1,089,896	1,082,440	1,068,355	1,010,605	987,950	948,173	926,400	917,840
Supplies and materials	121,647	127,771	128,810	126,271	142,327	134,568	145,872	139,082	142,262	151,196
Services	492,434	478,534	485,947	434,982	434,746	439,585	406,787	393,123	390,723	380,126
Scholarships and fellowships	79,149	75,060	72,023	55,773	47,760	48,460	49,880	49,212	49,040	47,427
Utilities	63,031	62,632	64,382	65,564	63,322	55,254	53,459	51,187	45,878	46,208
Depreciation and amortization	89,301	87,968	81,178	73,356	57,703	55,434	71,153	58,644	57,601	60,589
<b>Total operating expenses</b>	<b>1,932,199</b>	<b>1,897,961</b>	<b>1,922,236</b>	<b>1,838,386</b>	<b>1,814,213</b>	<b>1,743,906</b>	<b>1,715,101</b>	<b>1,639,421</b>	<b>1,611,904</b>	<b>1,603,386</b>
<b>Operating loss</b>	<b>(540,327)</b>	<b>(552,425)</b>	<b>(574,910)</b>	<b>(593,245)</b>	<b>(648,290)</b>	<b>(571,792)</b>	<b>(566,780)</b>	<b>(510,191)</b>	<b>(503,054)</b>	<b>(500,748)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>										
State appropriations	389,941	376,955	411,087	411,494	422,718	453,480	433,529	400,270	389,748	380,446
State aid - federal recovery funds	0	0	11,443	25,885	16,354	0	0	0	0	0
Non-capital grants – federal student financial aid	13,634	13,869	14,972	13,805	8,295	0	0	0	0	0
Non-capital grants	124,744	126,640	138,768	125,149	117,324	85,916	55,168	61,293	59,941	53,154
Non-capital gifts, net	51,204	77,055	73,624	61,262	71,144	94,398	64,824	62,600	70,626	68,517
Investment income (loss), net	145,318	25,674	164,517	83,644	(242,162)	122,407	279,735	188,664	148,453	135,369
Interest and fees on debt	(53,079)	(49,839)	(44,859)	(51,880)	(42,792)	(44,498)	(37,788)	(36,311)	(20,915)	(18,339)
Federal interest subsidy on debt	1,646	1,762	1,796	912	0	0	0	0	0	0
Other non-operating revenues (expenses)	(1,211)	(4,690)	(2,110)	(11,480)	1,924	710	129	(209)	8,025	(8,132)
<b>Net non-operating revenues</b>	<b>672,197</b>	<b>567,426</b>	<b>769,238</b>	<b>658,791</b>	<b>352,805</b>	<b>712,413</b>	<b>795,597</b>	<b>676,307</b>	<b>655,878</b>	<b>611,015</b>
<b>Income before other revenues</b>	<b>131,870</b>	<b>15,001</b>	<b>194,328</b>	<b>65,546</b>	<b>(295,485)</b>	<b>140,621</b>	<b>228,817</b>	<b>166,116</b>	<b>152,824</b>	<b>110,267</b>
Capital appropriations	1,730	0	0	0	10,227	39,402	46,558	14,349	4,951	898
Refund of prior years capital appropriations	0	0	(64)	(358)	(2,705)	0	0	0	0	0
Capital grants	33,442	60,541	72,596	69,526	22,123	10,755	104,625	47,549	146,483	74,392
Capital gifts	17,549	4,362	7,230	40,922	28,291	9,679	13,787	12,159	11,042	6,359
Additions to endowments	18,132	21,357	35,183	25,519	36,095	50,283	34,721	50,998	36,119	24,098
<b>Increase (Decrease) in Net Position</b>	<b>\$202,723</b>	<b>\$101,261</b>	<b>\$309,273</b>	<b>\$201,155</b>	<b>(\$201,454)</b>	<b>\$250,740</b>	<b>\$428,508</b>	<b>\$291,171</b>	<b>\$351,419</b>	<b>\$216,014</b>
<b>Higher Education Price Index (HEPI)</b>	<b>325.5</b>	<b>318.0</b>	<b>311.8</b>	<b>305.2</b>	<b>302.1</b>	<b>295.2</b>	<b>279.9</b>	<b>270.9</b>	<b>257.1</b>	<b>246.4</b>

**CHANGES IN NET POSITION ADJUSTED FOR INFLATION (CONT D)**  
 LAST TEN FISCAL YEARS (2004 DOLLARS)

PERCENTAGE INCREASE (DECREASE) FROM PRIOR YEAR

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(AS RESTATED)									
<b>REVENUES</b>										
<i>Operating Revenues</i>										
Student tuition and fees, net	8.6	8.4	13.9	4.0	5.8	(1.5)	4.1	13.0	2.4	n/a
Patient services, net	3.8	(1.7)	12.9	1.0	8.3	3.2	3.6	1.7	(4.6)	n/a
Federal grants and contracts	1.5	(0.7)	5.4	11.3	2.9	(1.0)	(1.7)	(0.6)	0.4	n/a
State and local grants and contracts	(1.1)	7.5	(0.6)	28.2	(44.5)	7.3	4.7	(0.3)	(4.1)	n/a
Non-governmental grants and contracts	26.0	(29.4)	18.5	(3.4)	4.6	18.3	(0.4)	4.7	3.7	n/a
Sales and services, net	7.2	5.1	3.2	9.1	(10.1)	2.1	4.2	(1.5)	2.9	n/a
Interest earnings on loans	(14.0)	(1.2)	4.4	(2.4)	17.5	(6.9)	(2.2)	(55.8)	217.6	n/a
Other operating revenues	0.6	65.2	(27.0)	(18.1)	22.9	29.2	(16.2)	20.3	(23.7)	n/a
<b>Total operating revenues</b>	<b>5.9</b>	<b>(0.1)</b>	<b>8.2</b>	<b>6.8</b>	<b>(0.5)</b>	<b>2.1</b>	<b>1.7</b>	<b>1.8</b>	<b>0.6</b>	<b>n/a</b>
<b>EXPENSES</b>										
<i>Operating Expenses</i>										
Salaries and benefits	4.3	(2.2)	0.7	1.3	5.7	2.3	4.2	2.4	0.9	n/a
Supplies and materials	(2.5)	(0.8)	2.0	(11.3)	5.8	(7.7)	4.9	(2.2)	(5.9)	n/a
Services	5.3	(1.5)	11.7	0.1	(1.1)	8.1	3.5	0.6	2.8	n/a
Scholarships and fellowships	7.9	4.2	29.1	16.8	(1.4)	(2.8)	1.4	0.3	3.4	n/a
Utilities	3.0	(2.7)	(1.8)	3.5	14.6	3.4	4.4	11.6	(0.7)	n/a
Depreciation and amortization	3.9	8.4	10.7	27.1	4.1	(22.1)	21.3	1.8	(4.9)	n/a
<b>Total operating expenses</b>	<b>4.2</b>	<b>(1.3)</b>	<b>4.6</b>	<b>1.3</b>	<b>4.0</b>	<b>1.7</b>	<b>4.6</b>	<b>1.7</b>	<b>0.5</b>	<b>n/a</b>
<b>Operating loss</b>	<b>0.1</b>	<b>(3.9)</b>	<b>(3.1)</b>	<b>(8.5)</b>	<b>13.4</b>	<b>0.9</b>	<b>11.1</b>	<b>1.4</b>	<b>0.5</b>	<b>n/a</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>										
State appropriations	5.9	(8.3)	(0.1)	(2.7)	(6.8)	4.6	8.3	2.7	2.4	n/a
State aid - federal recovery funds	0.0	(100.0)	(55.8)	58.3	100.0	n/a	n/a	n/a	n/a	n/a
Non-capital grants – federal student financial aid	0.6	(7.4)	8.5	66.4	100.0	n/a	n/a	n/a	n/a	n/a
Non-capital grants	0.8	(8.7)	10.9	6.7	36.6	55.7	(10.0)	2.3	12.8	n/a
Non-capital gifts, net	(32.0)	4.7	20.2	(13.9)	(24.6)	45.6	3.6	(11.4)	3.1	n/a
Investment income (loss), net	479.4	(84.4)	96.7	(134.5)	(297.8)	(56.2)	48.3	27.1	9.7	n/a
Interest and fees on debt	9.0	11.1	(13.5)	21.2	(3.8)	17.8	4.1	73.6	14.0	n/a
Federal interest subsidy on debt	(4.4)	(1.9)	96.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Other non-operating revenues (expenses)	(73.6)	122.3	(81.6)	(696.8)	170.8	453.2	(161.4)	(102.6)	(198.7)	n/a
<b>Net non-operating revenues</b>	<b>21.3</b>	<b>(26.2)</b>	<b>16.7</b>	<b>86.7</b>	<b>(50.5)</b>	<b>(10.5)</b>	<b>17.6</b>	<b>3.1</b>	<b>7.3</b>	<b>n/a</b>
<b>Income before other revenues</b>	<b>799.9</b>	<b>(92.3)</b>	<b>196.5</b>	<b>122.2</b>	<b>(310.1)</b>	<b>(38.5)</b>	<b>37.7</b>	<b>8.7</b>	<b>38.6</b>	<b>n/a</b>
Capital appropriations	0.0	0.0	0.0	(100.0)	(74.0)	(15.4)	224.5	189.8	451.6	n/a
Refund of prior years capital appropriations	0.0	(100.0)	(82.1)	(86.8)	(100.0)	n/a	n/a	n/a	n/a	n/a
Capital grants	(43.5)	(16.6)	4.4	214.3	105.7	(89.7)	120.0	(67.5)	96.9	n/a
Capital gifts	311.7	(39.7)	(82.3)	44.6	192.3	(29.8)	13.4	10.1	73.6	n/a
Additions to endowments	(13.1)	(39.3)	37.9	(29.3)	(28.2)	44.8	(31.9)	41.2	49.9	n/a
<b>Increase (Decrease) in Net Position</b>	<b>104.9</b>	<b>(67.3)</b>	<b>53.8</b>	<b>199.8</b>	<b>(180.3)</b>	<b>(41.5)</b>	<b>47.2</b>	<b>(17.1)</b>	<b>62.7</b>	<b>n/a</b>



## OPERATING EXPENSES BY FUNCTION

LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<i>Operating Expenses by Function</i>										
Instruction	\$694,692	\$682,857	\$698,770	\$684,836	\$674,942	\$662,228	\$624,128	\$595,319	\$575,951	\$532,927
Research	529,102	472,102	468,685	431,317	398,754	358,199	312,160	285,646	271,208	257,945
Public Service	133,059	122,989	137,279	138,044	126,427	95,618	90,025	85,330	83,005	78,276
Academic Support	114,371	111,719	105,883	107,806	107,371	106,613	97,776	86,229	75,384	75,693
Student Services	27,565	25,992	28,320	26,961	27,967	28,434	25,865	23,957	21,653	20,488
Institutional Support	93,852	84,400	91,558	83,962	89,954	86,549	76,188	71,609	67,426	64,732
Operations and Maintenance of Plant	135,314	140,417	145,270	136,008	145,550	133,031	124,991	111,720	92,860	87,891
Student Financial Aid	104,557	96,871	91,140	69,083	58,557	58,058	56,662	54,105	51,170	47,427
Auxiliary Enterprises	601,996	598,602	562,811	508,213	524,057	494,147	459,660	424,042	383,142	377,418
Depreciation and amortization	117,968	113,530	102,724	90,861	70,747	66,413	80,827	64,475	60,102	60,589
<b>Total Operating Expenses by Function</b>	<b>\$2,552,476</b>	<b>\$2,449,479</b>	<b>\$2,432,440</b>	<b>\$2,277,091</b>	<b>\$2,224,326</b>	<b>\$2,089,290</b>	<b>\$1,948,282</b>	<b>\$1,802,432</b>	<b>\$1,681,901</b>	<b>\$1,603,386</b>

EXPRESSED AS A PERCENT OF THE TOTAL

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	%	%	%	%	%	%	%	%	%	%
Instruction	27.2	27.9	28.7	30.1	30.4	31.7	32.2	33.1	34.3	33.2
Research	20.7	19.3	19.3	18.9	17.9	17.2	16.0	15.8	16.1	16.1
Public Service	5.2	5.0	5.6	6.1	5.7	4.6	4.6	4.7	4.9	4.9
Academic Support	4.5	4.6	4.4	4.7	4.8	5.1	5.0	4.8	4.5	4.7
Student Services	1.1	1.1	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Institutional Support	3.7	3.4	3.8	3.7	4.0	4.1	3.9	4.0	4.0	4.0
Operations and Maintenance of Plant	5.3	5.7	6.0	6.0	6.5	6.4	6.4	6.2	5.5	5.5
Student Financial Aid	4.1	4.0	3.7	3.0	2.6	2.8	2.9	3.0	3.0	3.0
Auxiliary Enterprises	23.6	24.4	23.1	22.3	23.6	23.6	23.6	23.5	22.8	23.5
Depreciation and amortization	4.6	4.6	4.2	4.0	3.2	3.2	4.1	3.6	3.6	3.8
<b>Total Operating Expenses by Function</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

PERCENTAGE INCREASE (DECREASE) FROM PRIOR YEAR

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	%	%	%	%	%	%	%	%	%	%
Instruction	1.7	(2.3)	2.0	1.5	1.9	6.1	4.8	3.4	8.1	n/a
Research	12.1	0.7	8.7	8.2	11.3	14.7	9.3	5.3	5.1	n/a
Public Service	8.2	(10.4)	(0.6)	9.2	32.2	6.2	5.5	2.8	6.0	n/a
Academic Support	2.4	5.5	(1.8)	0.4	0.7	9.0	13.4	14.4	(0.4)	n/a
Student Services	6.1	(8.2)	5.0	(3.6)	(1.6)	9.9	8.0	10.6	5.7	n/a
Institutional Support	11.2	(7.8)	9.0	(6.7)	3.9	13.6	6.4	6.2	4.2	n/a
Operations and Maintenance of Plant	(3.6)	(3.3)	6.8	(6.6)	9.4	6.4	11.9	20.3	5.7	n/a
Student Financial Aid	7.9	6.3	31.9	18.0	0.9	2.5	4.7	5.7	7.9	n/a
Auxiliary Enterprises	0.6	6.4	10.7	(3.0)	6.1	7.5	8.4	10.7	1.5	n/a
Depreciation and amortization	3.9	10.5	13.1	28.4	6.5	(17.8)	25.4	7.3	(0.8)	n/a
<b>Total Operating Expenses by Function</b>	<b>4.2</b>	<b>0.7</b>	<b>6.8</b>	<b>2.4</b>	<b>6.5</b>	<b>7.2</b>	<b>8.1</b>	<b>7.2</b>	<b>4.9</b>	<b>n/a</b>

## REVENUE BASE LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<i>National Institutes of Health</i>										
Total Appropriations (000's)	\$29,151,462	\$30,689,990	\$30,986,200	\$31,246,200	\$30,553,298	\$29,465,000	\$28,626,000	\$28,586,617	\$28,495,157	\$27,887,512
percent increase from prior year	(5.01%)	(0.96%)	(0.83%)	2.27%	3.69%	2.93%	0.14%	0.32%	2.18%	3.03%
<i>National Science Foundation</i>										
Total Appropriations (000's)	\$6,884,110	\$7,033,000	\$6,859,870	\$6,926,400	\$6,490,400	\$6,064,900	\$5,917,160	\$5,580,000	\$5,472,820	\$5,577,830
percent increase from prior year	(2.12%)	2.52%	(0.96%)	6.72%	7.02%	2.50%	6.04%	1.96%	(1.88%)	5.04%

Sources: National Institutes of Health, National Science Foundation.

## ACADEMIC YEAR TUITION AND REQUIRED FEES LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<i>UNC-Chapel Hill vs Association Of American Universities (AAU)</i>										
Resident Undergraduate - UNC-CH	\$7,693	\$7,009	\$6,665	\$5,625	\$5,397	\$5,340	\$5,033	\$4,613	\$4,451	\$4,072
percent increase from prior year	9.76%	5.15%	18.50%	4.23%	1.07%	6.10%	9.11%	3.64%	9.31%	5.60%
AAU Public Universities (mean)	\$11,142	\$10,642	\$9,786	\$8,806	\$8,283	\$7,771	\$7,321	\$6,906	\$6,458	\$5,980
percent increase from prior year	4.70%	8.75%	11.13%	6.31%	6.59%	6.15%	6.01%	6.94%	7.99%	15.89%
<i>Non-Resident Undergraduate - UNC-CH</i>										
Resident Undergraduate - UNC-CH	\$28,445	\$26,834	\$25,280	\$23,513	\$22,295	\$20,988	\$19,681	\$18,411	\$17,549	\$15,920
percent increase from prior year	6.00%	6.14%	7.52%	5.46%	6.23%	6.64%	6.90%	4.91%	10.23%	5.15%
AAU Public Universities (mean)	\$28,991	\$28,031	\$26,577	\$24,775	\$23,104	\$21,821	\$20,652	\$19,579	\$18,471	\$16,849
percent increase from prior year	3.42%	5.47%	7.27%	7.23%	5.88%	5.66%	5.48%	6.00%	9.63%	11.66%
<i>Resident Graduate - UNC-CH</i>										
Resident Graduate - UNC-CH	\$9,692	\$8,646	\$8,202	\$7,162	\$6,693	\$6,236	\$5,680	\$5,014	\$4,651	\$4,269
percent increase from prior year	12.10%	5.42%	14.52%	7.01%	7.33%	9.79%	13.27%	7.80%	8.95%	5.59%
AAU Public Universities (mean)	\$12,849	\$12,364	\$11,367	\$10,795	\$10,133	\$9,432	\$8,913	\$8,379	\$7,812	\$7,260
percent increase from prior year	3.92%	8.77%	5.30%	6.53%	7.43%	5.82%	6.37%	7.26%	7.60%	14.96%
<i>Non-Resident Graduate - UNC-CH</i>										
Non-Resident Graduate - UNC-CH	\$25,782	\$24,333	\$22,932	\$21,560	\$21,091	\$20,234	\$19,678	\$19,012	\$17,899	\$16,267
percent increase from prior year	5.95%	6.11%	6.36%	2.22%	4.23%	2.83%	3.50%	6.22%	10.03%	3.66%
AAU Public Universities (mean)	\$26,145	\$25,381	\$24,085	\$23,002	\$21,912	\$20,618	\$20,067	\$19,295	\$18,367	\$16,488
percent increase from prior year	3.01%	5.38%	4.71%	4.97%	6.28%	2.75%	4.00%	5.05%	11.40%	10.67%

Sources: "Academic Year Tuition and Required Fees, AAU Public Universities," Univ. of Missouri System, Sept. 2011; The University of North Carolina at Chapel Hill Fact Book; Office of Institutional Research and Assessment.





## PRINCIPAL REVENUE PAYERS

LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
State and local grants and contracts	\$41,471	\$41,953	\$38,251	\$37,679	\$29,091	\$51,207	\$45,256	\$41,842	\$39,816	\$39,793
State appropriations and state aid	515,121	486,492	534,678	541,753	538,327	543,292	492,471	440,070	406,673	380,446
Capital appropriations	2,285	0	0	0	12,539	47,206	52,888	15,776	5,166	898
Capital grants	44,177	78,133	91,864	86,117	27,124	12,885	118,850	52,277	152,844	74,392
<b>NC State Government</b>	<b>\$603,054</b>	<b>\$606,578</b>	<b>\$664,793</b>	<b>\$665,549</b>	<b>\$607,081</b>	<b>\$654,590</b>	<b>\$709,465</b>	<b>\$549,965</b>	<b>\$604,499</b>	<b>\$495,529</b>
<b>percent increase (decrease) from prior year</b>	<b>(0.58%)</b>	<b>(8.76%)</b>	<b>(0.11%)</b>	<b>9.63%</b>	<b>(7.26%)</b>	<b>(7.73%)</b>	<b>29.00%</b>	<b>(9.02%)</b>	<b>21.99%</b>	<b>4.37%</b>
Federal grants and contracts	\$587,220	\$578,702	\$571,288	\$530,368	\$471,680	\$447,793	\$429,059	\$422,229	\$403,100	\$384,618
Non-capital grants	182,801	181,339	194,546	172,113	154,016	102,932	62,669	67,388	62,544	53,154
<b>Federal Government</b>	<b>\$770,021</b>	<b>\$760,041</b>	<b>\$765,834</b>	<b>\$702,481</b>	<b>\$625,696</b>	<b>\$550,725</b>	<b>\$491,728</b>	<b>\$489,617</b>	<b>\$465,644</b>	<b>\$437,772</b>
<b>percent increase (decrease) from prior year</b>	<b>1.31%</b>	<b>(0.76%)</b>	<b>9.02%</b>	<b>12.27%</b>	<b>13.61%</b>	<b>12.00%</b>	<b>0.43%</b>	<b>5.15%</b>	<b>6.37%</b>	<b>10.04%</b>

## LONG TERM DEBT

LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Revenue Debt	\$1,319,835	\$1,088,320	\$1,112,480	\$1,135,545	\$943,585	\$961,280	\$678,980	\$694,575	\$338,210	\$351,430
Plus Unamortized Discount/Premium	30,189	34,312	36,068	37,824	30,438	31,898	26,821	28,050	8,098	8,662
Less Unamortized Loss on Refunding	(3,234)	(1,829)	(2,231)	(2,633)	(3,034)	(3,436)	(3,838)	(4,240)	(2,280)	(2,606)
<b>Net General Revenue Debt</b>	<b>1,346,790</b>	<b>1,120,803</b>	<b>1,146,317</b>	<b>1,170,736</b>	<b>970,989</b>	<b>989,742</b>	<b>701,963</b>	<b>718,385</b>	<b>344,028</b>	<b>357,486</b>
Revenue Bonds	68,952	77,449	77,903	82,944	79,734	81,480	83,502	85,642	112,395	114,553
Plus Unamortized Discount/Premium	(128)	(164)	(200)	(243)	(287)	(333)	(158)	(181)	(330)	(356)
<b>Net Revenue Bonds</b>	<b>68,824</b>	<b>77,285</b>	<b>77,703</b>	<b>82,701</b>	<b>79,447</b>	<b>81,147</b>	<b>83,344</b>	<b>85,461</b>	<b>112,065</b>	<b>114,197</b>
Total Bonds Payable	1,415,614	1,198,088	1,224,020	1,253,437	1,050,436	1,070,889	785,307	803,846	456,093	471,683
Notes Payable	45,257	45,941	45,750	46,100	675	1,037	1,362	21,054	33,519	35,000
Capital Leases Payable	765	54	814	3,462	1,710	2,804	2,404	379	970	1,320
<b>Total</b>	<b>\$1,461,636</b>	<b>\$1,244,083</b>	<b>\$1,270,584</b>	<b>\$1,302,999</b>	<b>\$1,052,821</b>	<b>\$1,074,730</b>	<b>\$789,073</b>	<b>\$825,279</b>	<b>\$490,582</b>	<b>\$508,003</b>
<i>Long Term Debt (whole dollars)</i>										
per Student FTE	\$53,997	\$46,357	\$47,022	\$48,789	\$39,946	\$41,503	\$30,966	\$32,954	\$19,835	\$20,893
per Dollar of Total Grants and Contracts	\$1.55	\$1.37	\$1.34	\$1.51	\$1.35	\$1.50	\$1.25	\$1.33	\$0.84	\$0.92
per Dollar of State Appropriations and State Aid	\$2.84	\$2.56	\$2.38	\$2.41	\$1.96	\$1.98	\$1.60	\$1.88	\$1.21	\$1.34

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net General Revenue Debt	\$1,346,790	\$1,120,803	\$1,146,317	\$1,170,736	\$970,989	\$989,742	\$701,963	\$718,385	\$344,028	\$357,486
Commercial Paper Program	18,000	132,650	73,650	59,784	148,291	101,157	192,414	117,414	141,141	8,841
<b>Total General Revenue Debt</b>	<b>\$1,364,790</b>	<b>\$1,253,453</b>	<b>\$1,219,967</b>	<b>\$1,230,520</b>	<b>\$1,119,280</b>	<b>\$1,090,899</b>	<b>\$894,377</b>	<b>\$835,799</b>	<b>\$485,169</b>	<b>\$366,327</b>
<i>General Revenue Debt (whole dollars)</i>										
per Student FTE	\$50,419	\$46,706	\$45,149	\$46,075	\$42,468	\$42,128	\$35,098	\$33,375	\$19,616	\$15,067
per Dollar of Total Grants and Contracts	\$1.45	\$1.38	\$1.28	\$1.43	\$1.44	\$1.52	\$1.42	\$1.34	\$0.83	\$0.66
per Dollar of State Appropriations and State Aid	\$2.65	\$2.58	\$2.28	\$2.27	\$2.08	\$2.01	\$1.82	\$1.90	\$1.19	\$0.96

<b>Data Used in the Above Calculations</b>										
Total Student FTE	27,069	26,837	27,021	26,707	26,356	25,895	25,482	25,043	24,733	24,314
State appropriations and State aid	\$515,121	\$486,492	\$534,678	\$541,753	\$538,327	\$543,292	\$492,471	\$440,070	\$406,673	\$380,446
Federal grants and contracts	\$587,220	\$578,702	\$571,288	\$530,368	\$471,680	\$447,793	\$429,059	\$422,229	\$403,100	\$384,618
State and local grants and contracts	41,471	41,953	38,251	37,679	29,091	51,207	45,256	41,842	39,816	39,793
Non-governmental grants and contracts	132,506	105,191	146,081	120,674	123,649	115,513	92,572	89,976	81,560	75,388
Non-capital grants	182,801	181,339	194,546	172,113	154,016	102,932	62,669	67,388	62,544	53,154
<b>Total Grants and Contracts</b>	<b>\$943,998</b>	<b>\$907,185</b>	<b>\$950,166</b>	<b>\$860,834</b>	<b>\$778,436</b>	<b>\$717,445</b>	<b>\$629,556</b>	<b>\$621,435</b>	<b>\$587,020</b>	<b>\$552,953</b>



## SUMMARY OF RATIOS

### LAST TEN FISCAL YEARS

Fiscal Year Ended June 30, 2013 2012 2011 2010 2009 2008 2007 2006 2005 2004

(AS RESTATED)

#### COMPOSITE FINANCIAL INDEX

<b>+ Primary Reserve Ratio</b>	<b>0.96 x</b>	<b>0.87 x</b>	<b>0.87 x</b>	<b>0.83 x</b>	<b>0.79 x</b>	<b>1.06 x</b>	<b>1.05 x</b>	<b>0.92 x</b>	<b>0.86 x</b>	<b>0.79 x</b>
/ Strength Factor	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133
= Ratio / Strength Factor	7.20	6.51	6.54	6.24	5.94	7.97	7.89	6.92	6.47	5.94
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	2.53	2.29	2.29	2.18	2.08	2.79	2.76	2.42	2.26	2.08
= Ratio 10.00 Cap Subtotal	2.53	2.29	2.29	2.18	2.08	2.79	2.76	2.42	2.26	2.08
<b>+ Return on Net Assets Ratio</b>	<b>6.3%</b>	<b>3.2%</b>	<b>10.5%</b>	<b>7.2%</b>	<b>(6.7%)</b>	<b>8.8%</b>	<b>16.7%</b>	<b>12.3%</b>	<b>16.4%</b>	<b>10.7%</b>
/ Strength Factor	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
= Ratio / Strength Factor	3.15	1.60	5.25	3.60	(3.35)	4.40	8.35	6.15	8.20	5.35
* Weighting Factor	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
= Ratio Subtotal	0.63	0.32	1.05	0.72	(0.67)	0.88	1.67	1.23	1.64	1.07
= Ratio 10.00 Cap Subtotal	0.63	0.32	1.05	0.72	(0.67)	0.88	1.67	1.23	1.64	1.07
<b>+ Net Operating Revenues Ratio</b>	<b>6.2%</b>	<b>0.8%</b>	<b>9.0%</b>	<b>3.3%</b>	<b>(18.9%)</b>	<b>7.3%</b>	<b>11.5%</b>	<b>9.0%</b>	<b>8.6%</b>	<b>6.3%</b>
/ Strength Factor	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
= Ratio / Strength Factor	8.86	1.14	12.86	4.71	(27.00)	10.43	16.43	12.86	12.29	9.00
* Weighting Factor	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
= Ratio Subtotal	0.89	0.11	1.29	0.47	(2.70)	1.04	1.64	1.29	1.23	0.90
= Ratio 10.00 Cap Subtotal	0.89	0.11	1.00	0.47	(2.70)	1.00	1.00	1.00	1.00	0.90
<b>+ Viability Ratio</b>	<b>1.7 x</b>	<b>1.6 x</b>	<b>1.6 x</b>	<b>1.4 x</b>	<b>1.5 x</b>	<b>1.9 x</b>	<b>2.1 x</b>	<b>1.8 x</b>	<b>2.3 x</b>	<b>2.5 x</b>
/ Strength Factor	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417
= Ratio / Strength Factor	4.07	3.84	3.84	3.36	3.60	4.56	5.04	4.32	5.52	6.00
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	1.43	1.34	1.34	1.18	1.26	1.60	1.76	1.51	1.93	2.10
= Ratio 10.00 Cap Subtotal	1.43	1.34	1.34	1.18	1.26	1.60	1.76	1.51	1.93	2.10
Composite Financial Index	5.48	4.05	5.97	4.55	(0.03)	6.31	7.83	6.45	7.06	6.15
Composite Financial Index with 10.00 Cap	5.48	4.05	5.68	4.55	(0.03)	6.27	7.19	6.16	6.83	6.15

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 are capped at a maximum of 10 before the weighting factors are applied so that a higher CFI does not unduly mask a weakness in a component ratio.

**SUMMARY OF RATIOS (CONTINUED)**  
LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>PRIMARY RESERVE RATIO</b>										
Unrestricted Net Position	\$972,888	\$896,092	\$851,254	\$778,439	\$700,280	\$671,970	\$617,573	\$525,513	\$475,631	\$408,705
Unrestricted Net Assets – Component Units *	40,075	35,651	37,848	26,543	23,334	28,897	28,627	23,709	20,653	17,724
Expendable Restricted Net Position	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280	1,086,353	853,133	736,632	648,019
Temporarily Restricted										
Net Assets - Component Units *	307,147	269,856	278,740	245,187	237,867	363,803	361,559	284,351	238,745	209,030
Expendable Net Position and Net Assets	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478
Operating Expenses	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290	\$1,948,282	\$1,802,432	\$1,681,901	\$1,603,386
Interest and Fees on Debt	70,119	64,321	56,765	64,261	52,465	53,311	42,926	39,921	21,823	18,339
Total Expenses	\$2,622,595	\$2,513,800	\$2,489,205	\$2,341,352	\$2,276,791	\$2,142,601	\$1,991,208	\$1,842,353	\$1,703,724	\$1,621,725
Expendable Net Position and Net Assets	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478
Total Expenses	\$2,622,595	\$2,513,800	\$2,489,205	\$2,341,352	\$2,276,791	\$2,142,601	\$1,991,208	\$1,842,353	\$1,703,724	\$1,621,725
<b>Ratio</b>	<b>0.96 x</b>	<b>0.87 x</b>	<b>0.87 x</b>	<b>0.83 x</b>	<b>0.79 x</b>	<b>1.06 x</b>	<b>1.05 x</b>	<b>0.92 x</b>	<b>0.86 x</b>	<b>0.79 x</b>

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 position 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.

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>RETURN ON NET POSITION RATIO</b>										
Change in Net Position	\$267,803	\$130,687	\$391,361	\$249,156	(\$246,993)	\$300,399	\$486,768	\$320,123	\$366,680	\$216,014
Total Net Position (Beginning of Year)	\$4,233,646	\$4,102,959	\$3,711,598	\$3,462,442	\$3,709,435	\$3,409,036	\$2,922,268	\$2,607,879	\$2,241,199	\$2,025,186
<b>Ratio</b>	<b>6.3%</b>	<b>3.2%</b>	<b>10.5%</b>	<b>7.2%</b>	<b>(6.7%)</b>	<b>8.8%</b>	<b>16.7%</b>	<b>12.3%</b>	<b>16.4%</b>	<b>10.7%</b>

Measures total economic return. While an 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.

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>NET OPERATING REVENUES RATIO</b>										
Total Operating Revenues	\$1,838,694	\$1,736,529	\$1,704,936	\$1,542,275	\$1,429,487	\$1,404,252	\$1,304,444	\$1,241,511	\$1,157,001	\$1,102,637
State Appropriations and State Aid	515,121	486,492	534,678	541,753	538,327	543,292	492,471	440,070	406,673	380,446
Non-capital Gifts and Grants, net	250,442	280,785	287,712	247,994	241,242	216,026	136,306	136,212	136,237	121,671
Investment Income (Loss), net	191,969	33,134	208,184	103,605	(296,904)	146,650	317,767	207,423	154,900	135,369
Adjusted Net Operating Revenues	\$2,796,226	\$2,536,940	\$2,735,510	\$2,435,627	\$1,912,152	\$2,310,220	\$2,250,988	\$2,025,216	\$1,854,811	\$1,740,123
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	\$174,205	\$19,361	\$245,908	\$81,186	(\$362,280)	\$168,470	\$259,926	\$182,633	\$159,462	\$110,267
Adjusted Net Operating Revenues	\$2,796,226	\$2,536,940	\$2,735,510	\$2,435,627	\$1,912,152	\$2,310,220	\$2,250,988	\$2,025,216	\$1,854,811	\$1,740,123
<b>Ratio</b>	<b>6.2%</b>	<b>0.8%</b>	<b>9.0%</b>	<b>3.3%</b>	<b>(18.9%)</b>	<b>7.3%</b>	<b>11.5%</b>	<b>9.0%</b>	<b>8.6%</b>	<b>6.3%</b>

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



## SUMMARY OF RATIOS (CONTINUED)

### LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>VIABILITY RATIO</b>										
Unrestricted Net Position	\$972,888	\$896,092	\$851,254	\$778,439	\$700,280	\$671,970	\$617,573	\$525,513	\$475,631	\$408,705
Unrestricted Net Assets – Component Units *	40,075	35,651	37,848	26,543	23,334	28,897	28,627	23,709	20,653	17,724
Expendable Restricted Net Position	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280	1,086,353	853,133	736,632	648,019
Temporarily Restricted Net Assets - Component Units *	307,147	269,856	278,740	245,187	237,867	363,803	361,559	284,351	238,745	209,030
Expendable Net Position and Net Assets	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478
Bonds	\$1,415,614	\$1,198,088	\$1,224,020	\$1,253,437	\$1,050,436	\$1,070,889	\$785,307	\$803,846	\$456,093	\$471,684
Commercial Paper	18,000	132,650	73,650	59,784	148,291	101,157	192,414	117,414	141,141	8,841
Capital Leases	765	54	814	3,462	1,710	2,804	2,404	379	970	1,320
Notes	45,257	45,941	45,750	46,100	675	1,037	1,362	21,054	33,519	35,000
Notes - Component Units *	420	625	850	850	1,400	1,500	2,100	3,000	263	255
Total Adjusted University Debt	\$1,480,056	\$1,377,358	\$1,345,084	\$1,363,633	\$1,202,512	\$1,177,387	\$983,587	\$945,693	\$631,986	\$517,100
Expendable Net Position and Net Assets	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478
Total Adjusted University Debt	\$1,480,056	\$1,377,358	\$1,345,084	\$1,363,633	\$1,202,512	\$1,177,387	\$983,587	\$945,693	\$631,986	\$517,100
<b>Ratio</b>	<b>1.7 x</b>	<b>1.6 x</b>	<b>1.6 x</b>	<b>1.4 x</b>	<b>1.5 x</b>	<b>1.9 x</b>	<b>2.1 x</b>	<b>1.8 x</b>	<b>2.3 x</b>	<b>2.5 x</b>

Measures the ability of the institution to cover its debt as of the statement of net position 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.

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>OPERATING MARGIN EXCLUDING GIFTS</b>										
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	\$174,205	\$19,361	\$245,908	\$81,186	(\$362,280)	\$168,470	\$259,926	\$182,632	\$159,462	\$110,267
Less: Non-capital Gifts and Grants, net	(250,442)	(280,785)	(287,712)	(247,994)	(241,242)	(216,026)	(136,306)	(136,212)	(136,237)	(121,671)
Adjusted Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(\$76,237)	(\$261,424)	(\$41,804)	(\$166,808)	(\$603,522)	(\$47,556)	\$123,620	\$46,420	\$23,225	(\$11,404)
Total Operating Revenues	\$1,838,694	\$1,736,529	\$1,704,936	\$1,542,275	\$1,429,487	\$1,404,252	\$1,304,444	\$1,241,511	\$1,157,001	\$1,102,637
State Appropriations and State Aid	515,121	486,492	534,678	541,753	538,327	543,292	492,471	440,070	406,673	380,446
Investment Income (Loss), net	191,969	33,134	208,184	103,605	(296,904)	146,650	317,767	207,423	154,900	135,369
Adjusted Net Operating Revenues less Gifts	\$2,545,784	\$2,256,155	\$2,447,798	\$2,187,633	\$1,670,910	\$2,094,194	\$2,114,682	\$1,889,004	\$1,718,574	\$1,618,452
Adjusted Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(\$76,237)	(\$261,424)	(\$41,804)	(\$166,808)	(\$603,522)	(\$47,556)	\$124,719	\$46,420	\$23,225	(\$11,404)
Adjusted Net Operating Revenues less Gifts	\$2,545,784	\$2,256,155	\$2,447,798	\$2,187,633	\$1,670,910	\$2,094,194	\$2,114,682	\$1,889,004	\$1,718,574	\$1,618,452
<b>Ratio</b>	<b>(3.0%)</b>	<b>(11.6%)</b>	<b>(1.7%)</b>	<b>(7.6%)</b>	<b>(36.1%)</b>	<b>(2.3%)</b>	<b>5.8%</b>	<b>2.5%</b>	<b>1.4%</b>	<b>(0.7%)</b>

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

**SUMMARY OF RATIOS (CONTINUED)**  
LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>EXPENDABLE RESOURCES TO DEBT</b>										
Unrestricted Net Position	\$972,888	\$896,092	\$851,254	\$778,439	\$700,280	\$671,970	\$617,573	\$525,513	\$475,631	\$408,705
Unrestricted Net Assets – Component Units *	40,075	35,651	37,848	26,543	23,334	28,897	28,627	23,709	20,653	17,724
Expendable Restricted Net Position	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280	1,086,353	853,133	736,632	648,019
Temporarily Restricted Net Assets - Component Units *	307,147	269,856	278,740	245,187	237,867	363,803	361,559	284,351	238,745	209,030
Expendable Net Position and Net Assets	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478
Total Notes, Bonds, Capital Leases and Commercial Paper	\$1,479,636	\$1,376,733	\$1,344,233	\$1,362,783	\$1,201,112	\$1,175,887	\$981,487	\$942,693	\$631,723	\$516,845
Long-Term Debt – Component Units *	420	625	850	850	1,400	1,500	2,100	3,000	263	255
Less: U.S. EPA Project Bonds **	(7,614)	(10,935)	(13,974)	(21,060)	(19,286)	(21,478)	(23,495)	(25,349)	(27,317)	(29,221)
Total Adjusted University Debt	\$1,472,442	\$1,366,423	\$1,331,109	\$1,342,573	\$1,183,226	\$1,155,909	\$960,092	\$920,344	\$604,669	\$487,879
Expendable Net Position and Net Assets	\$2,513,931	\$2,192,507	\$2,175,378	\$1,941,351	\$1,798,635	\$2,263,950	\$2,094,112	\$1,686,706	\$1,471,661	\$1,283,478
Total Adjusted University Debt	\$1,472,442	\$1,366,423	\$1,331,109	\$1,342,573	\$1,183,226	\$1,155,909	\$960,092	\$920,344	\$604,669	\$487,879
<b>Ratio</b>	<b>1.7 x</b>	<b>1.6 x</b>	<b>1.6 x</b>	<b>1.4 x</b>	<b>1.5 x</b>	<b>2.0 x</b>	<b>2.2 x</b>	<b>1.8 x</b>	<b>2.4 x</b>	<b>2.6 x</b>

A broader measure of the ability of the institution to cover its debt as of the statement of net position 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.

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>TOTAL FINANCIAL RESOURCES TO DIRECT DEBT</b>										
Unrestricted Net Position	\$972,888	\$896,092	\$851,254	\$778,439	\$700,280	\$671,970	\$617,573	\$525,513	\$475,631	\$408,705
Non-expendable Restricted Net Position	702,225	700,687	656,723	621,873	586,175	548,151	493,305	430,316	378,234	328,735
Expendable Restricted Net Position	1,193,821	990,908	1,007,536	891,182	837,154	1,199,280	1,086,353	853,133	736,632	648,019
Total Financial Resources	\$2,868,934	\$2,587,687	\$2,515,513	\$2,291,494	\$2,123,609	\$2,419,401	\$2,197,231	\$1,808,962	\$1,590,497	\$1,385,459
Total Financial Resources	\$2,868,934	\$2,587,687	\$2,515,513	\$2,291,494	\$2,123,609	\$2,419,401	\$2,197,231	\$1,808,962	\$1,590,497	\$1,385,459
Total Notes, Bonds, Capital Leases and Commercial Paper	\$1,479,636	\$1,376,733	\$1,344,233	\$1,362,783	\$1,201,112	\$1,175,887	\$981,487	\$942,693	\$631,723	\$516,845
<b>Ratio</b>	<b>1.9 x</b>	<b>1.9 x</b>	<b>1.9 x</b>	<b>1.7 x</b>	<b>1.8 x</b>	<b>2.1 x</b>	<b>2.2 x</b>	<b>1.9 x</b>	<b>2.5 x</b>	<b>2.7 x</b>

A broader measure of the ability of the institution to cover its debt as of the statement of net position date.



## SUMMARY OF RATIOS (CONTINUED)

LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>DIRECT DEBT TO ADJUSTED CASH FLOW</b>										
Net Cash Used by Operating Activities	(\$658,048)	(\$608,177)	(\$598,111)	(\$626,420)	(\$679,012)	(\$641,134)	(\$570,342)	(\$492,016)	(\$460,046)	(\$348,742)
State Appropriations and State Aid	515,121	486,492	534,678	541,753	538,327	543,292	492,471	440,070	406,673	380,446
Grants for Other than Capital Purposes	182,801	181,339	194,546	172,113	154,016	102,932	62,669	67,388	62,544	53,154
Non-capital Gifts	67,641	99,446	93,166	75,881	87,226	113,094	73,637	68,824	73,693	68,517
Adjusted Cash Flow from Operations	\$107,515	\$159,100	\$224,279	\$163,327	\$100,557	\$118,184	\$58,435	\$84,266	\$82,864	\$153,375
Total Notes, Bonds, Capital Leases and Commercial Paper	\$1,479,636	\$1,376,733	\$1,344,233	\$1,362,783	\$1,201,112	\$1,175,887	\$981,487	\$942,693	\$631,723	\$516,845
Adjusted Cash Flow from Operations	\$107,515	\$159,100	\$224,279	\$163,327	\$100,557	\$118,184	\$58,435	\$84,266	\$82,864	\$153,375
<b>Ratio</b>	<b>13.8 x</b>	<b>8.7 x</b>	<b>6.0 x</b>	<b>8.3 x</b>	<b>11.9 x</b>	<b>9.9 x</b>	<b>16.8 x</b>	<b>11.2 x</b>	<b>7.6 x</b>	<b>3.4 x</b>

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.

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>DEBT BURDEN RATIO</b>										
Interest and Fees Paid on Debt and Leases	\$67,685	\$58,903	\$55,699	\$53,180	\$53,010	\$52,779	\$43,676	\$40,390	\$22,644	\$20,438
Principal Paid on Debt and Leases	273,155	66,730	47,647	148,637	46,462	238,672	43,344	228,037	39,608	21,900
Less: Principal Paid from Gifts and Excess Funds	(684)	(221)	(16,484)	(17,639)	(20,866)	(15,732)	0	0	0	0
Less: Principal Paid from Refinancing Activities	(241,645)	(36,500)	0	(104,858)	0	(198,244)	(19,719)	(206,539)	(19,910)	(4,333)
Debt Service	\$98,511	\$88,912	\$86,862	\$79,320	\$78,606	\$77,475	\$67,301	\$61,888	\$42,342	\$38,005
Operating Expenses	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290	\$1,948,282	\$1,802,432	\$1,681,901	\$1,603,386
Interest and Fees on Debt	70,119	64,321	56,765	64,261	52,465	53,311	42,926	39,921	21,823	18,339
Fixed Asset Writedowns (if not included in Operating Expenses)	0	0	0	0	0	0	0	0	2,635	8,132
Less: Depreciation and Amortization Expense	(117,968)	(113,530)	(102,724)	(90,861)	(70,747)	(66,413)	(80,827)	(64,475)	(60,102)	(60,589)
Plus: Principal Paid on Debt and Leases	273,155	66,730	47,647	148,637	46,462	238,672	43,344	228,037	39,608	21,900
Less: Principal Paid from Gifts and Excess Funds	(684)	(221)	(16,484)	(17,639)	(20,866)	(15,732)	0	0	0	0
Less: Principal Paid from Refinancing Activities	(241,645)	(36,500)	0	(104,858)	0	(198,244)	(19,719)	(206,539)	(19,910)	(4,333)
Total Expenditures	\$2,535,453	\$2,430,279	\$2,417,644	\$2,276,631	\$2,231,640	\$2,100,884	\$1,934,006	\$1,799,376	\$1,665,955	\$1,586,835
Debt Service	\$98,511	\$88,912	\$86,862	\$79,320	\$78,606	\$77,475	\$67,301	\$61,888	\$42,342	\$38,005
Total Expenditures	\$2,535,453	\$2,430,279	\$2,417,644	\$2,276,631	\$2,231,640	\$2,100,884	\$1,934,006	\$1,799,376	\$1,665,955	\$1,586,835
<b>Ratio</b>	<b>3.9%</b>	<b>3.7%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.7%</b>	<b>3.5%</b>	<b>3.4%</b>	<b>2.5%</b>	<b>2.4%</b>

Measures the institution's dependence on borrowed funds as a source of financing its mission and the relative cost of borrowing to overall expenditures.

**SUMMARY OF RATIOS (CONTINUED)**  
LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(AS RESTATED)									
<b>DEBT SERVICE TO OPERATIONS</b>										
Interest and Fees Paid on Debt and Leases	\$67,685	\$58,903	\$55,699	\$53,180	\$53,010	\$52,779	\$43,676	\$40,390	\$22,644	\$20,438
Less: Interest and Fees Paid - U.S. EPA Project Bonds *	(5)	(5)	(5)	(6)	(360)	(683)	(977)	(1,264)	(1,534)	(1,781)
Principal Paid on Debt and Leases	273,155	66,730	47,647	148,637	46,462	238,672	43,344	228,037	39,608	21,900
Less: Non-contractual Principal Paid from Gifts and Excess Funds	(684)	(221)	(16,484)	(17,639)	(20,866)	(15,732)	0	0	0	0
Less: Principal Paid from Refinancing Activities	(241,645)	(36,500)	0	(104,858)	0	(198,244)	(19,719)	(206,539)	(19,910)	(4,333)
Less: Principal Paid - U.S. EPA Project Bonds *	(4,210)	(4,215)	(4,215)	(4,215)	(3,860)	(3,540)	(3,245)	(3,240)	(3,065)	(2,815)
Debt Service	\$94,296	\$84,692	\$82,642	\$75,099	\$74,386	\$73,252	\$63,079	\$57,384	\$37,743	\$33,409
Operating Expenses	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290	\$1,948,282	\$1,802,432	\$1,681,901	\$1,603,386
Debt Service	\$94,296	\$84,692	\$82,642	\$75,099	\$74,386	\$73,252	\$63,079	\$57,384	\$37,743	\$33,409
Operating Expenses	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290	\$1,948,282	\$1,802,432	\$1,681,901	\$1,603,386
<b>Ratio</b>	<b>3.7%</b>	<b>3.5%</b>	<b>3.4%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.5%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>2.2%</b>	<b>2.1%</b>

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.

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(AS RESTATED)									
<b>RESEARCH EXPENSES TO TOTAL OPERATING EXPENSES</b>										
Operating Expenses	\$2,552,476	\$2,449,479	\$2,432,440	\$2,277,091	\$2,224,326	\$2,089,290	\$1,948,282	\$1,802,432	\$1,681,901	\$1,603,386
Interest and Fees on Debt	70,119	64,321	56,765	64,261	52,465	53,311	42,926	39,921	21,823	18,339
Fixed Asset Writedowns (if not included in Operating Expenses)	0	0	0	0	0	0	0	0	2,635	8,132
Total Adjusted Operating Expenses	\$2,622,595	\$2,513,800	\$2,489,205	\$2,341,352	\$2,276,791	\$2,142,601	\$1,991,208	\$1,842,353	\$1,706,359	\$1,629,857
Research Expenses	\$529,102	\$472,102	\$468,685	\$431,317	\$398,753	\$358,199	\$312,160	\$285,646	\$271,208	\$257,945
Total Adjusted Operating Expenses	\$2,622,595	\$2,513,800	\$2,489,205	\$2,341,352	\$2,276,791	\$2,142,601	\$1,991,208	\$1,842,353	\$1,706,359	\$1,629,857
<b>Ratio</b>	<b>20.2%</b>	<b>18.8%</b>	<b>18.8%</b>	<b>18.4%</b>	<b>17.5%</b>	<b>16.7%</b>	<b>15.7%</b>	<b>15.5%</b>	<b>15.9%</b>	<b>15.8%</b>

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

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(AS RESTATED)									
<b>NET TUITION PER STUDENT</b>										
Student Tuition and Fees, net	\$348,049	\$320,535	\$289,897	\$249,083	\$236,960	\$218,763	\$210,651	\$195,882	\$164,457	\$153,943
Less: Scholarships and Fellowships	(104,556)	(96,871)	(91,140)	(69,083)	(58,557)	(58,059)	(56,662)	(54,105)	(51,170)	(47,427)
Net Tuition and Fees	\$243,493	\$223,664	\$198,757	\$180,000	\$178,403	\$160,703	\$153,989	\$141,777	\$113,287	\$106,516
Net Tuition and Fees	\$243,493	\$223,664	\$198,757	\$180,000	\$178,403	\$160,703	\$153,989	\$141,777	\$113,287	\$106,516
Undergraduate, Graduate and Professional FTE	27,069	26,837	27,021	26,707	26,356	25,895	25,482	25,043	24,733	24,314
<b>Net Tuition per Student (whole dollars)</b>	<b>\$8,995</b>	<b>\$8,334</b>	<b>\$7,356</b>	<b>\$6,740</b>	<b>\$6,769</b>	<b>\$6,206</b>	<b>\$6,043</b>	<b>\$5,661</b>	<b>\$4,580</b>	<b>\$4,381</b>

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





**SUMMARY OF RATIOS (CONTINUED)**  
LAST TEN FISCAL YEARS

IN THOUSANDS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(AS RESTATED)										
<b>STATE APPROPRIATIONS AND STATE AID PER STUDENT</b>										
State Appropriations and State Aid	\$515,121	\$486,492	\$534,678	\$541,753	\$538,327	\$543,292	\$492,471	\$440,070	\$406,673	\$380,446
Undergraduate, Graduate and Professional FTE	27,069	26,837	27,021	26,707	26,356	25,895	25,482	25,043	24,733	24,314
State Appropriation per Student (whole dollars)	\$19,030	\$18,128	\$19,787	\$20,285	\$20,425	\$20,981	\$19,326	\$17,573	\$16,443	\$15,647

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 Position 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

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009
<b>SPECIFIC REVENUE BOND COVERAGE</b>					
Gross Operating Revenues	\$131,607	\$186,052	\$213,554	\$204,725	\$195,265
Direct Operating Expenses	91,321	121,734	132,525	129,049	144,364
<b>Net Revenue Available for Debt Service</b>	<b>\$40,286</b>	<b>\$64,318</b>	<b>\$81,029</b>	<b>\$75,676</b>	<b>\$50,901</b>
Principal	\$12,625	\$5,090	\$5,450	\$5,890	\$5,515
Interest	0	22	84	168	588
<b>Specific Revenue Debt Service Requirements</b>	<b>\$12,625</b>	<b>\$5,112</b>	<b>\$5,534</b>	<b>\$6,058</b>	<b>\$6,103</b>
<b>Coverage</b>	<b>3.19</b>	<b>12.58</b>	<b>14.64</b>	<b>12.49</b>	<b>8.34</b>
<b>AVAILABLE FUNDS GENERAL REVENUE BONDS</b>					
Total Unrestricted Revenue	\$1,796,035	\$1,708,396	\$1,670,027	\$1,572,416	\$1,483,607
Less:					
State Appropriations and State Aid	(\$515,121)	(\$486,492)	(534,678)	(541,753)	(538,327)
Tuition and Fees	(\$348,049)	(\$320,535)	(289,897)	(249,083)	(236,960)
Specific Revenue Debt Service Requirements	(\$12,625)	(\$5,112)	(5,534)	(6,058)	(6,103)
Plus:					
Adjusted Beginning Unrestricted Net Position	896,092	851,254	778,439	699,458	671,970
<b>Total Available Funds</b>	<b>\$1,816,332</b>	<b>\$1,747,511</b>	<b>\$1,618,357</b>	<b>\$1,474,980</b>	<b>\$1,374,187</b>
<b>Annual Increase</b>	<b>\$68,821</b>	<b>\$129,154</b>	<b>\$143,377</b>	<b>\$100,793</b>	<b>(\$13,418)</b>
<b>% Increase</b>	<b>3.9%</b>	<b>8.0%</b>	<b>9.7%</b>	<b>7.3%</b>	<b>(1.0%)</b>
<b>GENERAL REVENUE BOND COVERAGE</b>					
<b>Total Available Funds</b>	<b>\$1,816,332</b>	<b>\$1,747,511</b>	<b>\$1,618,357</b>	<b>\$1,474,980</b>	<b>\$1,374,187</b>
Principal	\$49,265	\$24,160	\$23,065	\$18,580	\$17,695
Interest	49,204	52,385	53,310	48,596	44,876
<b>General Revenue Debt Service Requirements</b>	<b>\$98,469</b>	<b>\$76,545</b>	<b>\$76,375</b>	<b>\$67,176</b>	<b>\$62,571</b>
<b>Coverage</b>	<b>18.45</b>	<b>22.83</b>	<b>21.19</b>	<b>21.96</b>	<b>21.96</b>

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

Fiscal Year Ended June 30,	2008	2007	2006	2005	2004
<b>SPECIFIC REVENUE BOND COVERAGE</b>					
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
<b>Net Revenue Available for Debt Service</b>	<b>\$63,353</b>	<b>\$44,662</b>	<b>\$38,015</b>	<b>\$35,750</b>	<b>\$31,413</b>
Principal	\$6,340	\$6,180	\$5,635	\$5,700	\$5,335
Interest	1,090	1,527	2,325	3,669	4,034
<b>Specific Revenue Debt Service Requirements</b>	<b>\$7,430</b>	<b>\$7,707</b>	<b>\$7,960</b>	<b>\$9,369</b>	<b>\$9,369</b>
<b>Coverage</b>	<b>8.53</b>	<b>5.79</b>	<b>4.78</b>	<b>3.82</b>	<b>3.35</b>
<b>AVAILABLE FUNDS GENERAL REVENUE BONDS</b>					
Total Unrestricted Revenue	\$1,539,517	\$1,447,939	\$1,316,160	\$1,191,976	\$1,148,297
Less:					
State Appropriations and State Aid	(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 Position	617,573	525,513	475,631	410,110	370,816
<b>Total Available Funds</b>	<b>\$1,387,605</b>	<b>\$1,262,622</b>	<b>\$1,147,879</b>	<b>\$1,021,587</b>	<b>\$975,355</b>
<b>Annual Increase</b>	<b>\$124,983</b>	<b>\$114,743</b>	<b>\$126,292</b>	<b>\$46,232</b>	<b>\$99,355</b>
<b>% Increase</b>	<b>9.9%</b>	<b>10.0%</b>	<b>12.4%</b>	<b>4.7%</b>	<b>11.3%</b>
<b>GENERAL REVENUE BOND COVERAGE</b>					
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
<b>General Revenue Debt Service Requirements</b>	<b>\$55,145</b>	<b>\$48,409</b>	<b>\$43,658</b>	<b>\$27,679</b>	<b>\$21,762</b>
<b>Coverage</b>	<b>25.16</b>	<b>26.08</b>	<b>26.29</b>	<b>36.91</b>	<b>44.82</b>

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.

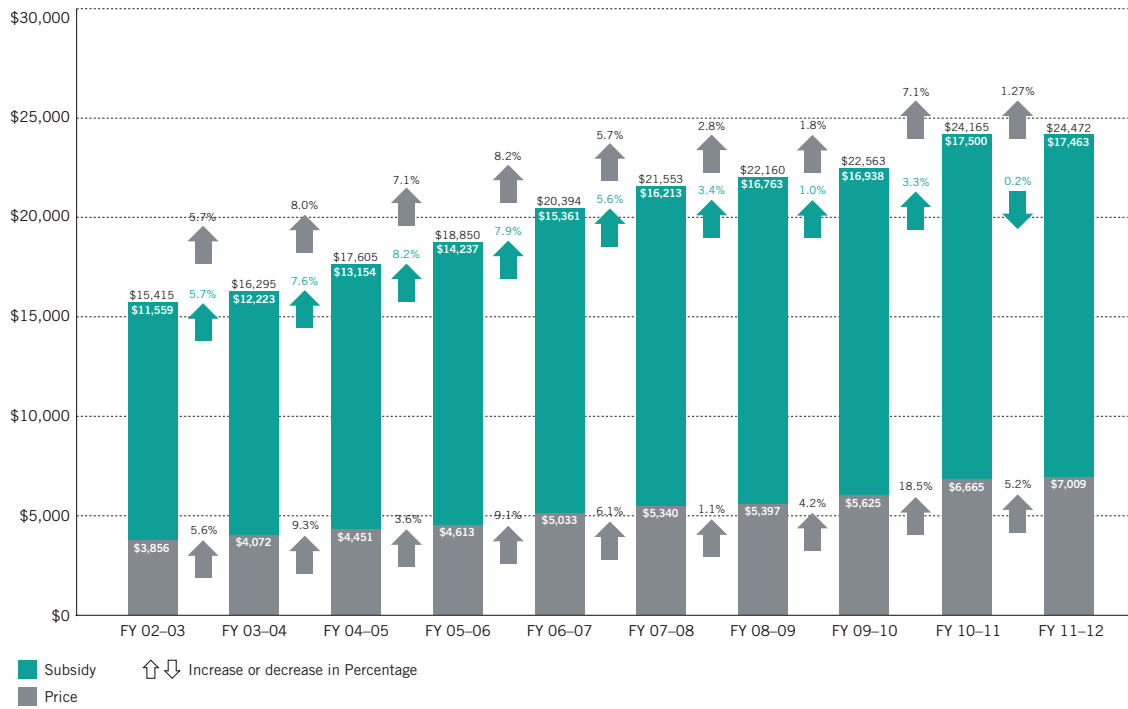
# Annual Undergraduate Educational Costs Per Student

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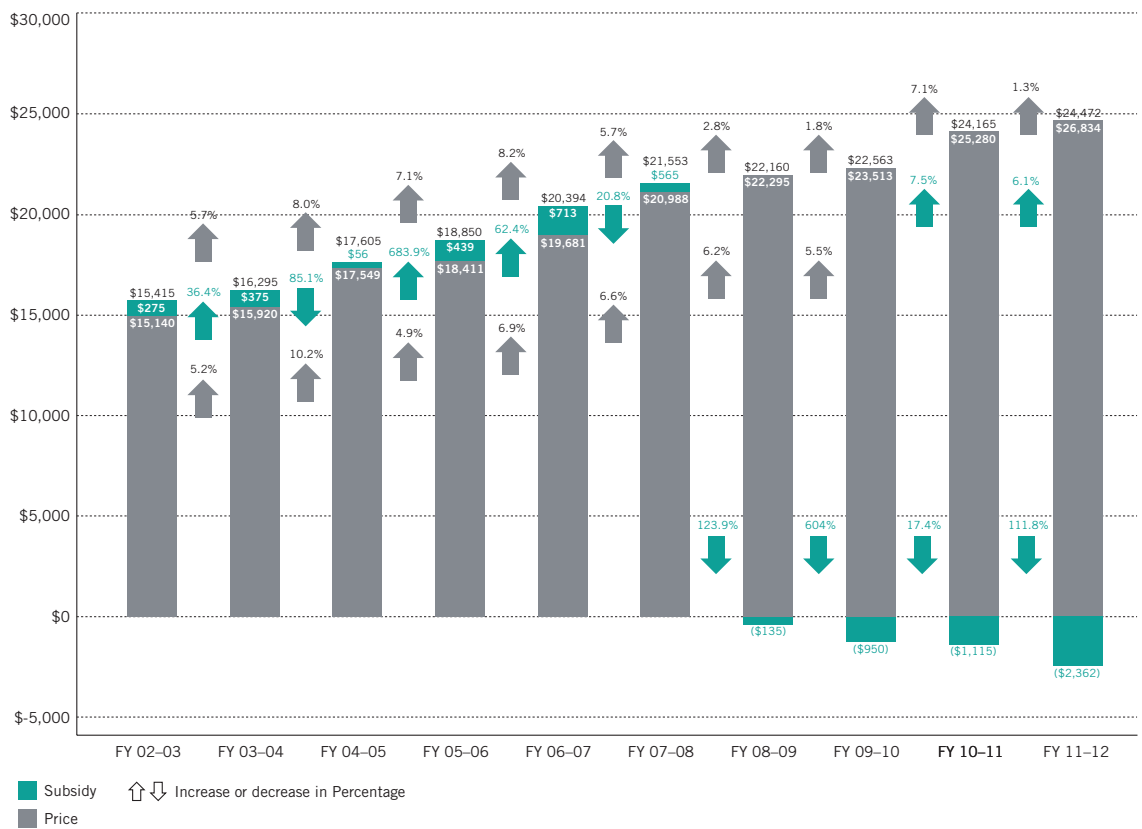
Public concern over tuition prices at colleges and universities led in 1997 to the establishment by Congress of the National Commission on the Cost of Higher Education. The task of the commission was to investigate the college cost-price conundrum and recommend ways to address it. In response, the National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

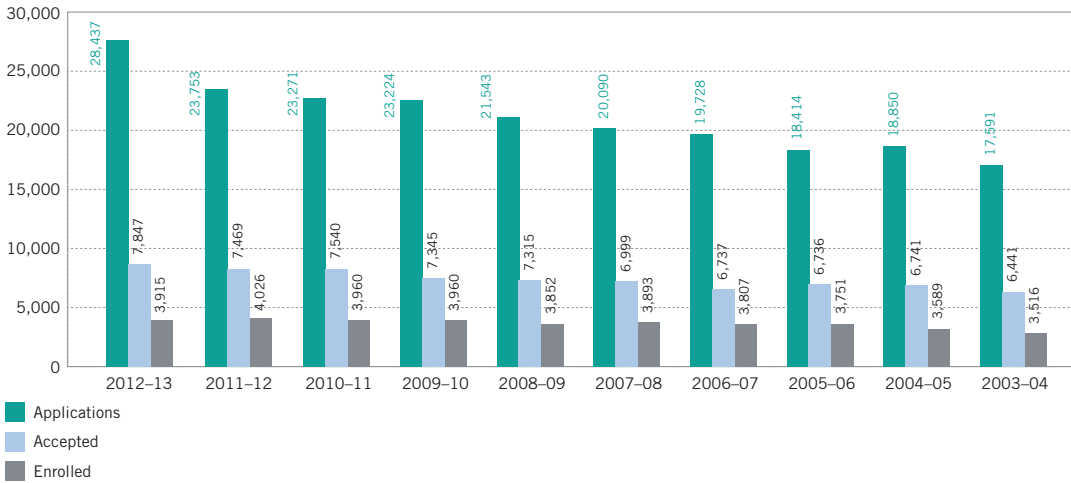
LAST TEN FISCAL YEARS (FALL ENROLLMENT)

	2012 13	2011 12	2010 11	2009 10	2008 09	2007 08	2006 07	2005 06	2004 05	2003 04
<b>ADMISSIONS - FRESHMEN</b>										
Applications	28,437	23,753	23,271	23,224	21,543	20,090	19,728	18,414	18,850	17,591
Accepted	7,847	7,469	7,540	7,345	7,315	6,999	6,737	6,736	6,741	6,441
Enrolled	3,915	4,026	3,960	3,960	3,852	3,893	3,807	3,751	3,589	3,516
Accepted as a Percentage of Applications	27.6%	31.4%	32.4%	31.6%	34.0%	34.8%	34.1%	36.6%	35.8%	36.6%
Enrolled as a Percentage of Accepted	49.9%	53.9%	52.5%	53.9%	52.7%	55.6%	56.5%	55.7%	53.2%	54.6%
Average SAT Scores - Total	1,300	1,300	1,304	1,302	1,301	1,302	1,292	1,299	1,287	1,283
Critical Reading	642	642	644	642	643	646	638	643	638	634
Math	658	658	660	660	658	656	654	656	649	649
<b>ENROLLMENT</b>										
Undergraduate, Graduate and Professional FTE	27,069	26,837	27,021	26,707	26,356	25,895	25,482	25,043	24,733	24,314
Undergraduate, Graduate and Professional Headcount	29,278	29,137	29,390	28,916	28,567	28,136	27,717	27,276	26,878	26,359
Men (Headcount)	12,283	12,169	12,083	11,825	11,825	11,635	11,563	11,403	11,288	10,941
Percentage of Total	42.0%	41.8%	41.1%	40.9%	41.4%	41.4%	41.7%	41.8%	42.0%	41.5%
Women (Headcount)	16,995	16,968	17,307	17,091	16,742	16,501	16,154	15,873	15,590	15,418
Percentage of Total	58.0%	58.2%	58.9%	59.1%	58.6%	58.6%	58.3%	58.2%	58.0%	58.5%
African American (Headcount)	2,486	2,556	2,504	2,793	2,820	2,813	2,756	2,692	2,686	2,658
Percentage of Total	8.5%	8.8%	8.6%	9.8%	9.9%	10.0%	9.9%	9.9%	10.0%	10.1%
White (Headcount)	19,106	19,205	19,587	19,616	19,788	19,860	19,819	19,695	19,665	19,635
Percentage of Total	65.3%	65.9%	66.6%	67.8%	69.3%	70.6%	71.5%	72.2%	73.2%	74.4%
Other (Headcount)	7,686	7,376	7,299	6,507	5,959	5,463	5,142	4,889	4,527	4,066
Percentage of Total	26.2%	25.3%	24.8%	22.4%	20.8%	19.4%	18.6%	17.9%	16.8%	15.5%
<b>DEGREES EARNED</b>										
Bachelor's	4,426	4,622	4,595	4,444	4,302	4,131	3,787	3,773	3,888	3,715
Master's	1,930	1,981	1,918	1,840	1,832	1,836	1,871	1,914	1,847	1,872
Doctoral	499	479	495	513	485	600	512	490	459	439
Professional	686	668	668	643	618	604	601	608	610	587

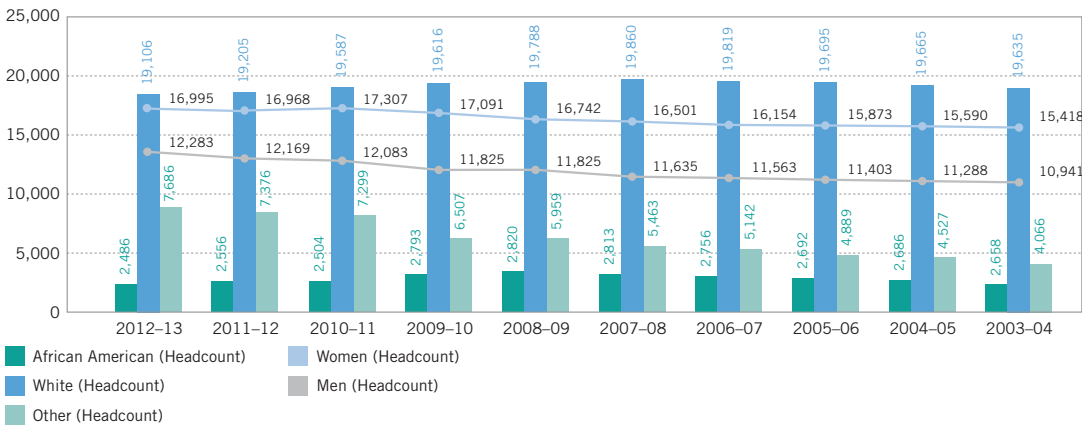
Source: The University of North Carolina at Chapel Hill Fact Book.



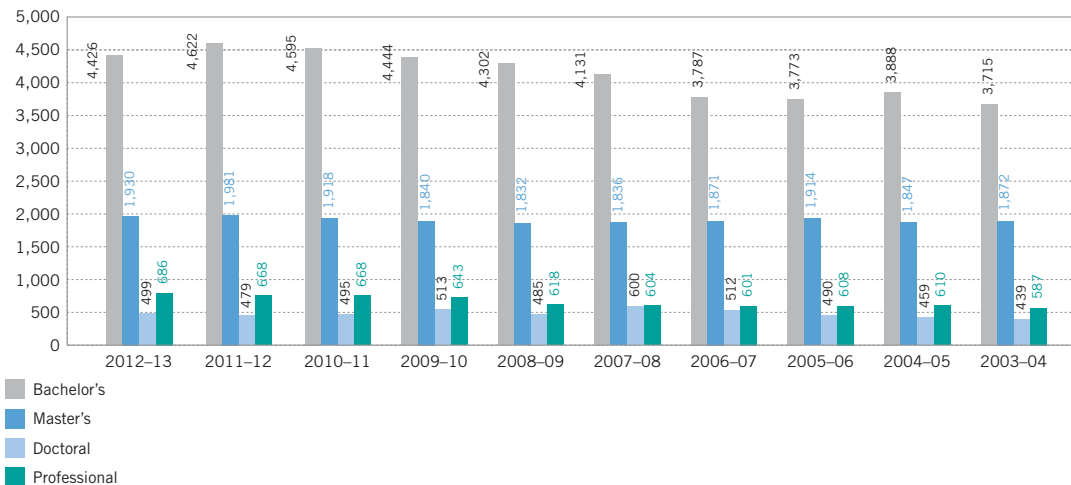
## FRESHMEN APPLIED, ACCEPTED, AND ENROLLED



## HEADCOUNT TOTAL



## DEGREES EARNED



## DEMOGRAPHIC DATA

LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
North Carolina Population	9,854,470	9,779,037	9,692,818	9,535,483	9,380,884	9,222,414	9,061,032	8,856,505	8,683,242	8,541,221
North Carolina Population - 18 year olds	138,538	139,387	136,156	134,940	142,644	131,240	126,722	122,281	120,352	119,691
North Carolina Personal Income (in millions)	\$375,051	\$368,934	\$348,602	\$333,523	\$319,963	\$317,611	\$305,022	\$286,402	\$265,299	\$249,797
North Carolina Per Capita Income	\$38,059	\$37,727	\$35,965	\$34,977	\$34,108	\$34,439	\$33,663	\$32,338	\$30,553	\$29,246
North Carolina Unemployment Rate	8.80%	9.40%	10.50%	10.00%	11.02%	5.95%	4.94%	4.56%	5.33%	5.49%

Sources: Office of the State Controller, North Carolina State Data Center, U.S. Census Bureau.

## PRINCIPAL EMPLOYERS

FISCAL YEAR

2013

2004

Employer	2013			2004		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.25%	165,000-170,000	1	4.21%
Federal Government	65,000-69,999	2	1.57%	60,000-64,999	2	1.57%
Wal-Mart Associates, Inc.	45,000-59,999	3	1.22%	40,000-44,999	3	1.07%
Charlotte Mecklenburg Hospital	30,000-34,999	4	0.76%	10,000-14,999	9	0.31%
Duke University	30,000-34,999	5	0.76%	25,000-29,999	5	0.69%
Food Lion, LLC	25,000-29,999	6	0.64%	25,000-29,999	4	0.69%
Wells Fargo Bank NA	20,000-24,999	7	0.52%	15,000-19,999	6	0.44%
Charlotte-Mecklenburg Board of Education	20,000-24,999	8	0.52%	15,000-19,999	7	0.44%
Bank of America NA	20,000-24,999	9	0.52%	—	—	—
Wake County Public schools	15,000-19,999	10	0.41%	10,000-14,999	10	0.31%
IBM Corporation	—	—	—	15,000-19,999	8	0.44%
<b>Total</b>	<b>435,000-509,990</b>		<b>11.17%</b>	<b>380,000-429,991</b>		<b>10.17%</b>

Notes: All figures are based on 1st quarter average. Percentage of total state employment is based on the average of the ranges given.

Source: Office of the State Controller (North Carolina Employment Security Commission).

## CAPITAL ASSETS

LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Academic/Administrative buildings	134	135	133	131	129	127	125	122	122	122
Dormitories/Auxiliary buildings	91	91	90	90	90	90	90	88	83	83
Art/Library collections	6	6	6	6	6	6	6	6	6	6





## FACULTY AND STAFF LAST TEN FISCAL YEARS

Fall Employment of Fiscal Year	2012 13	2011 12	2010 11	2009 10	2008 09	2007 08	2006 07	2005 06	2004 05	2003 04
<b>FACULTY</b>										
Full-time	3,318	3,291	3,234	3,221	3,147	3,000	2,919	2,885	2,844	2,744
Part-time	290	293	284	285	303	295	303	323	330	313
<b>Total Faculty</b>	<b>3,608</b>	<b>3,584</b>	<b>3,518</b>	<b>3,506</b>	<b>3,450</b>	<b>3,295</b>	<b>3,222</b>	<b>3,208</b>	<b>3,174</b>	<b>3,057</b>
<b>Percentage Tenured</b>	<b>39.9%</b>	<b>40.2%</b>	<b>41.4%</b>	<b>41.2%</b>	<b>41.1%</b>	<b>42.0%</b>	<b>42.5%</b>	<b>43.2%</b>	<b>43.7%</b>	<b>45.4%</b>
<b>STAFF AND EPA NON-FACULTY</b>										
Full-time	1,780	1,725	1,738	1,771	1,710	1,610	1,501	1,374	1,307	1,227
Part-time	131	132	138	139	146	146	155	131	132	128
<b>EPA Non-Faculty</b>	<b>1,911</b>	<b>1,857</b>	<b>1,876</b>	<b>1,910</b>	<b>1,856</b>	<b>1,756</b>	<b>1,656</b>	<b>1,505</b>	<b>1,439</b>	<b>1,355</b>
Full-time	6,133	6,197	6,385	6,484	6,453	6,174	6,104	6,005	6,004	5,947
Part-time	248	271	273	303	323	308	317	318	321	317
<b>SPA</b>	<b>6,381</b>	<b>6,468</b>	<b>6,658</b>	<b>6,787</b>	<b>6,776</b>	<b>6,482</b>	<b>6,421</b>	<b>6,323</b>	<b>6,325</b>	<b>6,264</b>
Total Full-time	7,913	7,922	8,123	8,255	8,163	7,784	7,605	7,379	7,311	7,174
Total Part-time	379	403	411	442	469	454	472	449	453	445
<b>Total Staff and EPA Non-Faculty</b>	<b>8,292</b>	<b>8,325</b>	<b>8,534</b>	<b>8,697</b>	<b>8,632</b>	<b>8,238</b>	<b>8,077</b>	<b>7,828</b>	<b>7,764</b>	<b>7,619</b>
<b>Total Faculty, Staff, and EPA Non-Faculty</b>	<b>11,900</b>	<b>11,909</b>	<b>12,052</b>	<b>12,203</b>	<b>12,082</b>	<b>11,533</b>	<b>11,299</b>	<b>11,036</b>	<b>10,938</b>	<b>10,676</b>

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.





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THE UNIVERSITY  
*of* NORTH CAROLINA  
*at* CHAPEL HILL

## 2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2013 • CHAPEL HILL, NORTH CAROLINA