



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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, 2002

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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 constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 2002. 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 subjected 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 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 that relate solely to East Carolina University. A summary of our reporting objectives and audit results is:

- 1. Objective** - Express an opinion on the accompanying financial statements 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. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **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 and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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 basic financial statements of East Carolina University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Carolina University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2002 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 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.



Ralph Campbell, Jr.
State Auditor

October 10, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and activities of East Carolina University for the fiscal year ended June 30, 2002. The preceding transmittal letter and the following financial statements and footnotes comprise our complete set of financial information. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and past year are not required for this first year that MD&A is being presented. Future MD&A will have comparative data for the applicable years (past and current) with emphasis on the current year.

Using the Financial Statements

The University's financial report includes three financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. During 2002, the University adopted GASB Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Previously, financial statements focused on the accountability of individual fund groups rather than on the University as a whole.

Other significant changes to the financial statements are as follows:

- ✓ Revenues and expenses are now categorized as either operating or nonoperating. Previously, a measure of operations was not presented. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income (loss) are considered nonoperating, as defined by GASB Statement No. 35.
- ✓ The Statement of Net Assets is now separated into current and noncurrent assets and liabilities. Current assets are those that are expected to be converted to cash within one year and consist mainly of cash and accounts receivable. Current liabilities are expected to be settled within one year and are mostly accounts payable and accrued compensation.
- ✓ Scholarships and fellowships applied to student accounts are now shown as a reduction of student tuition and residence fee revenues, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses. Previously, all scholarships and fellowships were presented as expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- ✓ Depreciation was recorded for the first time this year resulting in a \$129 million restatement in the beginning balance for net assets as a result of accumulated depreciation. Additionally, library books that were previously capitalized are now expensed, causing a \$57 million reduction in the beginning balance for net assets.
- ✓ The Statement of Cash Flows was also required for the first time this year. This statement reports cash activity divided into areas of operating, capital financing, noncapital financing, and investing. As required by the new GASB statement, the Statement of Cash Flows was produced using the direct method.
- ✓ The reporting of internal service fund transactions was eliminated as a result of the implementation of the new accounting model. This elimination resulted in a \$5.5 million reduction in revenues and expenses during fiscal year 2002. The elimination serves to show only transactions that are external to the University in the statements.
- ✓ The elimination of indirect costs incurred on grants and contracts and related revenues recorded in overhead receipts is another effect of the implementation of the new model. This change resulted in a \$2.8 million decrease in revenues and expenses for 2002.

Financial Highlights

- The University's financial position remained strong at June 30, 2002, with assets of \$585 million and liabilities of \$119 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, were \$466 million.
- Along with other State agencies, East Carolina University was subject to a one-time reversion of \$14.2 million during the fiscal year due to the weak economy and its impact on the State of North Carolina. University administrators managed this loss of funds through managed hiring and various operating reductions in order to minimize negative consequences for the University's teaching and research mission.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the University as of June 30, 2002 and includes all assets and liabilities of the University. The difference between total assets and total liabilities, (net assets), is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. This data provides information on assets available to continue operations; amounts due to vendors, investors, and lending institutions; and the net assets available for expenditure by the University. Assets and liabilities are generally measured using current values. One notable exception is capital

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of the University's assets, liabilities, and net assets at June 30, 2002 is as follows:

(Dollars in thousands)

Assets:		
Current Assets		\$ 187,582
Noncurrent Assets		
Capital Assets, Net	\$ 351,729	
Other	<u>45,790</u>	
Total Noncurrent Assets		<u>397,519</u>
Total Assets		<u>585,101</u>
Liabilities:		
Current Liabilities		36,042
Noncurrent Liabilities		<u>82,700</u>
Total Liabilities		<u>118,742</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	281,842	
Restricted – Nonexpendable	8,792	
Restricted – Expendable	36,995	
Unrestricted	<u>138,730</u>	
Total Net Assets		<u>\$ 466,359</u>

A review of the Statement of Net Assets at June 30, 2002 shows that the University continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost control, management of its endowment, conservative utilization of debt, and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

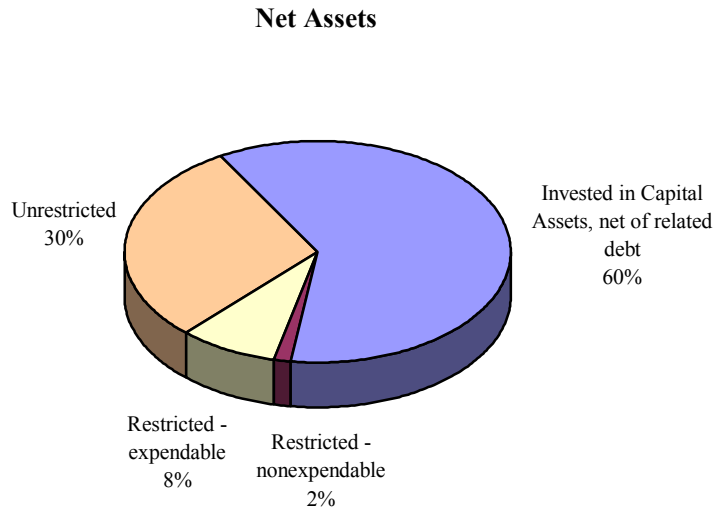
Current assets consist primarily of cash and receivables expected to be collected within the next accounting cycle. Current assets at June 30, 2002 were approaching \$188 million. Of this amount, \$146 million represented cash and cash equivalents alone, with the next largest area being patient receivables of \$25 million.

Current liabilities are comprised mostly of accounts payable, accrued compensation, and current portions of long-term liabilities. Current liabilities for the year were \$36 million, comprised mostly of accounts payable, which totaled \$14 million. The next major portion consisted of accrued compensation which accounted for almost \$10 million.

Net assets represent the residual interest in the University's assets after all liabilities are deducted. For reporting purposes, they are divided into four categories: invested in capital

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

assets, net of related debt; restricted non-expendable; restricted expendable, and unrestricted net assets. The following chart displays the contribution of each category to the total:



Net assets invested in capital assets, net of related debt represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt resulting from the acquisition, construction or improvement of those assets. Of the \$466 million in net assets this year, \$282 million was attributable to East Carolina's Investment in Capital Assets. Until this year, recognition of depreciation was not required on the financial statements. As a result of this change, the University incurred a substantial amount of accumulated depreciation in this first year of implementation. At June 30, 2002, accumulated depreciation was \$134 million.

Restricted nonexpendable net assets primarily include the University's permanent endowment funds. This year they accounted for \$6 million of total net assets. Restricted expendable net assets are subject to externally imposed restrictions governing their use. This category of net assets made up \$37 million of the \$466 million net assets total.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects. This year, unrestricted net assets amounting to \$139 million represent thirty percent of total net assets.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by the institution, both operating

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided, i.e., state appropriations and investment income. Nonoperating expenses include interest expense, extraordinary items, and accounting changes/corrections, i.e., expenses not involved in the normal operations of the University. The following is a condensed Statement of Revenues, Expenses, and Changes in Net Assets for East Carolina University as of June 30, 2002:

	<i>(Dollars in thousands)</i>
Operating Income (Loss):	
Operating Revenues	\$ 247,379
Operating Expenses	<u>(407,472)</u>
Total Operating Income (Loss)	(160,093)
Nonoperating Revenues (Expenses)	<u>159,826</u>
Income (Loss) before other Revenues, Expenses, Gains and Losses	(267)
Other Revenues, Expenses, Gains and Losses	<u>27,524</u>
Change in Net Assets	<u><u>\$ 27,257</u></u>
Net Assets – July 1, as previously stated	\$ 637,432
Restatements	<u>(198,330)</u>
Net Assets – July 1, after GASB restatements	439,102
Change in Net Assets (above)	<u>27,257</u>
Net Assets – June 30	<u><u>\$ 466,359</u></u>

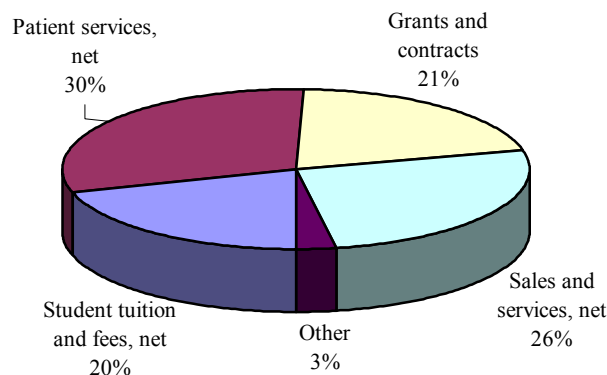
One of the University's opportunities is to increase revenue streams that will supplement its student tuition and fees and State appropriations. These include voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, and investment income. The University has in the past and will continue to seek funding from all possible sources consistent with its mission, to supplement student tuition, and to manage prudently the financial resources realized from these efforts to fund its operating activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in net assets at year-end of \$27 million. Operating income is the residual amount after operating expenses are deducted from operating revenues, both of which were described above.

Operating revenues totaled \$247 million and consisted of five areas: student tuition and fees, net; patient services, net; grants and contracts; sales and services, net; and other operating revenues. The chart below shows each component of operating revenue as it relates to total operating revenues as a whole:

Operating Revenues for East Carolina University

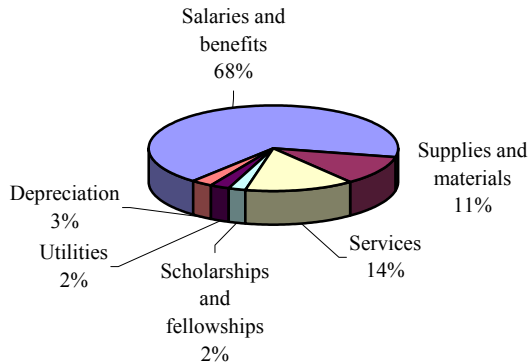


As is evident by the graph, patient services makes up almost one-third of all operating revenues. Student tuition and fees are presented net of the tuition discount. The tuition discount is an offset to revenues for the scholarships and fellowships that are applied to student accounts. Tuition and fees were not previously displayed in this manner.

Operating expenses are mainly attributable to salaries and benefits for the faculty and staff of the University. Of the \$407 million in operating expenses, \$274 million were used for this purpose. Other elements included in operating expenses are supplies and materials, services, scholarships and fellowships, utilities, and depreciation. An illustration of these aspects follows:

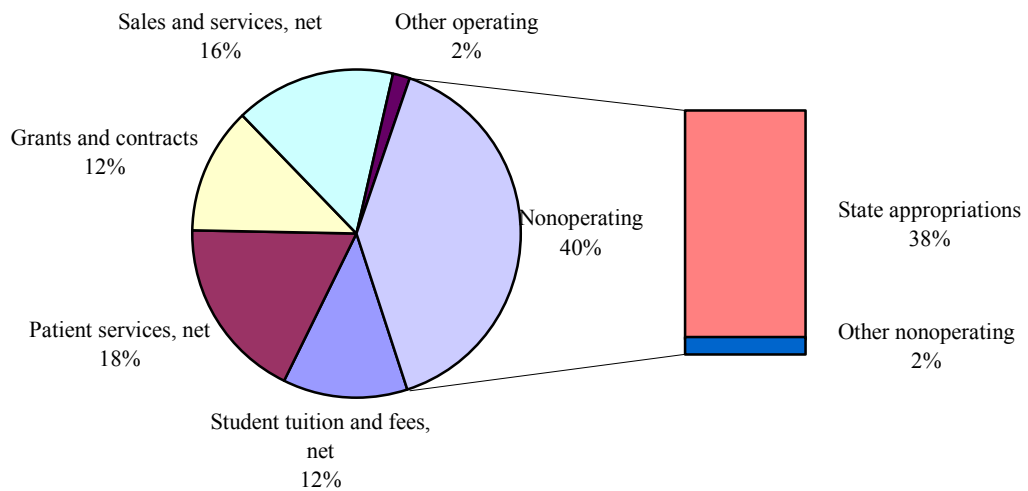
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses for East Carolina University



As mentioned before, nonoperating revenue consists primarily of state appropriations and investment income. Of the \$160 million recognized as net nonoperating revenue, \$154 million reflect appropriated funds from the State. As expected, these appropriations contribute greatly to the overall revenues of the University. The following graph examines the effect of these nonoperating revenues in conjunction with all revenues for the institution:

Total Revenues for East Carolina University



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As depicted by the above graph, state appropriations represent a very significant component of total revenues for the University. They represent 38% of total revenue and 96% of nonoperating revenue. Unfortunately, due to a weak economy, North Carolina State agencies were required to provide a one-time reversion to the State. This amount totaled \$14.2 million for East Carolina University. Nonoperating expenses for the University were made up of interest and fees on capital asset-related debt, which totaled approximately \$4 million. This amount represented less than one percent of all University expenses for the year.

Statement of Cash Flows

The Statement of Cash Flows provides detail on the cash activity for the year. Cash provided or used is categorized based on the type of activity, i.e., operating, noncapital financing, capital financing or investing. Net cash used is reconciled to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets. The following is a condensed version of the Statement of Cash Flows for the year ended June 30, 2002:

(Dollars in thousands)

Cash Provided (Used) by:	
Operating activities	\$ (152,360)
Noncapital financing activities	157,396
Capital financing activities	(29,010)
Investing activities	<u>8,816</u>
Net change in cash	(15,158)
Cash, beginning of year	<u>170,117</u>
Cash, end of year	<u><u>\$ 154,959</u></u>

Operating activities are those activities that result from providing goods and services and include the cash effects of transactions that enter into the determination of operating income. This is also the residual category, meaning that it covers transactions that do not fit into any of the other categories. The most significant source of operating cash is cash that has been received from customers, which amounted to \$247 million. This includes tuition and fees, grants and contracts, patient services, and sales and services of educational and auxiliary nature. The most notable use of operating cash was for compensation and benefits for University employees which totaled \$276 million.

Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets. These activities also include repaying those amounts borrowed, including interest, along with certain other interfund or intergovernmental receipts and payments. Almost all of this activity results from appropriations from the State.

Capital financing activities include borrowing money for the acquisition, construction, improvement and disposal of capital assets used in providing services or producing goods.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

This also includes repayments as well as interest. Sources in this area incorporate \$24 million in capital grants and \$15 million in proceeds from capital debt. Acquisition and construction of capital assets in the amount of \$50 million was the most significant capital use.

The final group on the Statement of Cash Flows is investing. Investing activities include making and collecting loans and acquiring or disposing of debt or equity instruments. Proceeds from sales and maturities of investments, along with interest on investments, make up the \$18 million in investing sources. The major related use of these funds was \$9 million for the purchase of investments and related fees.

Capital Assets

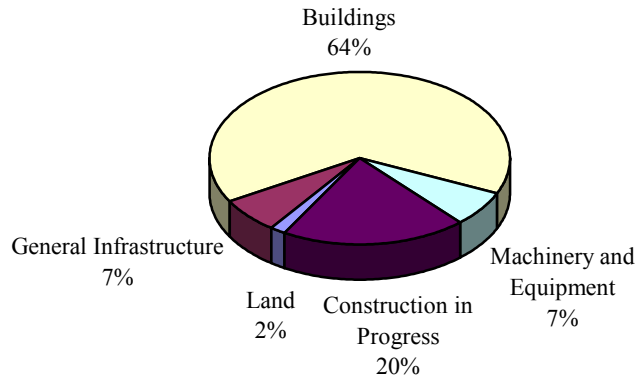
A critical factor in continuing the quality of the University's academic and research programs and residential life is the acquisition, construction, and improvement of its capital assets. The University continues to implement its long-range plan to modernize its complement of older teaching and research facilities, balanced with new construction. This goal has been significantly enhanced by the 2000 Higher Education Bond issue that has provided East Carolina University with \$190 million of funding to construct new academic buildings, renovate older facilities, and update or replace campus infrastructure.

The University had \$352 million invested in capital assets at year-end. There was a net decrease of \$142 million in capital assets for the year; however, this is slightly misleading. Because of the implementation of the new accounting model, depreciation had to be recognized for the first time, causing a much greater reduction in capital assets than should be expected in future years. Of this \$142 million decrease, \$134 million was attributable to accumulated depreciation in this year alone. In addition to depreciation, another change to affect capital assets resulting from the new model was the decision to expense previously capitalized library books. This brought another deduction in this category of \$57 million, more than making up the decrease for the year.

Capital assets for the University were comprised of non-depreciable and depreciable assets. Non-depreciable assets were land and construction in progress. Depreciable assets were buildings, machinery and equipment, and general infrastructure. The following chart displays the relationship of each category to total capital assets as a whole:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets for East Carolina University (2002)



As is evident from the above chart, most of the University's capital assets are in the form of buildings which have been completed or that are construction in progress.

Capital additions consist primarily of replacement, renovation, and new construction of capital assets as well as significant investments in equipment, including information technology. Capital additions totaled \$63 million. As noted above, a major component of this was funded from the \$2.5 billion Higher Education Bond issue allocated to the University system that was approved by the voters in North Carolina in 2000.

In order to continue to provide quality educational experiences, it is imperative that the University maintains a constant level of growth in regards to capital assets. A plan of this nature will assist the University in avoiding obsolescence and will also provide a marketable tool for attracting more students to the school. Significant capital additions for next fiscal year are depicted below:

(Dollars in thousands)

Description	Funding Source	Amount
Science and Technology Building	Appropriated	\$ 25,693
Brody "C" Lot Paving	Bond Proceeds	182
Family Practice Center	Self-Liquidating	1,213
Repairs to Dowdy-Ficklen Stadium	Self-Liquidating	1,065
Rivers Building Expansion	Bond Proceeds	342
West End Dining	Self-Liquidating	248

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

More detailed information on the University's capital assets is presented in Note 6 to the financial statements.

Debt

The University had \$60.7 million in outstanding bonds and notes on June 30, 2002. Of this, almost \$60 million was for bonds and \$755,000 was for notes payable. New debt, issued December 6, 2001 included \$14.6 million in Student Fee Revenue Refunding Bonds for the Student Recreation Center (2001C). The refunding component of this bond issue was used to advance refund (defease) \$14.8 million of outstanding Student Services System Revenue Bonds, Series 1993. Net proceeds of \$14.5 million resulted from the bond sale. The University provided other sources of funds totaling \$1.4 million. All of the net proceeds were used to purchase U. S. Government securities.

More detailed information on the University's long-term obligations is presented in Note 8 to the financial statements.

Economic Forecast

Management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, the community, and governmental agencies. The University's strong financial position, as evidenced by its continued growth in enrollment, the overwhelming support by the citizens of North Carolina for the issuance of the \$2.5 billion bond issue for which East Carolina University received \$190 million for key capital projects and an A1 rating from Moody's on the latest bond issuance will provide a high degree of flexibility in supporting expected growth in the future. This flexibility, along with the University's ongoing efforts toward revenue enhancement and cost containment, will enable the University to provide the necessary resources to support this level of excellence.

The North Carolina economy continues to lag due to the weak financial markets and a large economic dependency on textiles and tobacco. This provides a challenge to the North Carolina General Assembly to identify other revenue streams. This also provides an opportunity for East Carolina University to expand its partnership with local and state governments to establish an environment that will bring new businesses to North Carolina and provide additional revenues to the State.

A crucial element of the University's future will continue to be our relationship with the State of North Carolina. Education continues to be recognized as an investment in North Carolina's future and is well supported by the State of North Carolina General Assembly, Board of Governors and North Carolina citizens. The State continues to fully fund enrollment increases, providing substantial additional resources to East Carolina University based on significant growth in our student population through the end of the decade.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The University continues to execute its long-range plan to modernize and expand its complement of teaching and research facilities with a balance of new construction. The majority of the funding for these projects was provided by the \$2.5 billion Higher Education Bond issue overwhelmingly passed by North Carolina voters in 2000. This strategy addresses the University's need for infrastructure growth and the continuing effects of technology on teaching and research methodologies.

Private gifts are an important supplement to the fundamental support from the State and student tuition, and a significant factor in the growth of academic units. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

For endowments, the University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather any economic uncertainties.

Contacting the University's Financial Management

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the University's finances and show accountability of all funds received. If you have any questions or need additional financial information, please contact David Price, Director of Accounting for East Carolina University, at (252) 328-6252.

East Carolina University**Statement of Net Assets****June 30, 2002****Exhibit A****ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	123,561,379.32
Restricted Cash and Cash Equivalents		21,989,857.23
Receivables, Net (Note 5)		32,350,184.27
Due from Primary Government		3,863,576.64
Inventories		2,839,585.69
Notes Receivable, Net (Note 5)		1,320,002.28
Other Assets		1,657,774.45
Total Current Assets		187,582,359.88

Noncurrent Assets:

Restricted Cash and Cash Equivalents		9,407,619.38
Restricted Due from Primary Government		13,473,094.81
Endowment Investments		9,705,907.37
Other Long-Term Investments		3,887,886.73
Notes Receivable, Net (Note 5)		9,315,669.30
Capital Assets, Net (Note 6)		351,728,533.86
Total Noncurrent Assets		397,518,711.45

Total Assets	\$	585,101,071.33
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East Carolina University
Statement of Net Assets
June 30, 2002

Exhibit A
Page 2

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	\$ 26,906,639.35
Deferred Revenue	3,794,716.16
Interest Payable	449,876.48
Long-Term Liabilities - Current Portion (Note 8)	4,891,008.61
	<hr/>
Total Current Liabilities	36,042,240.60

Noncurrent Liabilities:

Deposits Payable	1,230,368.59
Funds Held for Others	6,796,094.95
U. S. Government Grants Refundable	11,423,938.43
Long-Term Liabilities (Note 8)	63,249,845.77
	<hr/>
Total Noncurrent Liabilities	82,700,247.74

Total Liabilities	<hr/> <hr/> 118,742,488.34
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	281,842,394.18
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	751,087.26
Endowed Professorships	5,014,555.63
Departmental Uses	304,973.97
Loans	2,721,610.03

Expendable:

Scholarships and Fellowships	2,243,645.39
Research	814,806.48
Departmental Uses	1,004,535.75
Capital Projects	29,378,357.20
Debt Service	3,346,832.36
Other	206,281.70

Unrestricted	<hr/> 138,729,503.04
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Total Net Assets	<hr/> <hr/> \$ 466,358,582.99
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The accompanying notes to the financial statements are an integral part of this statement.

East Carolina University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

Exhibit B

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 50,036,951.52
Patient Services, Net (Note 10)	74,960,402.46
Federal Grants and Contracts	21,043,684.57
State and Local Grants and Contracts	12,400,420.41
Nongovernmental Grants and Contracts	17,553,026.24
Sales and Services, Net (Note 10)	64,423,428.83
Interest Earnings on Loans	71,900.52
Other Operating Revenues	6,888,790.70
Total Operating Revenues	247,378,605.25

EXPENSES

Operating Expenses:	
Salaries and Benefits	273,691,212.04
Supplies and Materials	45,100,414.61
Services	58,425,093.99
Scholarships and Fellowships	8,723,476.54
Utilities	9,870,750.44
Depreciation	11,660,817.70
Total Operating Expenses	407,471,765.32
Operating Loss	(160,093,160.07)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	153,698,575.79
Noncapital Gifts, Net	3,823,138.36
Investment Income	6,163,986.18
Interest and Fees on Capital Asset-Related Debt	(3,922,424.64)
Other Nonoperating Revenues (Expenses)	62,800.00
Net Nonoperating Revenues	159,826,075.69
Loss Before Other Revenues, Expenses, Gains, or Losses	(267,084.38)
Capital Grants	24,420,028.00
Capital Gifts, Net	3,103,574.75
Increase in Net Assets	27,256,518.37

NET ASSETS

Net Assets - July 1, 2001, as Restated (Note 18)	439,102,064.62
Net Assets - June 30, 2002	\$ 466,358,582.99

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

East Carolina University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

Cash Flows from Operating Activities

Received from Customers	\$	246,768,187.49
Payments to Employees and Fringe Benefits		(276,433,556.08)
Payments to Vendors and Suppliers		(114,403,377.89)
Payments for Scholarships and Fellowships		(8,723,476.54)
Loans Issued		(1,184,874.33)
Collection of Loans		2,231,933.70
Interest Earned on Loans		7,879.99
Student Deposits Received		1,816,647.24
Student Deposits Returned		(1,722,355.69)
Other Receipts (Payments)		(716,968.61)
Net Cash Used by Operating Activities		(152,359,960.72)

Cash Flows from Noncapital Financing Activities

State Appropriations		153,572,834.85
Noncapital Gifts		3,823,138.36
Net Cash Provided by Noncapital Financing Activities		157,395,973.21

Cash Flows from Capital Financing and Related Financing Activities

Proceeds from Capital Debt		14,590,344.47
State Capital Appropriations		2,011,441.75
Capital Grants		24,420,028.00
Capital Gifts		3,103,574.75
Proceeds from Sale of Capital Assets		62,800.00
Acquisition and Construction of Capital Assets		(50,413,682.97)
Principal Paid on Capital Debt and Leases		(18,844,250.84)
Interest and Fees Paid on Capital Debt and Leases		(3,940,530.21)
Net Cash Used by Capital Financing and Related Financing Activities		(29,010,275.05)

Cash Flows from Investing Activities

Proceeds from Sales and Maturities of Investments		10,591,772.59
Interest on Investments		7,409,252.14
Purchase of Investments and Related Fees		(9,185,190.69)
Net Cash Provided by Investing Activities		8,815,834.04

Net Decrease in Cash and Cash Equivalents		(15,158,428.52)
Cash and Cash Equivalents - July 1, 2001		170,117,284.45
Cash and Cash Equivalents - June 30, 2002	\$	154,958,855.93

***East Carolina University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002***

***Exhibit C
Page 2***

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

Operating Loss	\$	(160,093,160.07)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		11,660,817.70
Allowances, Write-Offs, and Amortizations		(30,699.47)
Changes in Assets and Liabilities:		
Receivables (Net)		252,976.35
Inventories		30,120.85
Prepaid Items		203,915.21
Accounts Payable and Accrued Liabilities		(4,564,396.75)
Funds Held for Others		(1,104,962.59)
U. S. Government Grants Refundable		387,993.98
Deferred Revenue		(791,493.59)
Compensated Absences		547,576.74
Deposits Payable		94,291.55
Note Principle Repayments		2,231,933.70
Notes Issued		(1,184,874.33)
Net Cash Used by Operating Activities	\$	<u>(152,359,960.72)</u>

Noncash Investing, Capital and Financing Activities:

Assets Acquired through the Assumption of a Liability	\$	5,075,770.74
Change in Fair Value of Investments		(1,194,143.11)

Reconciliation of Cash and Cash Equivalents:

Current Assets:		
Cash and Cash Equivalents		123,561,379.32
Restricted Cash and Cash Equivalents		21,989,857.23
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		9,407,619.38
Total Cash and Cash Equivalents - June 30, 2002	\$	<u>154,958,855.93</u>

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

EAST CAROLINA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, and other asset holdings by the University. Except for money market funds and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the Federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method, except for the University Bookstore which uses the retail inventory method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for infrastructure, 10 to 50 years for buildings and 3 to 15 years for equipment. The University does not capitalize the library and art collections. These collections adhere to the University's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for, and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, and compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

- L. Net Assets** – The University's net assets are classified as follows:

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University.

- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** – The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University. Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to University departments as well as to its customers. These institutional auxiliary operations include activities such as central stores, printing and graphics, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - BUDGETING AND BUDGETARY CONTROL

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - DEPOSITS AND INVESTMENTS

- A. **Deposits** - The University is required by General Statute 147-77 to deposit its budget code cash, as defined in Note 2, and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, in the State Treasurer's Cash and Investment Pool. In addition, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer's Cash and Investment Pool. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents totaling \$151,135,272.81. At year-end, cash on hand was \$3,823,583.12. The University's portion of the State Treasurer's Cash and Investment Pool was \$150,928,872.35. 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 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 \$206,400.46 and the bank balance was \$1,963,050.84. Of the bank balance, \$340,030.40 was covered by federal depository insurance, \$1,610,941.83 was collateralized, and \$12,078.61 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c), applicable to the State's General Fund, and 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper, and asset-backed securities with specified ratings. Also, General Statute 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. General Statute 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested 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.

- C. 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, 2002 is presented below:

	<i>Investments</i>			Total
	Fair Value			
	Risk Category			
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$ 0.00	\$ 3,904,443.85	\$ 0.00	\$ 3,904,443.85
Corporate Bonds		16,407.56		16,407.56
Corporate Stocks		185,724.63		185,724.63
Total Categorized Investments	<u>\$ 0.00</u>	<u>\$ 4,106,576.04</u>	<u>\$ 0.00</u>	4,106,576.04
Investments Not Categorized:				
Money Market Funds				3,081.04
Mutual Funds				9,381,309.94
Other Investments				<u>102,827.08</u>
Total Investments Not Categorized				<u>9,487,218.06</u>
Total Investments				<u>\$ 13,593,794.10</u>

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of the endowment principal's average market value. To the extent that the total return for the current year exceeds the payout and a 1% administrative fee, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2002, net appreciation of \$96,021.67 was available to be spent, of which \$96,021.67 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,758,529.14	\$ 103,094.46	\$ 1,655,434.68
Accounts	41,151,457.40	16,316,554.90	24,834,902.50
Intergovernmental	518,552.06		518,552.06
Investment Earnings	510,542.30		510,542.30
Interest on Loans	141,803.84		141,803.84
Other	4,688,948.89		4,688,948.89
Total Current Receivables	\$ 48,769,833.63	\$ 16,419,649.36	\$ 32,350,184.27
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,517,769.31	\$ 208,169.49	\$ 1,309,599.82
Institutional Student Loan Programs	12,680.41	2,277.95	10,402.46
Total Notes Receivable Current	\$ 1,530,449.72	\$ 210,447.44	\$ 1,320,002.28
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 9,315,669.30	\$ 0.00	\$ 9,315,669.30

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	\$ 6,041,674.77	\$ 209,522.81	\$ 0.00	\$ 6,251,197.58
Construction in Progress	27,058,910.01	50,495,751.71	7,513,233.08	70,041,428.64
Total Capital Assets, Non-Depreciable	33,100,584.78	50,705,274.52	7,513,233.08	76,292,626.22
Capital Assets, Depreciable:				
Buildings	308,258,446.19	6,863,723.13		315,122,169.32
Machinery and Equipment	70,203,382.61	5,435,273.60	6,862,595.60	68,776,060.61
General Infrastructure	25,394,689.32	7,961.00	89,420.74	25,313,229.58
Totals	403,856,518.12	12,306,957.73	6,952,016.34	409,211,459.51
Less Accumulated Depreciation/Amortization for:				
Buildings	80,187,435.39	5,969,902.43		86,157,337.82
Machinery and Equipment	46,919,332.03	5,184,275.82	6,817,705.67	45,285,902.18
General Infrastructure	1,915,093.16	506,639.45	89,420.74	2,332,311.87
Totals	129,021,860.58	11,660,817.70	6,907,126.41	133,775,551.87
Total Capital Assets, Depreciable, Net	274,834,657.54	646,140.03	44,889.93	275,435,907.64
Capital Assets, Net	\$ 307,935,242.32	\$ 51,351,414.55	\$ 7,558,123.01	\$ 351,728,533.86

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 14,260,517.51
Accrued Payroll	9,716,626.93
Contract Retainage	2,787,956.44
Other	141,538.47
Total Accounts Payable and Accrued Liabilities	\$ 26,906,639.35

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Notes and Bonds Payable:					
Notes Payable	\$ 893,840.62	\$ 35,344.47	\$ 174,250.84	\$ 754,934.25	\$ 188,074.67
Bonds Payable	64,020,000.00	14,555,000.00	18,670,000.00	59,905,000.00	4,145,000.00
Total Notes and Bonds Payable	64,913,840.62	14,590,344.47	18,844,250.84	60,659,934.25	4,333,074.67
Compensated Absences	6,933,343.39	547,576.74		7,480,920.13	557,933.94
Total Long-Term Liabilities	\$ 71,847,184.01	\$ 15,137,921.21	\$ 18,844,250.84	\$ 68,140,854.38	\$ 4,891,008.61

B. Notes Payable - The University was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount Of Issue	Principal Paid Through 06/30/2002	Principal Outstanding 06/30/2002
Finance Computer Equipment for Dormitories	Carlyle Capital Markets	5.05	03/01/2006	\$ 950,000.00	\$ 230,410.22	\$ 719,589.78
Athletic Vehicles	Wachovia	8.13	11/01/2005	35,344.47		35,344.47
Total Notes Payable				\$ 985,344.47	\$ 230,410.22	\$ 754,934.25

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Bonds Payable - The University was indebted for bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2002	Principal Outstanding 6/30/2002
<u>Housing and Dining Services</u>						
Fiber Optic Network	1995	4.5-5.3	11/01/2005	\$ 10,900,000.00	\$ 9,665,000.00	\$ 1,235,000.00
Residence Hall Renovations – Jarvis	1998	3.5-5.0	11/01/2018	5,095,000.00	505,000.00	4,590,000.00
Jones Hall and Gallery Dining Facility Renovations	2001A	4.25-5.75	11/01/2021	12,570,000.00		12,570,000.00
Housing and Dining Revenue Refunding Bonds	2001B	4.25-5.75	11/01/2015	11,985,000.00	515,000.00	11,470,000.00
Total Housing and Dining Services				<u>40,550,000.00</u>	<u>10,685,000.00</u>	<u>29,865,000.00</u>
<u>Student Services System</u>						
Student Health Center	1999	4.75-5.25	05/01/2019	3,500,000.00	360,000.00	3,140,000.00
Student Recreation Center Refunding Bonds	2001C	3.00-4.75	05/01/2019	14,555,000.00	550,000.00	14,005,000.00
Total Student Services System				<u>18,055,000.00</u>	<u>910,000.00</u>	<u>17,145,000.00</u>
<u>Athletic Facilities Revenue System</u>						
Minges Coliseum Renovations	1994	4.0-5.5	05/01/2009	8,900,000.00	3,800,000.00	5,100,000.00
Dowdy-Ficklen Stadium Expansion	1996	4.3, variable	05/01/2017	7,000,000.00	1,300,000.00	5,700,000.00
Total Athletic Facilities Revenue System				<u>15,900,000.00</u>	<u>5,100,000.00</u>	<u>10,800,000.00</u>
<u>The University of North Carolina System Pool Revenue Bonds</u>						
Repairs to Dowdy-Ficklen Stadium	(A)	3.4, variable	10/01/2003	1,020,000.00	695,000.00	325,000.00
Blount Intramural Field	(A)	3.4, variable	10/01/2008	1,050,000.00	340,000.00	710,000.00
Reade Street Parking Lot	(A)	3.4, variable	10/01/2008	1,575,000.00	515,000.00	1,060,000.00
Total The University of North Carolina System Pool Revenue Bonds				<u>3,645,000.00</u>	<u>1,550,000.00</u>	<u>2,095,000.00</u>
Total Bonds Payable (principal only)				<u><u>\$ 78,150,000.00</u></u>	<u><u>\$ 18,245,000.00</u></u>	<u><u>\$ 59,905,000.00</u></u>

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

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 to the University’s remarketing or paying agents.

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

- **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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2002, 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, 2002, the earliest such termination date is July 31, 2003.

- **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 \$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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 become 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, 2002, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2003	\$ 4,145,000.00	\$ 2,699,448.76	\$ 188,074.67	\$ 33,393.60
2004	4,190,000.00	2,514,968.76	207,963.59	25,635.74
2005	4,265,000.00	2,327,671.26	214,002.68	13,531.12
2006	3,460,000.00	2,160,091.26	144,893.31	2,929.06
2007	2,900,000.00	2,013,287.57		
2008-2012	16,230,000.00	8,325,268.75		
2013-2017	15,785,000.00	4,483,630.00		
2018-2022	8,930,000.00	1,459,862.50		
Total Requirements	\$ 59,905,000.00	\$ 25,984,228.86	\$ 754,934.25	\$ 75,489.52

Interest on the variable rate Athletic Department Demand Revenue Bonds is calculated at 4.3% at June 30, 2002. Interest on the variable rate University of North Carolina System Pool Revenue Bonds is calculated at 3.4% at June 30, 2002. Debt is remarketed, so interest rates fluctuate based on supply and demand.

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

Student Services System: On December 6, 2001 the University defeased \$14,765,000.00 of outstanding Student Recreation Center Revenue Bonds, Series 1993 (original issue amount \$17,975,000.00). 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 Statement of Net Assets. As a result, the University reduced its debt service requirements by \$2,399,781.98 over the next 18 years and obtained an economic gain of \$339,690.86. At June 30, 2002 the outstanding balance of the defeased Student Services System bonds was \$14,230,000.00.

Housing and Dining Facilities System: In May 2001 the University defeased \$11,655,000.00 of outstanding Housing and Dining Revenue Bonds. An irrevocable trust was established 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 Statement of Net Assets. At June 30, 2002, the outstanding balance of the defeased Housing and Dining Revenue Bonds was \$11,180,000.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 1,897,807.68
2004	1,632,185.47
2005	1,405,778.47
2006	731,248.31
2007	377,564.49
2008-2012	<u>163,604.08</u>
Total Minimum Lease Payments	<u>\$ 6,208,188.50</u>

Rental expense for all operating leases during the year was \$1,982,532.52.

NOTE 10 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less: Scholarship Discounts</u>	<u>Less: Allowance for Uncollectibles</u>	<u>Less: Indigent Care and Contractual Adjustments</u>	<u>Net Revenues</u>
Operating Revenues:						
Student Tuition and Fees	\$ 56,112,674.47	\$ 0.00	\$ 5,972,628.49	\$ 103,094.46	\$ 0.00	\$ 50,036,951.52
Patient Services	\$ 169,434,880.36	\$ 0.00	\$ 0.00	\$ 16,316,554.90	\$ 78,157,923.00	\$ 74,960,402.46
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	12,996,550.29		1,360,570.17			11,605,980.12 (A)
Dining	12,050,402.52	716,712.54	1,268,838.47			10,064,851.51 (A)
Student Union Services	2,190,499.37		223,073.14			1,967,426.23
Health, Physical Education and Recreation	9,292,140.75		845,938.54			8,446,202.21 (B), (D)
Bookstore	9,701,675.60					9,701,675.60 (D)
Parking	1,549,972.10					1,549,972.10
Athletic	15,885,189.16		1,024,746.28			14,860,442.88 (D)
Other	529,219.69					529,219.69 (C), (D)
Sales and Services of Educational and Related	5,697,658.49					5,697,658.49
Total Sales and Services	<u>\$ 69,863,307.97</u>	<u>\$ 716,712.54</u>	<u>\$ 4,723,166.60</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 64,423,428.83</u>

Revenue Bonds Secured by Pledged Revenues:

- (A) Housing and Student Center System
- (B) Student Services System
- (C) Athletic Facilities System
- (D) University of North Carolina System

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 133,057,463.36	\$ 6,856,287.19	\$ 9,734,900.06	\$ 0.00	\$ 40,459.89	\$ 0.00	\$ 149,689,110.50
Research	6,426,407.80	2,020,345.83	1,568,253.36	3,782.00	139.49		10,018,928.48
Public Service	71,960,923.72	11,230,458.99	17,482,260.71	4,250.00	4,629.33		100,682,522.75
Academic Support	10,903,154.75	5,402,614.87	1,092,274.48	1,225.00			17,399,269.10
Student Services	4,504,372.01	294,183.97	1,329,639.79	1,100.00			6,129,295.77
Institutional Support	14,439,687.76	988,101.00	3,394,167.00		2,971.60		18,824,927.36
Operations and Maintenance of Plant	12,996,631.02	6,793,856.97	1,396,552.44		7,018,619.37		28,205,659.80
Student Financial Aid	214,456.29	3,390.81	256,650.04	8,713,119.54			9,187,616.68
Auxiliary Enterprises	19,188,115.33	11,511,174.98	22,170,396.11		2,803,930.76		55,673,617.18
Depreciation						11,660,817.70	11,660,817.70
Total Operating Expenses	\$ 273,691,212.04	\$ 45,100,414.61	\$ 58,425,093.99	\$ 8,723,476.54	\$ 9,870,750.44	\$ 11,660,817.70	\$ 407,471,765.32

NOTE 12 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the University had a total payroll of \$235,171,219.31 of which \$105,704,632.50 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$6,342,277.95 and \$2,082,381.26, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$6,342,277.95, \$5,344,374.87, and \$7,538,283.96, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan, which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to any one of the carriers or may direct their contributions to one carrier and the University contributions to another. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

For the year ended June 30, 2002, the University had a total payroll of \$235,171,219.31 of which \$96,959,958.19 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$5,817,597.49 and \$6,632,061.14, 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 \$275,175.88 for the year ended June 30, 2002.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2002 were \$87,150.24. The voluntary contributions by employees amounted to \$1,211,789.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$3,696,094.84 for the year ended June 30, 2002.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in state administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2002, the University's total contribution to the Plan was \$4,762,617.88. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the University's total contribution to the DIPNC was \$1,053,855.87. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 14 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible. The University also purchased through the Fund extended coverage, sprinkler leakage coverage on ten buildings, vandalism, theft, and "all-risk" coverage for fifty-seven buildings and contents through the Fund. Losses covered by the Fund are subject to a \$500 per occurrence deductible, except for theft losses that are subject to a \$1,000 per occurrence deductible. Extended coverage against losses caused by windstorm or hail, explosion, smoke, aircraft or vehicles, riot or civil commotion is provided on University buildings by the Fund and its reinsurer with a deductible of \$100,000 per building with a maximum of \$500,000 per occurrence at no cost to the University.

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

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the North Carolina Department of Insurance. Coverage limit is \$5,000,000 per occurrence with 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 affected 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 (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for 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.

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 15 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$33,366,001.04 and on other purchases were \$3,205,451.18 at June 30, 2002.

- 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 University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization \$149,289,472.00 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 16 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

University Alumni Association, Inc., and the Medical Foundation of East Carolina University, Inc.

The East Carolina University Educational Foundation, Inc. provided \$4,140,821.41 for the Dowdy-Ficklen Stadium Expansion Project and the Strength and Conditioning Center Project and \$2,724,792.76 to the Department of Athletics in primary support of student/athlete scholarships. 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.

NOTE 17 - ACCOUNTING CHANGES

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

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

NOTE 18 - NET ASSET RESTATEMENT

As referred to in Note 17, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*:

July 1, 2001 Fund Equity as previously reported	\$ 637,431,812.88
Implementation of GASB 34/35	<u>(198,329,748.26)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 439,102,064.62</u>

East Carolina University
Schedule of General Obligation Bond Project Authorizations,
Budgets and Expenditures
For Project-to-Date as of June 30, 2002

Schedule 1

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Started</i>							
Science Laboratories and Technology Building	Nov 2000	\$ 59,535,416.00	\$ 0.00	\$ 59,535,416.00	\$ 24,408,559.00	41.00%	Oct 2003
Flanagan Building - Renovation and Conversion	Feb 2001	13,072,346.00		13,072,346.00	173,183.00	1.32%	Apr 2005
Nursing, Allied Health, DEC	Nov 2000	57,935,955.00		57,935,955.00	328,455.00	0.57%	Mar 2006
Expansion and Renovation - Old Nursing Building	Aug 2002	14,615,607.00		14,615,607.00	318,238.00	2.18%	Nov 2006
Classroom Improvements - Technology Upgrades	Mar 2001	3,553,542.00		3,553,542.00	115,458.00	3.25%	Sep 2006
Infrastructure - Repairs and Expansions	Nov 2000	11,457,415.00		11,457,415.00	601,900.00	5.25%	Oct 2004
Campus Computing Center	Nov 2000	1,785,000.00	1,760,056.00	3,545,056.00	2,632,580.00	74.26%	Jan 2003
Land Acquisition	Nov 2000	7,674,536.00	8,276.00	7,682,812.00	571,509.00	7.44%	Apr 2004
Technology Infrastructure Expansion	Dec 2001	807,600.00		807,600.00	379,925.00	47.04%	Aug 2003
Reserve for Effective Project Management	Jan 2002	3,143,252.00		3,143,252.00	71,784.00	2.28%	Aug 2007
<i>Projects Not Started - To Be Funded in Future Years</i>							
Belk Building - Comprehensive Renovation	Aug 2002	7,588,726.00		7,588,726.00			Nov 2006
Academic Space Requirements	Dec 2002	5,113,500.00		5,113,500.00			Feb 2007
Old Cafeteria Office Building	Sep 2002	4,326,605.00		4,326,605.00			Sep 2006
Total All Projects		\$ 190,609,500.00	\$ 1,768,332.00	\$ 192,377,832.00	\$ 29,601,591.00		

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 System. 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.

East Carolina University
Intercollegiate Athletics Program
Statement of Current Funds Revenues and Expenditures
Year Ended June 30, 2002

Schedule 2

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:						
Student Fees	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,228,378.75	\$ 5,228,378.75
Ticket Sales	2,572,448.00	553,682.00	9,577.00	240,532.00		3,376,239.00
Program Sales	19,886.20	2,333.00		1,331.00		23,550.20
Novelty Sales					153,524.84	153,524.84
Radio and TV Rights	333,600.60	83,400.15				417,000.75
Contest Guarantees	1,212,282.00	15,000.00	4,500.00			1,231,782.00
Advertising Income	404,902.16	76,424.63	12,400.00	26,419.00		520,145.79
Institutional Sports Camps and Clinics	132,965.50	117,384.00	3,850.00	152,888.50		407,088.00
Concessions	150,000.00	75,000.00	5,000.00	15,000.00		245,000.00
Gifts:						
Unrestricted					2,350,000.00	2,350,000.00
Restricted					453,422.76	453,422.76
Investment Income:						
Unrestricted					4,609.69	4,609.69
Restricted					5,455.81	5,455.81
Endowment Income:						
Restricted					63,336.44	63,336.44
NCAA/Conference USA					1,527,742.00	1,527,742.00
State Appropriations					120,273.30	120,273.30
Other Sources					496,780.77	496,780.77
Total Revenues	4,826,084.46	923,223.78	35,327.00	436,170.50	10,403,524.36	16,624,330.10
Expenditures:						
Coaches' Salaries	1,248,875.53	317,611.17	221,945.69	803,957.83	1,149,332.87	3,741,723.09
Accrued Salaries					91,051.72	91,051.72
Other Salaries	94,827.48	65,733.06	53,430.93	75,865.27	937,570.73	1,227,427.47
Fringe Benefits	222,664.35	63,449.77	44,711.30	157,556.58	332,133.02	820,515.02
Travel:						
Team	798,981.11	153,270.01	103,911.14	486,299.37	366,856.54	1,909,318.17
Recruiting	118,814.83	73,219.73	41,029.25	70,203.43		303,267.24
Financial Aid	1,135,033.42	187,037.98	188,564.05	1,325,359.04	248,258.68	3,084,253.17
Supplies and Uniforms	338,213.86	62,687.84	35,271.21	298,389.82	338,763.83	1,073,326.56
Equipment Purchases	137,573.33	9,497.85	1,221.59	9,810.07	254,633.52	412,736.36
Insurance	3,389.68	1,556.02	432.36	6,474.84	121,477.47	133,330.37
Telephone	17,068.58	14,592.74	6,702.70	18,143.31	60,620.96	117,128.29
Entertainment	4,808.90	35,721.21	2,328.28	5,587.93	54,179.44	102,625.76
Contest Guarantees	635,000.00	16,430.00	6,000.00	39,806.25		697,236.25
Radio and TV					225,014.04	225,014.04
Printing and Binding	23,465.95	6,760.16	1,234.10	12,035.91	191,706.64	235,202.76
Repairs and Maintenance	60,493.11	10,885.21	6,210.31	17,221.09	168,288.19	263,097.91
Advertising	267.10	119.75	401.22	5,733.06	48,330.96	54,852.09
Equipment Rentals	39,041.82	1,670.51	68.05	16,548.66	87,406.28	144,735.32
Ticket Price Adjustments	92,140.00	7,503.00	1,441.00	23,960.00		125,044.00
Other Fixed Charges	1,030.00	410.00	510.00	2,695.00	297,022.00	301,667.00
Other Contractual Services	140,419.91	26,866.93	12,536.15	82,935.49	356,325.28	619,083.76
Miscellaneous	400,711.89	168,466.07	77,577.09	169,067.92	820,171.09	1,635,994.06
Total Expenditures	5,512,820.85	1,223,489.01	805,526.42	3,627,650.87	6,149,143.26	17,318,630.41
Excess (Deficiency) of Revenues over Expenditures	\$ (686,736.39)	\$ (300,265.23)	\$ (770,199.42)	\$ (3,191,480.37)	\$ 4,254,381.10	\$ (694,300.31)

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 National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenditures by major program and have not been updated for Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and Statement No. 38, *Certain Financial Statement Note Disclosures*. 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 of accounting, 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:

Endowment Funds	\$ 1,300.97
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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 athletics 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		\$ 2,573,882.00
Indirect Support		150,910.76

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

Plant Funds	\$ 4,140,821.41
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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 constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 10, 2002. As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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*.

**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)**

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.

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.



Ralph Campbell, Jr.
State Auditor

October 10, 2002

DISTRIBUTION OF AUDIT REPORT

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

November 6, 2002

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