



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

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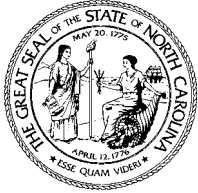
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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, East Carolina University

This report presents the results of our financial statement audit of East Carolina University, a component unit of the State of North Carolina, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the University are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the University were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements and supplementary information that relate solely to East Carolina University. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements and supplementary information that relate solely to East Carolina University. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information that relate solely to East Carolina University.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the University's ability to record, process, summarize, and report financial data in the financial statements.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

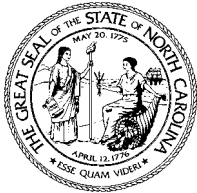
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the accompanying Balance Sheet of East Carolina University, a component unit of the State of North Carolina, as of June 30, 2001, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

As discussed in Note 14A to the financial statements, the University changed its accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001. As discussed in Note 14B to the financial statements, the University implemented Governmental Accounting Standard Board, Statement #33 "Accounting and Reporting of Non-Exchange Transactions" during the year ended June 30, 2001.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2001 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Schedules 1, 2 3 and 4 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

October 15, 2001

East Carolina University
Balance Sheet
June 30, 2001

Exhibit A

	Current Funds			Fiduciary Funds			Plant Funds		
	Unrestricted								
	General	Proprietary	Restricted	Loan	Endowment	Agency	Unexpended	Debt Service	Investment in Plant
ASSETS									
Cash and Cash Equivalents	\$ 29,790,318.31	\$ 96,645,871.62	\$ 3,069,965.73	\$ 1,827,679.64	\$ (7,789.06)	\$ 7,850,777.87	\$ 30,886,788.83	\$ 53,671.51	\$ 0.00
Investments	350.00	222,650.12			10,285,688.95			5,685,830.04	
Receivables:									
Accounts Receivable (Net)	1,318,247.83	27,587,281.23	538,829.53	5,786.51	48.00	8,944.44			
Intergovernmental Receivables			1,337,771.01						
Interest Receivable	55,091.33	386,257.65	15,757.06	7,199.83		35,548.72	61,810.56		
Due from Other Funds	712,931.65	216,817.55	401,604.25						
Due from Other Universities in UNC System			433,349.61						
Due from Primary Government		3,748,811.00	720,556.32				15,484,536.56		
Notes Receivable (Net)		5,360.00		11,646,671.48					
Inventories	558,430.37	2,311,276.17							
Prepaid Items	560.96	1,925,149.23	300.00					192,433.62	
Fixed Assets (Note 4)									494,301,374.30
Other Assets	1,107,407.40								
Total Assets	\$ 33,543,337.85	\$ 133,049,474.57	\$ 6,518,133.51	\$ 13,487,337.46	\$ 10,277,947.89	\$ 7,895,271.03	\$ 46,433,135.95	\$ 5,931,935.17	\$ 494,301,374.30

East Carolina University
Balance Sheet
June 30, 2001

Exhibit A
Page 2

	Current Funds			Fiduciary Funds			Plant Funds		
	Unrestricted								
	General	Proprietary	Restricted	Loan	Endowment	Agency	Unexpended	Debt Service	Investment in Plant
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts Payable and Accrued Liabilities:									
Accounts Payable	\$ 847,978.78	\$ 4,622,777.92	\$ 2,470,343.49	\$ 5,786.51	\$ 0.00	\$ 0.00	\$ 5,477,175.42	\$ 0.00	\$ 0.00
Accrued Payroll	8,226,586.52	4,585,792.85	194,168.34						
Due to Other Funds	175,138.21	373,784.59	451,912.74	3.96	329,424.70		1,089.25		
Due to Primary Government	10,975.30								
Notes Payable		893,840.62							
Bonds Payable (Note 5C)							12,570,000.00	(283,037.51)	51,450,000.00
Interest Payable								467,982.05	
Deposits Payable	208,037.60	928,039.44							
Accrued Vacation Leave	4,110,845.61	2,642,750.73	177,859.79	1,887.26					
Deferred Revenue	3,086,155.87	2,077,777.27							
Funds Held for Others	5,786.51					7,895,271.03			
Total Liabilities	16,671,504.40	16,124,763.42	3,294,284.36	7,677.73	329,424.70	7,895,271.03	18,048,264.67	184,944.54	51,450,000.00
Fund Equity:									
Net Investment in Plant									442,851,374.30
Fund Balances:									
Restricted:									
U. S. Government Grants Refundable				11,035,944.45					
Endowment					5,264,873.88				
Restricted for Debt Retirement								4,272,402.11	
Restricted for Repair and Replacement								1,426,046.25	
Other Restricted Funds			3,223,849.15	2,443,715.28			27,132,436.28		
Unrestricted:									
Quasi-Endowment					4,683,649.31				
Other Unrestricted Funds	16,871,833.45	116,924,711.15					1,252,435.00	48,542.27	
Total Fund Equity	16,871,833.45	116,924,711.15	3,223,849.15	13,479,659.73	9,948,523.19		28,384,871.28	5,746,990.63	442,851,374.30
Total Liabilities and Fund Equity	\$ 33,543,337.85	\$ 133,049,474.57	\$ 6,518,133.51	\$ 13,487,337.46	\$ 10,277,947.89	\$ 7,895,271.03	\$ 46,433,135.95	\$ 5,931,935.17	\$ 494,301,374.30
The accompanying notes to the financial statements are an integral part of this statement.									

East Carolina University
Statement of Changes in Fund Equity
Year Ended June 30, 2001

Exhibit B

	Current Funds			Fiduciary Funds		Plant Funds		
	Unrestricted		Restricted	Loan	Endowment	Unexpended	Debt Service	Investment in Plant
	General	Proprietary						
Revenues and Other Additions:								
Tuition and Fees	\$ 47,339,262.32	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State Appropriations	167,391,782.07					3,979,100.00		
Federal Contracts and Grants	1,629,603.32		19,998,522.20	207,124.00				
State Contracts and Grants	476,752.03		9,816,254.96			16,900,000.00		
Local Contracts and Grants	52,158.86	1,327,780.49	2,338,586.24					
Nongovernmental Contracts and Grants	667,269.77	8,965,142.22	3,695,458.47					
Gifts	85,783.05	2,478,298.00	114,212.70		54,557.53	4,205,408.15	261,483.45	
Investment Income	838,399.45	5,666,988.41	33,101.23	273,046.15	(738,381.96)	256,590.45	309,996.90	
Endowment Income			170,143.43					
Sales and Services	5,356,893.61	141,708,132.26	126,521.28					
Expended for Plant Facilities								28,143,710.05
Retirement of Indebtedness								3,715,000.00
Proceeds of Refunding Debt							12,140,924.79	
Other Revenues and Additions	1,895,410.26	4,654,653.79	26,874.24	209,605.57				
Total Revenues and Other Additions	225,733,314.74	164,800,995.17	36,319,674.75	689,775.72	(683,824.43)	25,341,098.60	12,712,405.14	31,858,710.05
Expenditures and Other Deductions:								
Educational and General	220,695,757.57		35,207,523.08					
Auxiliary Enterprises		58,152,638.99						
Internal Service Funds		5,829,785.02						
Professional Clinical Services		89,697,232.21						
Indirect Costs Recovered			2,803,505.98					
Expended for Plant Facilities						22,968,955.57		
Retirement of Indebtedness							3,715,000.00	
Payment to Escrow Agent							12,140,924.79	
Interest on Indebtedness							2,831,778.31	
Disposal of Plant Facilities								3,118,774.73
Loss on Refunding of Debt								330,000.00
Other Expenditures and Deductions				383,156.00			144,410.13	
Total Expenditures and Other Deductions	220,695,757.57	153,679,656.22	38,011,029.06	383,156.00		22,968,955.57	18,832,113.23	3,448,774.73
Transfers:								
Mandatory Transfers	(69,042.00)	(5,807,746.44)		69,042.00		(762,596.55)	6,570,342.99	
Non-Mandatory Transfers	(4,062,303.16)	(115,459.39)	976,559.45		(504,749.11)	5,423,229.21	(1,717,277.00)	
Net Transfers In (Out)	(4,131,345.16)	(5,923,205.83)	976,559.45	69,042.00	(504,749.11)	4,660,632.66	4,853,065.99	
Net Increase (Decrease) for the Year	906,212.01	5,198,133.12	(714,794.86)	375,661.72	(1,188,573.54)	7,032,775.69	(1,266,642.10)	28,409,935.32
Fund Equity July 1, 2000	15,965,621.44	111,726,578.03	4,865,968.88	13,103,998.01	10,209,771.86	21,352,095.59	7,013,632.73	414,441,438.98
Prior Period Adjustment (Note 15)			(927,324.87)		927,324.87			
Fund Equity June 30, 2001	\$ 16,871,833.45	\$ 116,924,711.15	\$ 3,223,849.15	\$ 13,479,659.73	\$ 9,948,523.19	\$ 28,384,871.28	\$ 5,746,990.63	\$ 442,851,374.30

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

East Carolina University
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 2001, with Comparative Totals for 2000

Exhibit C

	Unrestricted			Restricted	Totals Year Ended June 30,	
	General	Proprietary	Total		2001	2000
Revenues:						
Tuition and Fees	\$ 47,339,262.32	\$ 0.00	\$ 47,339,262.32	\$ 0.00	\$ 47,339,262.32	\$ 41,666,675.05
State Appropriations	167,391,782.07		167,391,782.07		167,391,782.07	153,676,430.03
Federal Contracts and Grants	1,629,603.32		1,629,603.32	18,375,379.88	20,004,983.20	16,702,058.91
State Contracts and Grants	476,752.03		476,752.03	9,347,319.93	9,824,071.96	8,883,859.08
Local Contracts and Grants	52,158.86	1,327,780.49	1,379,939.35	2,286,427.38	3,666,366.73	3,551,744.12
Nongovernmental Contracts and Grants	667,269.77	8,965,142.22	9,632,411.99	3,036,188.70	12,668,600.69	15,759,436.91
Gifts	85,783.05	2,478,298.00	2,564,081.05	114,212.70	2,678,293.75	2,654,249.62
Investment Income	838,399.45	5,666,988.41	6,505,387.86	33,101.23	6,538,489.09	6,001,425.79
Endowment Income				170,143.43	170,143.43	39,330.73
Sales and Services	5,356,893.61	141,708,132.26	147,065,025.87	126,521.28	147,191,547.15	138,498,435.21
Other Sources	1,895,410.26	4,654,653.79	6,550,064.05	26,874.24	6,576,938.29	5,269,400.51
Total Revenues	225,733,314.74	164,800,995.17	390,534,309.91	33,516,168.77	424,050,478.68	392,703,045.96
Expenditures:						
Educational and General:						
Instruction	144,204,694.29		144,204,694.29	7,506,183.85	151,710,878.14	138,912,230.51
Organized Research	359,054.99		359,054.99	9,559,563.97	9,918,618.96	7,956,339.30
Public Service	2,819,463.56		2,819,463.56	7,745,849.08	10,565,312.64	8,740,079.79
Academic Support	19,199,340.26		19,199,340.26	26,095.96	19,225,436.22	17,683,186.16
Student Services	6,392,859.20		6,392,859.20	5,790.20	6,398,649.40	5,798,252.63
Institutional Support	20,098,585.95		20,098,585.95	575,448.20	20,674,034.15	18,641,383.65
Plant Maintenance and Operations	24,417,338.17		24,417,338.17		24,417,338.17	22,153,804.41
Student Financial Aid	3,204,421.15		3,204,421.15	9,788,591.82	12,993,012.97	11,355,548.57
Auxiliary Enterprises		58,152,638.99	58,152,638.99		58,152,638.99	55,049,985.47
Internal Service Funds		5,829,785.02	5,829,785.02		5,829,785.02	5,330,287.09
Professional Clinical Services		89,697,232.21	89,697,232.21		89,697,232.21	82,447,436.71
Total Expenditures	220,695,757.57	153,679,656.22	374,375,413.79	35,207,523.08	409,582,936.87	374,068,534.29
Transfers and Additions/(Deductions):						
Mandatory Transfers	(69,042.00)	(5,807,746.44)	(5,876,788.44)		(5,876,788.44)	(4,857,950.30)
Non-Mandatory Transfers	(4,062,303.16)	(115,459.39)	(4,177,762.55)	976,559.45	(3,201,203.10)	(7,026,901.88)
Net Increase (Decrease) in Fund Equity	\$ 906,212.01	\$ 5,198,133.12	\$ 6,104,345.13	\$ (714,794.86)	\$ 5,389,550.27	\$ 6,749,659.49

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

EAST CAROLINA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. East Carolina University is a constituent institution of the sixteen campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Although legally separate, the ECU International Human Performance Center, Inc. (Corporation), is reported as if it were part of the University.

The Corporation is governed by a fifteen-member board of which the majority is appointed by the Chancellor of East Carolina University. The Corporation's purpose is to provide support for the educational programs at East Carolina University. Because a majority of the board members are appointed by the Chancellor of East Carolina University and the Corporation's sole purpose is to benefit East Carolina University, its financial statements have been blended with those of the University.

Separate financial statements for the Corporation may be obtained from the University at 200 East First Street, Greenville, NC 27858, or by calling (252) 328-6312. 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 generally accepted accounting principles applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement #15 *Governmental College and University*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Accounting and Financial Reporting Models, the University has elected to follow the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.

- C. Fund Structure** - The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

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

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

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

- D. Basis of Accounting** - The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by public educational institutions, no provision is made for depreciation of fixed assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are recorded when earned and expenditures are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-exchange transactions, in which the University receives value without directly giving equal value in exchange, include grants, state appropriations, and private donations. On an accrual basis, revenues from these transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

- E. Cash and Cash Equivalents** - In addition to cash on deposit with private bank accounts, petty cash, and undeposited receipts, this classification includes cash on deposit with fiscal agents, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). All other short-term investments are reported as investments.
- F. Investments** - This classification includes long-term fixed income investments, repurchase agreements, equity investments, mutual funds, money market funds, and other asset holdings by the University. Except for money market funds and other asset holdings, these investments are reported at fair value for year-end financial reporting purposes. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income.

Money market funds and other asset holdings are reported at cost, if purchased, or at fair market value or appraised value at date of gift, if donated.

- G. Receivables and Allowance for Doubtful Accounts** - Accounts receivable in the Unrestricted General Fund and the Unrestricted Proprietary Fund are shown in the accompanying financial statements net of allowances for doubtful accounts of \$65,674.65, and \$15,719,875.01, respectively. In addition, notes receivable in the Loan Fund is shown net of the allowance for doubtful accounts of \$241,146.91. The accounts and notes receivable for other funds are shown at book value with no provision for doubtful accounts considered necessary.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

H. Inventories - Inventories held by the University are priced at the lower of cost or market value using the first-in, first-out method with the exception of the University Bookstore, which uses the retail inventory method. The inventories for the Unrestricted General Fund consist of expendable supplies, postage and fuel oil held for consumption. Inventories for the Unrestricted Proprietary Fund consist of textbooks and other merchandise for resale.

I. Fixed Assets and Depreciation – Fixed Assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The University capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is not recorded.

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as: (1) expenditures, in the case of normal replacement of furniture and movable equipment; (2) mandatory transfers, in the case of required provisions for debt retirement and renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

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

Fixed assets, such as roads, parking lots, decks, sidewalks, and other non-building structures and improvements are capitalized as infrastructure.

J. Vacation and Sick Leave - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

The University has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

K. Revenue Recognition - Current Funds revenues, as reflected on Exhibit C, include all exchange and non-exchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Certain Unrestricted Proprietary Fund auxiliary operations provide goods and services to activities reported in the Unrestricted General Fund as well as external customers. These auxiliary operations include activities such as central stores, the print shop, and other auxiliaries with interdepartmental activities. Because the University reports its Unrestricted General and Proprietary Fund activities separately on the financial statements, inter-departmental charges between the Unrestricted General and Proprietary Funds have not been eliminated. The total internal and external transactions related to these operations totaled approximately \$6,358,295.98 for the fiscal year ended June 30, 2001. These internal and external charges have been reported as a part of sales and service revenue and the related costs as internal service operation expenses or auxiliary enterprise expenses.

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

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

- L. Endowment Investment Return** – Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's pooled endowment funds are made at a rate of 6%. To the extent that the total return for the current year exceeds the payout, the excess is transferred to a reserve account. If the current year earnings do not meet the payout requirements, the University uses accumulated income to make up the difference.

Endowments are classified as either "true" or "quasi". True endowments are funds that the donor has specified, as a condition of the gift, that the principal be maintained indefinitely. Quasi-endowments are funds on which there is no such restriction placed by the donor. For classification purposes, the income and appreciation added to principal is classified as quasi-endowment, unless the donor has stipulated otherwise.

- M. Budget Reductions and Reversions** - The University's General budget was reduced during the fiscal year by 1.91%, which resulted in a cut to the Academic Affairs budget of \$2,361,030.00 and a cut to the Health Affairs budget of \$901,209.00. In addition, the University was required to transfer \$700,000.00 from Medicare Cost Settlement Trust Funds to the State's General Fund to help cover the State's budget shortfall. Also, the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University was required to revert \$314,459.99 of FEMA Floyd recovery funds to the State's General Fund. The budget reductions and reversions were deemed necessary by the Governor as a result of decreases in projected State revenues.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits include cash and cash equivalents totaling \$165,228,421.24. At year-end, cash on hand was \$4,888,863.21. The University's portion of the State Treasurer's Cash and Investment Pool was \$164,199,395.93. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for his investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$1,029,025.31 and the bank balance was \$2,837,037.31. Of the bank balance, \$355,577.09 was covered by federal depository insurance, \$1,867,385.66 was collateralized and \$614,074.56 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c) and 147-69.2 authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as previously discussed.

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

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

Credit Risk Categories - The University's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

<i>Investments</i>				
	Fair Value			
	Risk Category			
	1	2	3	Total
Categorized Investments:				
U. S. Government Securities	\$ 0.00	\$ 4,495,620.99	\$ 0.00	\$ 4,495,620.99
Corporate Bonds		5,893.28		5,893.28
Corporate Stocks	31,250.28	207,472.66		238,722.94
Repurchase Agreements		1,341,181.10		1,341,181.10
Total Categorized Investments	<u>\$ 31,250.28</u>	<u>\$ 6,050,168.03</u>	<u>\$ 0.00</u>	6,081,418.31
Investments Not Categorized:				
Money Market Funds				8,497.39
Mutual Funds				9,881,953.29
Other Investments				222,650.12
Total Investments Not Categorized				<u>10,113,100.80</u>
Total Investments				\$ 16,194,519.11

C. Endowment Fund Investments - The Board of Trustees of the Endowment Fund of East Carolina University has established a policy that emphasizes growth orientation in the investment of endowment funds. The fair value of the Endowment Fund Investments as of June 30, 2001 as compared to the prior year was as follows:

	Balance June 30, 2001	Balance June 30, 2000
Investments by Fund:		
Endowment	\$ 5,264,873.88	\$ 7,613,591.46
Quasi-Endowment Unrestricted	5,020,815.07	3,417,591.12
Total	<u>\$ 10,285,688.95</u>	<u>\$ 11,031,182.58</u>
Investment by Type:		
Debt Securities	\$ 156,865.33	\$ 149,805.41
Equity Securities	238,372.94	325,470.20
Money Market Funds	8,497.39	13,148.97
Mutual Funds	9,881,953.29	10,542,758.00
Total	<u>\$ 10,285,688.95</u>	<u>\$ 11,031,182.58</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - INTER-FUND RECEIVABLES AND PAYABLES

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

Due From	Due To					Unexpended Plant Fund	Total Due From
	Unrestricted General Fund	Unrestricted Proprietary Fund	Restricted Fund	Loan Fund	Endowment Fund		
Unrestricted General Fund	\$ 0.00	\$ 367,531.44	\$ 345,396.25	\$ 3.96	\$ 0.00	\$ 0.00	\$ 712,931.65
Unrestricted Proprietary Fund	109,211.81		106,516.49			1,089.25	216,817.55
Restricted Fund	65,926.40	6,253.15			329,424.70		401,604.25
Total Due To	<u>\$ 175,138.21</u>	<u>\$ 373,784.59</u>	<u>\$ 451,912.74</u>	<u>\$ 3.96</u>	<u>\$ 329,424.70</u>	<u>\$ 1,089.25</u>	<u>\$ 1,331,353.45</u>

These inter-fund receivables and payables are expected to be paid back during the next fiscal year at no interest.

In addition, other inter-fund borrowings of a temporary nature have occurred where one bank account is maintained for more than one fund. Because the fund making the temporary loan has not been determined by the College, these inter-fund borrowings are not reported as an asset of the fund making the advance or as a liability of the fund receiving the advance.

NOTE 4 - CHANGES IN FIXED ASSETS

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

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 4,895,964.69	\$ 1,145,710.08	\$ 0.00	\$ 6,041,674.77
Buildings	295,121,838.78	13,136,607.41		308,258,446.19
Infrastructure	23,300,014.00	2,094,675.32		25,394,689.32
Furniture, Machinery and Equipment	66,434,513.82	6,824,849.27	3,055,980.48	70,203,382.61
Artwork, Artifacts and Literature	53,404,684.11	4,002,381.54	62,794.25	57,344,271.40
Construction in Progress	25,133,041.13	18,235,397.04	16,309,528.16	27,058,910.01
Total Fixed Assets	<u>\$ 468,290,056.53</u>	<u>\$ 45,439,620.66</u>	<u>\$ 19,428,302.89</u>	<u>\$ 494,301,374.30</u>

NOTE 5 - LONG-TERM OBLIGATIONS

A. Changes in Long-Term Obligations - A summary of changes in the long-term obligations is presented as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Notes Payable	\$ 0.00	\$ 950,000.00	\$ 56,159.38	\$ 893,840.62
Bonds Payable (principal only)	54,835,000.00	24,555,000.00	15,370,000.00	64,020,000.00
Total Long-Term Obligations	<u>\$ 54,835,000.00</u>	<u>\$ 25,505,000.00</u>	<u>\$ 15,426,159.38</u>	<u>\$ 64,913,840.62</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Notes Payable - The University was indebted for notes payable in the amount of \$893,840.62 at June 30, 2001 for the purposes shown in the following table.

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount Of Issue	Principal Paid Through 06/30/01	Principal Outstanding 06/30/01
Finance Computer Equipment for Dormitories	Carlyle Capital Markets	5.05	03-01-06	<u>\$ 950,000.00</u>	<u>\$ 56,159.38</u>	<u>\$ 893,840.62</u>

C. Bonds Payable - The University was indebted for bonds payable (net of discount) in the amount of \$63,736,962.49 at June 30, 2001 for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/01	Principal Outstanding 6/30/01
Housing and Dining Services						
Fiber Optic Network	1995	4.5-5.3	11-1-05	\$ 10,900,000.00	\$ 8,500,000.00	\$ 2,400,000.00
Residence Hall Renovation – Jarvis	1998	3.5-5.0	11-1-18	5,095,000.00	330,000.00	4,765,000.00
Jones Hall and Galley Dining Facility Renovation	2001A	4.25-5.75	11-1-21	12,570,000.00		12,570,000.00
Housing & Dining Revenue Refunding Bonds	2001B	4.25-5.75	11-1-15	<u>11,985,000.00</u>		<u>11,985,000.00</u>
Total Housing and Dining Services				<u>40,550,000.00</u>	<u>8,830,000.00</u>	<u>31,720,000.00</u>
Student Services System						
Student Recreation Center	1993	4.5-5.5	5-1-19	17,975,000.00	3,210,000.00	14,765,000.00
Student Health Center	1999	4.75-5.25	5-1-19	<u>3,500,000.00</u>	<u>235,000.00</u>	<u>3,265,000.00</u>
Total Student Services System				<u>21,475,000.00</u>	<u>3,445,000.00</u>	<u>18,030,000.00</u>
Athletic Facilities Revenue System						
Minges Coliseum Renovations	1994	4.0-5.5	5-1-09	8,900,000.00	3,225,000.00	5,675,000.00
Dowdy-Ficklen Stadium Expansion	1996	4.3, variable	5-1-17	<u>7,000,000.00</u>	<u>1,000,000.00</u>	<u>6,000,000.00</u>
Total Athletic Facilities Revenue System				<u>15,900,000.00</u>	<u>4,225,000.00</u>	<u>11,675,000.00</u>
(A) UNC System						
Repairs to Dowdy-Ficklen Stadium	1998A	3.400, variable	10-1-03	1,020,000.00	470,000.00	550,000.00
Blount Intramural Field	1998A	3.400, variable	10-1-08	1,050,000.00	230,000.00	820,000.00
Reade Street Parking Lot	1998A	3.400, variable	10-1-08	<u>1,575,000.00</u>	<u>350,000.00</u>	<u>1,225,000.00</u>
Total UNC System				<u>3,645,000.00</u>	<u>1,050,000.00</u>	<u>2,595,000.00</u>
Total Bonds Payable (principal only)				<u>\$ 81,570,000.00</u>	<u>\$ 17,550,000.00</u>	64,020,000.00
Less: Unamortized Discount						(283,037.51)
Total Bonds Payable						<u>\$ 63,736,962.49</u>

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B

Designated student fees and revenue streams related to the systems financed have been pledged for the payment of these bonds. In addition, fund reservations required by the Bond Indentures have been established and recorded in the Debt Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Demand Bonds** - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice of the University’s remarketing or paying agents.

With regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

- **East Carolina University Athletic Department Variable Rate Demand Revenue Bonds, Series 1996:** On December 1, 1996 the University issued tax-exempt adjustable mode demand bonds in the amount of \$7,000,000.00 that have a final maturity date of May 1, 2017. The bonds are subject to mandatory sinking fund redemption that began on May 1, 1998. The proceeds of this issuance are to pay the cost of renovating and expanding Dowdy-Ficklen Stadium on the campus of East Carolina University and to pay the cost incurred in connection with the issuance of the 1996 Bonds. The bonds are subject to purchase on demand with seven days’ notice and delivery to the University’s remarketing agent, Alex. Brown & Sons, Inc.

Under an irrevocable direct-pay letter of credit issued by Wachovia Bank of North Carolina, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee of .30% of the amount of the bonds then currently outstanding plus an amount for accrued interest. The University has entered into a reimbursement agreement with Wachovia Bank of North Carolina, N.A. in which it has agreed upon termination of the letter of credit to repay all amounts that are drawn under the letter of credit. Interest is charged at the prime rate. At June 30, 2001, no drawings had been made under the letter of credit. The letter of credit automatically extends every month so that termination will not occur until 13 months after notice is received from Wachovia Bank of North Carolina, N.A. that the letter of credit will not be extended. As of June 30, 2001, the earliest such termination date is July 31, 2002.

- **The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A:** In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system-wide financing arrangement for the benefit of its constituent universities. Through this system-wide financing, the University issued debt in the amount of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$3,645,000.00 with a final maturity date of October 1, 2008. These bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The University's proceeds from this issuance were used to refinance notes payable for repairs to Dowdy-Ficklen Stadium, construction of the Blount Intramural Field, and construction of the Reade Street Parking Lot. While bearing interest at a weekly rate, these bonds are subject to purchase on demand with seven days' notice and delivery to the bond paying agent, *The Bank of New York*. Upon notice from the bond paying agent, the remarketing agent, *Salomon Smith Barney, Inc.* has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and NationsBank, N.A. (now part of Bank of America, N.A.), a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a standby fee equal to .13% of the available commitment, payable semiannually in advance, beginning on November 3, 1998, and on each May 1 and November 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility becomes Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (LIBOR plus one percent (1%).) LIBOR is the average of rates per annum for deposits to major money center banks in the London interbank market. Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2001, there were no Liquidity Provider Bonds held by the Liquidity Facility.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in sixty equal monthly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the Liquidity Provider Rate. The expiration date of the Agreement is

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

November 3, 2001 and may be extended for an additional period of up to three years at the discretion of the Liquidity Provider and acceptance by the Board of Governors of the University of North Carolina.

Amounts due under this Standby Bond Purchase Agreement are allocated by the Trustee directly to and paid by the constituent universities participating in the system wide bond issuance.

- E. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2001 are presented as follows:

Fiscal Year	Annual Requirements (Principal and Interest)	
	Bonds Payable	Notes Payable
2002	\$ 7,072,460.01	\$ 215,393.28
2003	7,117,803.76	215,393.28
2004	6,837,223.76	215,393.28
2005	6,720,856.26	215,393.28
2006	5,752,876.26	143,594.90
2007-2011	26,101,426.26	
2012-2016	21,105,517.50	
2017-2021	9,057,037.50	
2022-2026	4,987,575.00	
Total Requirements	\$ 94,752,776.31	\$ 1,005,168.02

- F. Bond Defeasance** - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

Housing and Dining Facilities System: On May 16, 2001, the University defeased \$11,655,000.00 of outstanding Housing and Dining Facilities System Revenue Bonds, Series 1992, Series 1994 and Series 1995 (original issue amount \$22,380,000.00). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's balance sheet. As a result, the University reduced its debt service requirements by \$321,113.16 over the next 15 years and obtained an economic gain of \$238,455.47. At June 30, 2001 the outstanding balance of the defeased Housing and Dining Facilities System bonds was \$11,655,000.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2001:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 1,116,166.06
2003	727,357.82
2004	431,480.90
2005	205,829.07
2006	120,736.94
2007-2011	<u>203,827.40</u>
Total Minimum Lease Payments	<u>\$ 2,805,398.19</u>

Rental expense for all operating leases during the year was \$1,387,555.44.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$61,606,494.48 and on other purchases were \$12,397,261.23 at June 30, 2001.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. University Improvement General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget, Planning, and Management (OSBPM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBPM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The University's remaining authorization \$173,709,500.00 is contingent on future bond sales and OSBPM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 8 - BUDGETING AND BUDGETARY CONTROL

The State of North Carolina operates on a biennial budget cycle with separate annual departmental and institutional certified budgets adopted by the General Assembly.

Chapter 116, Article 1, Part 2A of the North Carolina General Statutes authorizes the universities within the sixteen campus University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget Codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management. Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. East Carolina University has applied for and received special responsibility status.

After the budget is approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. Periodic interim budget statements to department heads guide them in managing budget allocations. Monthly financial reports, which include budget and actual data, are provided for each fund to individual managers responsible for the fund. When actual conditions require changes to the budget, revisions are prepared and communicated to those affected. Changes

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to the budget are reviewed and approved at the University or State level as required. The University maintains an encumbrance accounting system as another method to ensure that imposed expenditure constraints are observed. The state budgetary control is maintained on a cash basis of accounting.

NOTE 9 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self retention of certain risks.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess liability coverage up to \$11,000,000 public officers and employees via contract with a private insurance company. The premium, based on a composite rate, is paid by the University to the State's Agent of Record.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Coverage for fire losses for operations supported by the State's General Fund is provided at no cost to the University. Other operations not supported by the State's General Fund are charged for fire coverage. The University also purchased through the Fund extended coverage, sprinkler leakage, business interruption, vandalism, theft, flood and "all risks" for buildings and contents. Losses covered by the Fund are subject to a \$500 per occurrence deductible except theft losses carry a \$1,000 per occurrence deductible. Coverage for flood losses is provided on University buildings and contents by the Fund and its reinsurer with a deductible of \$1,100,000 per occurrence for all locations, except for buildings located at or below the FEMA 100-year flood recurrence elevation. For locations at or below the FEMA 100-year recurrence elevation (FEMA Zones A, D, E, M, P and V), the deductible is 5% of the property values for each building, including contents, with a minimum of \$1,100,000 per occurrence. In addition, the maximum amount of flood coverage available under the excess insurance is \$5,000,000 for properties located at or below the FEMA 100-year flood recurrence elevation. This flood coverage is provided at no cost to the University. Wind coverage is provided by the Fund and its reinsurer but the University has a \$100,000 deductible per building or \$500,000 deductible per occurrence. However, for losses involving a named storm, such as a hurricane, the University's deductible is increased to 1% of the total value of a building and its contents up to a maximum of \$3,000,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

per occurrence, but not less than \$100,000 per occurrence. There have been no significant reductions in insurance coverage from the previous year. Hurricane Floyd made landfall near Cape Fear, North Carolina on September 16, 1999 as a category two hurricane with estimated maximum winds near 90 knots. As of June 30, 2001, the University has incurred \$7,211,840 in Hurricane Floyd recovery expenses. The University has received \$1,424,280 in reimbursement from FEMA and \$1,629,430 from the State Property Fire Insurance Fund. The University expects approximately \$1.9 million in external recoveries related to Hurricane Floyd.

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

The University is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible.

The University purchased other authorized coverages from private insurance companies. These coverages provide insurance for on-loan collections of art, medical malpractice (except for the Brody School of Medicine), liability coverage, accident coverage for students participating in University athletic events, and liability and physical damage insurance on University boats. These coverages were effected and placed by the North Carolina Department of Insurance through the State's agent of record.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University is self-insured for workers' compensation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University provides medical malpractice insurance for faculty physicians. The medical malpractice is with a private insurance company with coverage of \$10,000,000 per occurrence, \$10,000,000 aggregate, and a \$100,000 deductible.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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 10 - PENSION PLANS

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

After five years of creditable service, employees qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2001, the University had a total payroll of \$225,318,075.19 of which \$100,269,697.31 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$6,016,181.84 and \$5,344,374.87, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2001, 2000, and 1999, which were \$5,344,374.87, \$7,538,283.96, and \$6,541,085.27, respectively.

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

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

The Optional Retirement Program (Program) is a defined contribution retirement plan, which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Program offers plans administered by the Teachers' Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF), as well as Lincoln National Life Insurance Company, the Variable Annuity Life Insurance Company (VALIC) and Fidelity Investments. Participant eligibility and contributory requirements are established by General Statute 135-5.1. Participants contribute 6% of their salary and the University matches with a 6.84% contribution for pension benefits. The University assumes no liability other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Participants in the Program are vested after five years of service but plan administrators must return the value of the participant's and University's contribution to both the participant and the University if termination occurs prior to five years of service. Participants may direct their contributions to TIAA-CREF, Lincoln National, VALIC, Fidelity Investment or combinations of the aforementioned. Participants in all three plans may choose to invest among several alternatives, including fixed and variable accounts. Employees may elect to have their contributions deposited by one provider and the matching benefit deposited by another, or they may elect to have both deposited by the same provider.

For the year ended June 30, 2001, the University had a total payroll of \$225,318,075.19 of which \$95,667,935.68 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$5,740,076.14 and \$6,543,686.80, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$267,694.86 for the year ended June 30, 2001.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-163.30(e). Total employer

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions on behalf of University law enforcement officers for the year ended June 30, 2001 were \$79,953.71. The voluntary contributions by employees amounted to \$1,129,276.00 for the year ended June 30, 2001.

IRC Section 403(b) and 403(b)(7) Plans - All University employees who work can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$3,534,893.26 for the year ended June 30, 2001.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in state administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina, and retirees of the Teachers' and State Employee's Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 1.28% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2001, the University's total contribution to the Plan was \$2,508,001.71. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. The Plan provides disability income to eligible participants. Long-term disability income benefits are advance funded on an actuarially

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2001, the University's total contribution to the DIPNC was \$1,018,875.70. 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 12 - CONSTRUCTION COSTS PAID FROM DEBT PROCEEDS

Construction costs paid from University issued debt proceeds are not reflected as additions to fund equity of the Investment in Plant Fund but rather as an increase to the Investment in Plant Fund's assets and liabilities. During the year, \$986,382.45 was added to the Investment in Plant Fund's assets and liabilities for assets purchased from debt proceeds.

NOTE 13 - RELATED PARTIES

Foundations - There are five separately incorporated non-profit foundations associated with the University. These foundations are the East Carolina University Educational Foundation, Inc., East Carolina University Foundation, Inc., East Carolina University Real Estate Foundation, Inc., East Carolina University Alumni Association, Inc., and the Medical Foundation of East Carolina University.

The East Carolina University Educational Foundation, Inc. provided \$4,492,143.41 for the Dowdy-Ficklen Stadium Expansion Project and the Strength and Conditioning Center Project and \$2,387,765.54 to the Department of Athletics in primary support of student/athlete scholarships and other needs. The other Foundations provided indirect support to the University by disbursing funds directly to recipients. The activities of the above Foundations are not included in the accompanying financial statements except for the direct support provided by the East Carolina University Educational Foundation, Inc. Cash of the East Carolina University Educational Foundation, Inc. is maintained in Agency Funds.

NOTE 14 - ACCOUNTING CHANGES

A. Securities Lending Transactions - The University deposits certain funds with the State Treasurer's Cash and Investment Pool, which participates in securities lending activities. In prior years it was the State's policy to allocate the risk associated with these transactions to each component unit. For the year ending June 30, 2001, the State changed its policy, as a

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

result of discussion with the GASB technical staff, to report the associated risk as part of the State of North Carolina's fiduciary funds rather than to allocate the risk to component units. The effect of this change removes from the University issued financial statements the assets and liabilities associated with the State Treasurer's security lending program. This change does not affect the University's beginning fund equities.

- B. Governmental Accounting Standard Board, Statement #33 - *Accounting and Reporting of Non-Exchange Transactions*** - Effective July 1, 2000, the University implemented the new accounting and reporting standards required in GASB #33. This standard provides accounting rules over non-exchange transactions and changes the University's standards for the recognition of revenues and the reporting of funds received but not earned in the University's restricted fund. In prior years, the University reported funds received but not expended in its restricted fund as an addition to fund equity. Based on this new standard, revenues are recognized when earned and when the resource provider's conditions have been satisfied. Amounts received not meeting the recognition requirements are now reported as deferred revenue. In addition, the new standard requires promises to give (pledges) that are expected to be collected and available for expenditure, and that are verifiable and measurable, be recorded as a receivable and revenue, upon satisfying the resource provider's conditions. Prior to this year, pledges were not recorded as a receivable unless there was a legally enforceable right.

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

As of July 1, 2000, the fund equity of the various funds as previously reported was restated as follows:

Fund Group	To Correct Other Errors in Reported Balances
Restricted Fund	\$ (927,324.27)
Endowment Fund	\$ 927,324.87

The restatement reclassifies realized gains earned in prior fiscal years.

East Carolina University
Revenue Bond Funds
Balance Sheet
June 30, 2001

Schedule 1

	University Specific Bond Issues				System-Wide Bond Issue (*)
	Dormitory and Dining System	Student Services System	Athletic Facilities System	Stadium Expansion	Series 1998A
REVENUE FUND					
Assets:					
Cash and Cash Equivalents	\$ 10,957,578.97	\$ 5,276,806.74	\$ 3,126,306.69	\$ 0.00	\$ 2,680,432.87
Receivables	64,056.64	23,294.21	13,137.29		13,091.34
Due From Other Funds	3,402.43				6,945.93
Total Assets	\$ 11,025,038.04	\$ 5,300,100.95	\$ 3,139,443.98	\$ 0.00	\$ 2,700,470.14
Liabilities and Fund Equity:					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 302,792.10	\$ 0.00	\$ 0.00	\$ 0.00	\$ 669.04
Accrued Payroll	53,282.46				6,263.77
Due to Other Funds	10,720.67	418.66	252.91		1,983.86
Accrued Vacation Leave	193,644.60				28,439.85
Deposits Payable	708,574.77				64,378.00
Deferred Revenue	283,847.74				
Notes Payable	893,840.62				
Total Liabilities	2,446,702.96	418.66	252.91		101,734.52
Fund Equity:					
Unrestricted	8,578,335.08	5,299,682.29	3,139,191.07		2,598,735.62
Total Liabilities and Fund Equity	\$ 11,025,038.04	\$ 5,300,100.95	\$ 3,139,443.98	\$ 0.00	\$ 2,700,470.14

East Carolina University
Revenue Bond Funds
Balance Sheet
June 30, 2001

Schedule 1
Page 2

	University Specific Bond Issues				System-Wide Bond Issue (*)
	Dormitory and Dining System	Student Services System	Athletic Facilities System	Stadium Expansion	Series 1998A
BOND AND INTEREST SINKING FUND					
Assets:					
Cash and Cash Equivalents	\$ 2,967.68	\$ 94.12	\$ 0.00	\$ 0.00	\$ 0.00
Investments	1,873,449.77	1,378,338.02	995,741.41	14,322.03	
Prepaid Expense	54,597.28	42,722.83	24,923.28	70,190.23	
Total Assets	<u>\$ 1,931,014.73</u>	<u>\$ 1,421,154.97</u>	<u>\$ 1,020,664.69</u>	<u>\$ 84,512.26</u>	<u>\$ 0.00</u>
Liabilities and Fund Equity:					
Liabilities:					
Accrued Interest Payable	\$ 206,416.84	\$ 162,801.67	\$ 53,613.54	\$ 45,150.00	\$ 0.00
Unamortized Bond Discount	(43,817.31)	(137,308.74)	(70,500.00)	(31,411.46)	
Total Liabilities	162,599.53	25,492.93	(16,886.46)	13,738.54	
Fund Equity:					
Restricted	1,768,415.20	1,395,662.04	1,037,551.15	70,773.72	
Total Liabilities and Fund Equity	<u>\$ 1,931,014.73</u>	<u>\$ 1,421,154.97</u>	<u>\$ 1,020,664.69</u>	<u>\$ 84,512.26</u>	<u>\$ 0.00</u>
REPAIR AND REPLACEMENT RESERVE					
Assets:					
Cash and Cash Equivalents	\$ 2,067.44	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Investments	134,893.14	907,643.19	381,442.48		
Total Assets	<u>\$ 136,960.58</u>	<u>\$ 907,643.19</u>	<u>\$ 381,442.48</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Liabilities and Fund Equity:					
Fund Equity:					
Restricted	\$ 136,960.58	\$ 907,643.19	\$ 381,442.48	\$ 0.00	\$ 0.00

* These systems include bond financing through the University of North Carolina System Pool Revenue Bonds.
Financing related to these bonds are insured and are not required to maintain debt service reserves.

East Carolina University
Revenue Bond Funds
Schedule of Changes in Fund Equity
Year Ended June 30, 2001

Schedule 2

	University Specific Bond Issues				System-Wide Bond Issue (*)
	Dormitory and Dining System	Student Services System	Athletic Facilities System	Stadium Expansion	Series 1998A
REVENUE FUND					
Additions:					
Tuition and Fees	\$ 0.00	\$ 2,110,587.68	\$ 1,274,961.19	\$ 0.00	\$ 418,555.36
Investment Income	825,493.29	351,704.56	167,632.81		66,017.88
Sales and Services	23,441,278.53				1,648,138.81
Other Revenues and Additions	28,349.57				95.62
Nonmandatory Transfers	905,502.66				
Total Additions	25,200,624.05	2,462,292.24	1,442,594.00		2,132,807.67
Deductions:					
Personnel Compensation	4,341,497.54				673,654.03
Supplies and Materials	1,288,251.18				41,323.47
Current Services	13,819,696.82	5,435.51	3,283.29		148,558.79
Fixed Charges	536,795.76		6,769.00		16,204.96
Capital Outlay	1,478,834.87				43,380.51
Interest Expense	15,638.38				
Miscellaneous	4,479.00				
Mandatory Transfers	2,913,846.80	1,715,436.56	556,592.47		621,870.61
Nonmandatory Transfers		329,575.67	4,050.00		514,857.64
Total Deductions	24,399,040.35	2,050,447.74	570,694.76		2,059,850.01
Net Increase in Fund Equity	801,583.70	411,844.50	871,899.24		72,957.66
Fund Equity July 1, 2000	7,776,751.38	4,887,837.79	2,267,291.83		2,525,777.96
Fund Equity June 30, 2001	\$ 8,578,335.08	\$ 5,299,682.29	\$ 3,139,191.07	\$ 0.00	\$ 2,598,735.62

East Carolina University
Revenue Bond Funds
Schedule of Changes in Fund Equity
Year Ended June 30, 2001

Schedule 2
Page 2

	University Specific Bond Issues				System-Wide Bond Issue (*)
	Dormitory and Dining System	Student Services System	Athletic Facilities System	Stadium Expansion	Series 1998A
BOND AND INTEREST SINKING FUND					
Additions:					
Investment Income	\$ 75,188.73	\$ 75,952.06	\$ 53,570.64	\$ 161.96	\$ 0.00
Private Gifts				261,483.45	
Proceeds from Refunding Debt	12,140,924.79				
Mandatory Transfers	2,792,284.30	1,561,831.60	929,450.95	278,488.07	624,895.61
Total Additions	15,008,397.82	1,637,783.66	983,021.59	540,133.48	624,895.61
Deductions:					
Retirement of Indebtedness	1,725,000.00	635,000.00	545,000.00	300,000.00	510,000.00
Interest on Indebtedness	1,175,045.74	985,584.55	326,690.01	243,784.03	100,673.98
Payment to Escrow Agent	12,140,924.79				
Other Expenditures and Deductions	99,962.10	4,764.96	9,995.46	9,357.62	14,221.63
Non-Mandatory Transfers to Other Funds	923,216.13		30,490.91		
Total Deductions	16,064,148.76	1,625,349.51	912,176.38	553,141.65	624,895.61
Net Increase (Decrease) in Fund Equity	(1,055,750.94)	12,434.15	70,845.21	(13,008.17)	
Fund Equity July 1, 2000	2,824,166.14	1,383,227.89	966,705.94	83,781.89	
Fund Equity June 30, 2001	\$ 1,768,415.20	\$ 1,395,662.04	\$ 1,037,551.15	\$ 70,773.72	\$ 0.00
REPAIR AND REPLACEMENT RESERVE					
Additions:					
Investment Income	\$ 44,055.30	\$ 44,519.26	\$ 16,548.95	\$ 0.00	\$ 0.00
Non-Mandatory Transfers from Other Funds			30,490.91		
Mandatory Transfers	121,562.50	150,579.96	111,250.00		
Total Additions	165,617.80	195,099.22	158,289.86		
Deductions:					
Nonmandatory Transfers to Other Funds	794,060.87				
Other Expenditures and Deductions	2,770.23	2,284.53	1,053.60		
Total Deductions	796,831.10	2,284.53	1,053.60		
Net Increase (Decrease) in Fund Equity	(631,213.30)	192,814.69	157,236.26		
Fund Equity July 1, 2000	768,173.88	714,828.50	224,206.22		
Fund Equity June 30, 2001	\$ 136,960.58	\$ 907,643.19	\$ 381,442.48	\$ 0.00	\$ 0.00
* These systems include bond financing through the University of North Carolina System Pool Revenue Bonds. Financing related to these bonds are insured and are not required to maintain debt service reserves.					

East Carolina University
Intercollegiate Athletics Program
Statement of Current Funds Revenues and Expenditures
Year Ended June 30, 2001

Schedule 3

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:						
Student Fees	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,713,942.64	\$ 4,713,942.64
Ticket Sales	2,888,727.00	273,948.00	13,138.00	660,804.00		3,836,617.00
Program Sales	22,234.00					22,234.00
Novelty Sales					131,293.97	131,293.97
Radio and TV Rights	913,834.67	228,458.66				1,142,293.33
Contest Guarantees	960,000.00	44,761.75	1,500.00			1,006,261.75
Advertising Income	497,051.37	126,050.34	12,400.00	7,400.00		642,901.71
Institutional Sports Camps and Clinics	146,883.00	33,739.00	34,266.50	134,900.00		349,788.50
Concessions	261,200.00	95,560.00	21,238.82			377,998.82
Gifts:						
Unrestricted					2,150,000.00	2,150,000.00
Restricted					272,666.00	272,666.00
Investment Income:						
Unrestricted					82,723.58	82,723.58
Restricted					79,973.20	79,973.20
NCAA					490,244.00	490,244.00
State Appropriations					119,079.51	119,079.51
Other Sources					346,625.49	346,625.49
Total Revenues	5,689,930.04	802,517.75	82,543.32	803,104.00	8,386,548.39	15,764,643.50
Expenditures:						
Coaches' Salaries	1,236,923.35	274,590.03	200,009.00	734,609.72	1,046,556.09	3,492,688.19
Accrued Salaries					14,078.74	14,078.74
Other Salaries	95,540.03	49,507.24	54,747.59	58,081.44	879,089.27	1,136,965.57
Fringe Benefits	201,610.20	54,307.78	44,196.32	141,118.76	319,515.74	760,748.80
Travel:						
Team	778,981.20	101,311.08	77,895.94	447,814.85	231,707.33	1,637,710.40
Recruiting	149,683.51	81,590.24	48,265.20	74,100.80		353,639.75
Financial Aid	1,067,343.36	197,403.49	186,354.80	1,218,846.41	231,233.37	2,901,181.43
Supplies and Uniforms	493,700.13	52,837.77	34,749.10	241,101.54	328,967.46	1,151,356.00
Equipment Purchases	13,688.63	699.57	4,749.84	11,578.64	82,807.29	113,523.97
Insurance	3,095.85	1,476.66	1,427.50	3,463.32	97,400.30	106,863.63
Telephone	22,079.98	17,498.91	6,747.09	24,779.45	67,514.61	138,620.04
Entertainment	9,041.20	2,052.05	3,723.79	10,359.28	37,809.52	62,985.84
Contest Guarantees	825,000.00	11,000.00	4,300.00	190,345.99		1,030,645.99
Radio and TV					141,488.23	141,488.23
Printing and Binding	27,602.36	5,485.29	5,950.15	10,370.00	206,928.22	256,336.02
Repairs and Maintenance	54,163.06	7,385.80	4,715.37	15,955.34	199,120.82	281,340.39
Advertising	1,208.27		1,013.73	2,077.70	46,349.83	50,649.53
Equipment Rentals	36,904.53	430.12	123.05	8,446.04	67,374.41	113,278.15
Ticket Price Adjustments	196,248.00	6,974.00	2,040.00	8,805.00		214,067.00
Other Fixed Charges	625.00	510.00	725.00	1,895.00	155,550.50	159,305.50
Other Contractual Services	181,895.35	19,058.10	16,406.60	52,465.79	278,837.32	548,663.16
Miscellaneous	357,650.94	98,687.25	42,188.25	112,150.15	815,155.23	1,425,831.82
Total Expenditures	5,752,984.95	982,805.38	740,328.32	3,368,365.22	5,247,484.28	16,091,968.15
Excess (Deficiency) of Revenues over Expenditures	\$ (63,054.91)	\$ (180,287.63)	\$ (657,785.00)	\$ (2,565,261.22)	\$ 3,139,064.11	\$ (327,324.65)
The accompanying notes are an integral part of this statement.						

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The East Carolina University is a constituent institution of The 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*. East Carolina University is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding statement of current funds revenues and expenditures presents the University's intercollegiate athletic program's activity in accordance with the NCAA financial audit guidelines. Those guidelines require only a presentation of the current funds revenues and expenditures by major program. This presentation is not intended to provide a complete presentation of the program's financial position or its changes in fund balances.
- C. Revenue Recognition** - Current funds revenues include all gifts, grants, fees, sales receipts, and other resources earned and for which the resource provider condition(s) attached to those amounts were satisfied during the reporting period.
- D. Basis of Accounting** - The preceding statement of current funds revenues and expenditures was prepared in accordance with the accrual basis, except that no depreciation expense is reflected.
- E. Non-Monetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at their fair value at the date of receipt.

During the year, uniforms were provided to the University at no charge. The uniforms were provided in exchange for the University's agreement not to use other manufacturers' clothing. This amount is recorded as advertising income in the preceding statement of current funds revenues and expenditures.

During the year, leased vehicles and coaching services were provided at no charge to the University. The values of these donations have been recorded as private gifts on the preceding statement of current funds revenues and expenditures.

NOTE 2 - ADDITIONS TO FUNDS OTHER THAN CURRENT FUNDS

During the year, additions to funds other than the current funds follow:

<u>Fund Type</u>	
Endowment Funds	<u>\$ 1,371.87</u>

NOTE 3 - THE EAST CAROLINA UNIVERSITY EDUCATIONAL FOUNDATION, INC.

The East Carolina University Educational Foundation, Inc. (Foundation) is a separate and legal entity established to promote and support the University's intercollegiate athletic program. During the fiscal year, the University received direct current funds support from the Foundation, as well as indirect support through payments made on behalf of the University's current fund activities by the Foundation. These amounts are reported as contributions and expenditures on the preceding statement of current funds revenues and expenditures. The amounts provided as direct support and as indirect support follow:

<u>Current Funds</u>	
Direct Support	<u>\$ 2,232,888.00</u>
Indirect Support Funds	<u>\$ 154,877.54</u>

In addition to supporting the University's current fund activities, the Foundation also provided resources during the year for the following non-current funds activities.

Plant Funds	<u>\$ 4,492,143.41</u>
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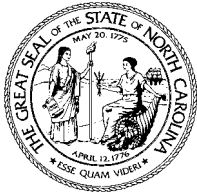
East Carolina University

Schedule of General Obligation Bond Project Authorizations, Budgets and Expenditures

For Project-to-Date as of June 30, 2001

	Projected				Total		
	Start	General Obligation	Other		Project	Amount	Percent
Capital Improvement Project	Date	Bonds Authorized	Sources		Budget	Expended	Completed
Projects Started							
Science Laboratories and Technology Building	11/2000	\$ 55,125,300.00	\$ 0.00		\$ 55,125,300.00	\$ 500,000.00	0.01
Infrastructure - Repairs and Expansions	11/2000	16,291,100.00			16,291,100.00	529,338.44	0.03
Campus Computing Center	11/2000	1,785,000.00	1,650,000.00		3,435,000.00	207,124.10	0.06
Nursing, Allied Health, DEC	11/2000	59,482,500.00			59,482,500.00	134,000.00	0.00
Land Acquisition	11/2000	7,879,400.00			7,879,400.00	252,125.00	0.03
Flanagan Building - Renovation and Conversion	02/2001	13,421,300.00			13,421,300.00		0.00
Classroom Improvements - Technology Upgrades	03/2001	3,648,400.00			3,648,400.00		0.00
Projects Not Started - To Be Funded in Future Years							
Technology Infrastructure Expansion	12/2001	807,600.00			807,600.00		
Academic Space Requirements	01/2002	5,250,000.00			5,250,000.00		
Expansion and Renovations - Old Nursing Building	08/2002	14,685,500.00			14,685,500.00		
Belk Building - Comprehensive Renovation	08/2002	7,791,300.00			7,791,300.00		
Old Cafeteria Office Building	08/2002	4,442,100.00			4,442,100.00		
Total All Projects		190,609,500.00	1,650,000.00		192,259,500.00	1,622,587.54	
<p><i>Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.</i></p>							

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Ralph Campbell, Jr.
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the financial statements of East Carolina University, a component unit of the State of North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 15, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees and Board of Governors, management and staff of the University, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

October 15, 2001

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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Mr. Edward Renfrow	State Controller
Ms. Molly Corbett Broad	President, The University of North Carolina
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Mr. Richard Brown	Vice Chancellor for Administration and Finance East Carolina University
Mr. Charles R. Franklin, Jr.	Chairman, Board of Trustees East Carolina University

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Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

November 28, 2001

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