STATE OF NORTH CAROLINA

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

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STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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

We have completed a financial statement audit of East Carolina University for the year ended June 30, 2008, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Leslie W. Merritt, Jr.

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

December 5, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the accompanying financial statements of East Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of East Carolina University Foundation, Inc., and Consolidated Affiliate, the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of East Carolina University Foundation, Inc., and Consolidated Affiliate were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Carolina University and its discretely presented component unit as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Leslie W. Merritt, Jr.

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

December 2, 2008

Introduction

Management's discussion and analysis of the financial report provides an overview of the financial position and activities of East Carolina University for the fiscal year ended June 30, 2008, with comparative information for the fiscal year ended June 30, 2007. Management has prepared the discussion and analysis to be read in conjunction with the Notes to the Financial Statements, which follow this narrative.

Financial Highlights

The University's net assets increased from $667 million in 2007 to $758 million in 2008. The increase of $91 million represents the residual interest in the assets after liabilities are deducted. This increase is mostly due to increases in the investment in capital assets, net of related debt, and increases in funding for capital projects.

Operating revenues increased from $366 million in 2007 to $396 million in 2008. Revenues represent amounts received or accrued, and are classified as either operating or nonoperating. The increase of $30 million is represented mostly by an increase in grants and contracts, auxiliary sales and services, and student tuition and fees.

Operating expenses increased from $627 million in 2007 to $653 million in 2008. Operating expenses represent the amounts paid or accrued for operating purposes. A major part of the $26 million change is due to increases in instructional expenses, student financial aid, and auxiliary enterprises.

Using the Financial Statements

The discussion and analysis is intended to serve as an introduction to the basic financial statements. There are three statements included in the University's financial report: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the University's financial position as of June 30, 2008, and includes all assets and liabilities of the University. Assets and liabilities are classified as either current or noncurrent. The difference between total assets and total liabilities is net assets. Net assets are an indicator of the current financial condition of the University. 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. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2008, and 2007 is as follows:

Statement of Net Assets
(Dollars in Thousands)

	2008	2007 Restated	Variance	Percent Change
Assets				
Current Assets	$ 213,629	$ 200,467	$ 13,162	6.6 %
Noncurrent Assets:				
Endowment Investments	19,688	17,908	1,780	9.9 %
Other Investments	4,261	5,087	(826)	(16.2) %
Capital Assets, Net	637,151	589,612	47,539	8.1 %
Other Noncurrent Assets	62,477	37,804	24,673	65.3 %
Total Noncurrent Assets	723,577	650,411	73,166	11.2 %
Total Assets	937,206	850,878	86,328	10.1 %
Liabilities				
Current Liabilities	49,307	47,811	1,496	3.1 %
Noncurrent Liabilities:				
Funds Held for Others	9,468	7,612	1,856	24.4 %
Long-Term Liabilities	106,284	113,642	(7,358)	(6.5) %
Other Noncurrent Liabilities	14,231	15,087	(856)	(5.7) %
Total Noncurrent Liabilities	129,983	136,341	(6,358)	(4.7) %
Total Liabilities	179,290	184,152	(4,862)	(2.6) %
Net Assets				
Invested in Capital Assets, Net of Related Debt	540,056	489,177	50,879	10.4 %
Restricted for Nonexpendable	16,037	12,094	3,943	32.6 %
Restricted for Expendable	55,270	31,728	23,542	74.2 %
Unrestricted	146,553	133,727	12,826	9.6 %
Total Net Assets	$ 757,916	$ 666,726	$ 91,190	13.7 %

The Statement of Net Assets at June 30, 2008, indicates an improvement of financial position compared to last fiscal year. In 2008, the University had total assets of $937 million. Current assets increased $13 million, to $214 million. This increase is primarily due to the increase in cash and cash equivalents, with significant increases in housing and athletics. The cash generated by the housing department increased by $3.8 million, while athletics increased by $1.6 million. This can be attributed to the increased demand for on-campus housing, increased operating efficiency, and the increased interest in athletics. The University also had an increase in cash of $1.2 million in the University Unions capital reserve, and an increase of $1.7 million in the Minges renovations reserve.

Noncurrent assets increased $73 million largely due to the increase in capital assets of $48 million. This increase is mostly attributable to the construction of the East Carolina Heart Institute, which accounted for $43.5 million of the increase. Endowment investments increased 9.9 percent with contributions to distinguished professorships increasing over $3 million. Other long-term investments decreased 16.2 percent. This decrease is largely due to the $1 million of 2004 COPS proceeds that were spent on the implementation of the University's new accounting system.

Current liabilities increased $1.5 million, which is a 3.1 percent change from last fiscal year. A decrease in accounts payable of $3.6 million is specifically related to contract retainage. This decrease was offset by increases in unearned revenue of over $3.6 million in student accounts, athletic ticket sales, and grants. Also increasing from the prior year was accrued payroll, which increased by $1.9 million. The variable supplemental adjustment for Medical Faculty Practice Plan employees caused accrued payroll to increase by $0.6 million, with the remaining change comprised of factors including salary increases for 9/12 and 10/12 month employees and new positions that were added during the fiscal year. Funds held for others also increased 24.4 percent to $9.5 million. Overall total liabilities had a decrease of 2.6 percent.

Working capital was $164 million at June 30, 2008, an increase of 8 percent, or $12 million, over the previous year. Working capital discloses the University's short-term financial health and overall operating efficiency. It is the difference between current assets and current liabilities. The significant factor which resulted in the working capital improvement was an increase in cash and cash equivalents of $10.8 million. As stated earlier, this increase occurred in the areas of housing, athletics, and capital and renovation reserves.

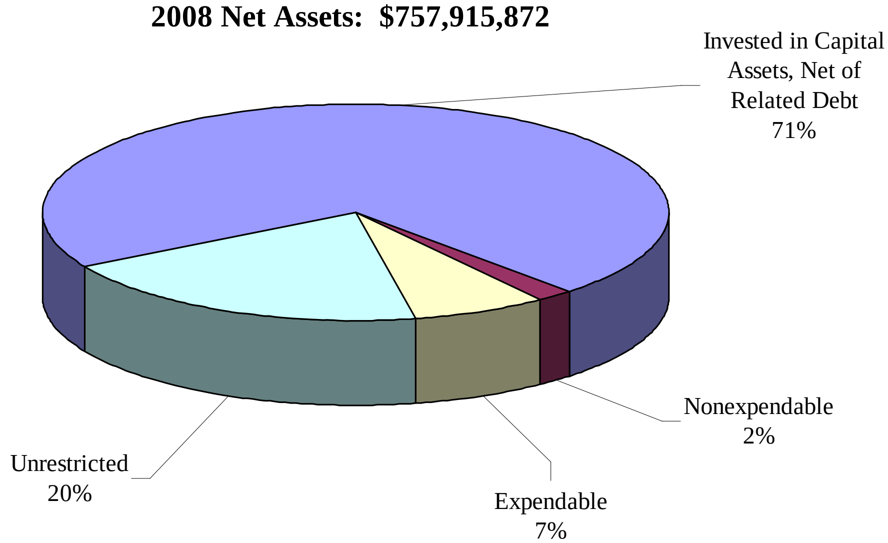
Net assets represent the value of the University's assets after all liabilities have been deducted. The University's net assets were $758 million, an increase of $91 million, or 13.7 percent over the prior year. For reporting purposes, net assets are divided into four categories: invested in capital assets, net of related debt; restricted for nonexpendable; restricted for expendable; and unrestricted net assets.

Invested in capital assets, net of related debt encompasses the University's capital assets net of accumulated depreciation and the outstanding principal balances of debt resulting from the acquisition, construction or improvement of those assets. Investments in capital assets make up $540 million of the $758 million in net assets. The accumulated depreciation balance as of June 30, 2008, was $198 million.

Restricted for nonexpendable net assets primarily include the University's permanent endowment fund, accounting for $16 million of net assets. Restricted for expendable net assets are subject to externally imposed restrictions governing its use. This category of net assets made up $55 million of net assets.

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. For the fiscal year 2008, unrestricted net assets were $147 million of the $758 million in net assets. There was little change in the makeup of net assets compared to last fiscal year. The following chart displays the contribution of each category to total net assets for 2008.

2008 Net Assets: $757,915,872



Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets portrays the University's results of operations and maintenance of financial strength. The Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2008, compared with that of 2007, are summarized as follows:

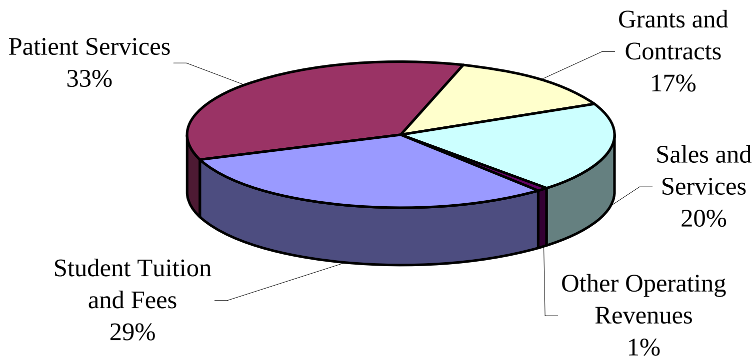
Statement of Revenues, Expenses, and Changes in Net Assets
(Dollars in Thousands)

	2008	2007 Restated	Variance	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 116,426	$ 111,532	$ 4,894	4.4 %
Patient Services, Net	132,394	129,368	3,026	2.3 %
Grants and Contracts	65,313	48,884	16,429	33.6 %
Sales and Services, Net	80,416	73,273	7,143	9.7 %
Other	1,817	2,750	(933)	(33.9) %
Total Operating Revenues	396,366	365,807	30,559	8.4 %
Operating Expenses				
Salaries and Benefits	434,962	406,118	28,844	7.1 %
Supplies and Materials	64,194	80,786	(16,592)	(20.5) %
Services	94,879	86,809	8,070	9.3 %
Scholarships and Fellowships	23,885	15,045	8,840	58.8 %
Utilities	18,666	18,832	(166)	(0.9) %
Depreciation	16,813	18,932	(2,119)	(11.2) %
Total Operating Expenses	653,399	626,522	26,877	4.3 %
Operating Loss	(257,033)	(260,715)	3,682	(1.4) %
Nonoperating Revenues (Expenses)				
State Appropriations	267,769	244,549	23,220	9.5 %
Noncapital Gifts	9,048	5,638	3,410	60.5 %
Investment Income	7,190	8,923	(1,733)	(19.4) %
Other Nonoperating Expenses	(4,912)	(4,668)	(244)	5.2 %
Net Nonoperating Revenues	279,095	254,442	24,653	9.7 %
Income Before Other Revenues	22,062	(6,273)	28,335	(451.7) %
Capital Appropriations	32,006	13,031	18,975	145.6 %
Capital Grants	36,475	30,487	5,988	19.6 %
Capital Gifts	647	268	379	141.4 %
Increase in Net Assets	91,190	37,513	53,677	143.1 %
Net Assets-July 1	666,726	629,213	37,513	6.0 %
Net Assets-June 30	$ 757,916	$ 666,726	$ 91,190	13.7 %

Operating revenues are generated by providing goods and services related to instruction, research, and public service. Total operating revenues increased by $31 million, or 8.4 percent from the prior year. Student tuition and fees, net of the tuition discount, increased $5 million, or 4.4 percent. The tuition discount is an offset to revenues for the scholarships and fellowships that are applied to student accounts. There were several factors that caused student tuition and fees to increase. Tuition rates increased $14 for both undergraduate and graduate students for residents and nonresidents. Mandatory student fees increased by $24, or 1 percent. In addition, the total enrollment for the University increased by nearly 7 percent from the prior year. Patient services increased $3 million, or 2.3 percent.

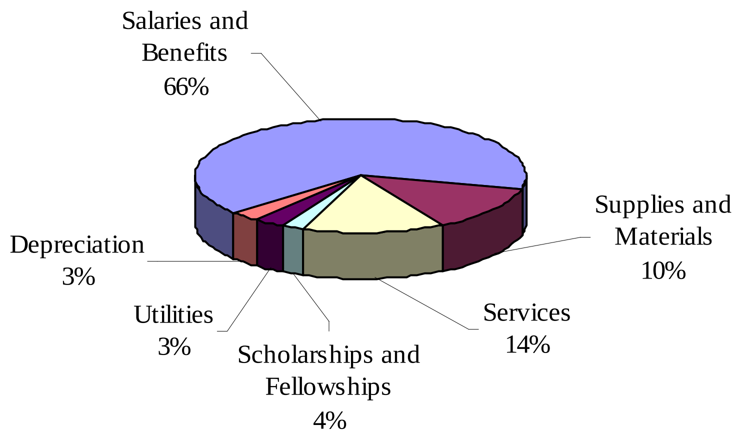
The following chart shows each component of operating revenue as it relates to total operating revenues as a whole.

2008 Operating Revenues: $396,365,748



Operating expenses are the day-to-day expenses incurred to carry out the mission of the University. Operating expenses increased $27 million to $653 million. This balance is mainly attributed to salaries and benefits. Salaries and benefits increased $29 million to $435 million. The following chart shows each component of operating expenses as it relates to total operating expenses as a whole.

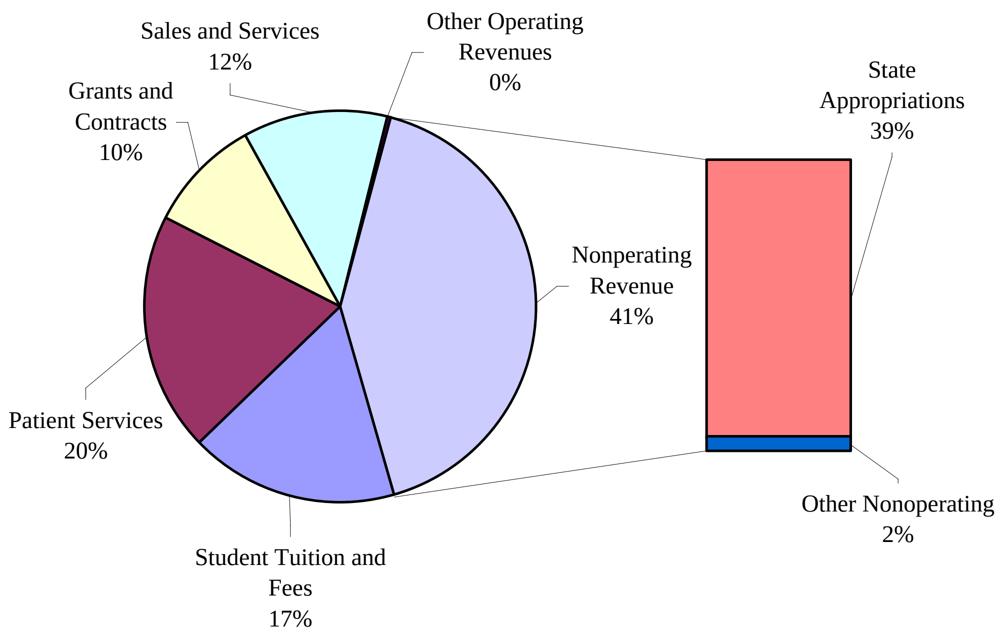
2008 Operating Expenses: $653,398,796



Nonoperating revenues and expenses are not generated by the principal operations of the University. Total net nonoperating revenues increased $25 million. Increases in state appropriations comprise $23 million of this change, including $13 million to cover increases in salaries and benefits, $4 million for enrollment increases, a nonrecurring increase of $2.5 million for indigent patient care for the University's Medical Faculty Practice Plan, and $1 million for the dental school. Nonoperating expenses are comprised of interest and fees on capital asset-related debt, and were 5.2 percent more than the prior year.

State appropriations were a significant component of total revenues for the University comprising 39 percent of total revenue. The following chart illustrates the University's operating and nonoperating revenues which total $680 million for fiscal year 2007-2008.

2008 Total Revenue $680,372,425



Capital appropriations increased tremendously by 145.6 percent or $19 million. In fiscal year 2007, $3 million was designated for the upcoming Dental School, over $1 million was designated for the Flanagan Building, and over $10 million was designated for repairs and replacement. In fiscal year 2008, an additional $0.5 million was designated for the upcoming Dental School, $25.5 million was designated for the Coastal Studies Institute, and over $6.5 million was designated for repairs and replacement allowing the University to enhance and renew its capital assets.

Capital gifts had an increase from 2007 to 2008. This increase was in large part due to the contribution of $0.4 million by the ECU Educational Foundation in 2008 for equipment.

Statement of Cash Flows

The Statement of Cash Flows provides detail on the cash activity for the year. The sources and uses of cash are categorized as 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, 2008, and 2007.

Cash Flows
(Dollars in Thousands)

	2008	2007 Restated	Variance	Percent Change
Cash Flows Provided (Used)				
Operating Activities	$ (242,867)	$ (234,075)	$ (8,792)	3.8 %
Noncapital Financing Activities	276,817	250,187	26,630	10.6 %
Capital Financing Activities	(3,518)	(5,527)	2,009	(36.3) %
Investing Activities	6,236	7,456	(1,220)	(16.4) %
Net Change in Cash	36,668	18,041	18,627	103.2 %
Cash - July 1	183,063	165,022	18,041	10.9 %
Cash - June 30	$ 219,731	$ 183,063	$ 36,668	20.0 %

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 amounts received from customers, which increased to $398 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 payments to employees and fringe benefits which totaled $433 million.

Noncapital financing activities include state appropriations for operations and noncapital gifts. State appropriations make up $268 million of the $277 million provided from noncapital financing activities. The remaining balance was noncapital gifts.

Capital financing activities include borrowing money for the acquisition, construction, and improvement of capital assets used in providing services or producing goods. This also includes repayments of principal as well as interest. There was significant change in the balance of capital financing activities from the end of fiscal year 2007 to the end of fiscal year 2008. The main sources of capital financing activities were $40 million in capital grants and $32 million from state capital appropriations. There were no proceeds from capital debt in fiscal year 2008.

Investing activities include acquiring or disposing of debt or equity instruments. Proceeds from sales and maturities of investments make up $16 million of the $26 million of investing activities sources. The use of these funds was $20 million of purchase of investments and related fees.

Capital Assets

A vital aspect for enhancing and maintaining the quality of the University's academic, research, and service programs and its 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 $192 million of funding to construct new academic buildings, renovate older facilities and update or replace campus infrastructure. There has been $191 million of the 2000 Higher Education Bond funds spent as of June 30, 2008. The major projects are Science and Technology Building; Nursing, Allied Health, and Developmental Evaluation Clinic; Flanagan Building Renovation; and Infrastructure Repairs.

The University had $637 million invested in capital assets at year-end. There was a net increase from $589 million from last year, which is mostly attributable to construction of the East Carolina Heart Institute and completion of the Carol Belk Building and North Recreation Complex.

Capital assets for the University are comprised of nondepreciable and depreciable assets. Nondepreciable assets are land and construction in progress. Depreciable assets are buildings, machinery and equipment, and general infrastructure. The University capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Buildings and general infrastructure are depreciated over their estimated useful lives, generally 10 to 50 years for buildings and 10 to 75 years for general infrastructure. Machinery and equipment are usually depreciated 2 to 25 years. Most of the University's capital assets are in the form of buildings which have been completed or that are construction in progress.

Capital assets at June 30, 2008, and June 30, 2007, were as follows:

Capital Assets
(Dollars in Thousands)

	2008	2007 Restated	Variance	Percent Change
Construction in Progress	$ 78,922	$ 55,053	$ 23,869	43.4 %
Land and Other Nondepreciable Assets	26,846	26,679	167	0.6 %
Buildings	577,614	564,141	13,473	2.4 %
General Infrastructure	45,439	39,679	5,760	14.5 %
Machinery and Equipment	106,692	94,012	12,680	13.5 %
Total Capital Assets	835,513	779,564	55,949	7.2 %
Accumulated Depreciation	198,362	189,952	8,410	4.4 %
Capital Assets, Net	$ 637,151	$ 589,612	$ 47,539	8.1 %

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 $56 million. 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 of North Carolina in 2000.

A major capital addition for the year was the East Carolina Heart Institute, which is comprised of two facilities: the outpatient and research facility of the University and the inpatient cardiovascular hospital located at Pitt County Memorial Hospital. The University's facility is a four-story building of approximately 200,000 square feet containing physician and administrative offices, outpatient clinic areas, an education wing with auditorium, and a large sub-dividable classroom. The fourth floor is shelled in for future research labs. This construction project was completed in August of 2008.

Another major capital project for the year was the comprehensive renovation of the Carol Belk Building a 49,560 square foot building originally constructed in 1972. This building has been converted to general academic use in order to accommodate enrollment growth at the University. This comprehensive renovation corrected deferred maintenance needs including asbestos abatement, roof replacement, fire sprinkler installation, fire alarm system replacement, and upgrades to the plumbing, mechanical, and electrical systems. The renovations were completed in February 2008.

Also completed in 2008 was the North Recreation Complex, which is a sports field complex for Recreation Services, intramural and intercollegiate sports teams. This project includes 4 rugby fields, 4 soccer fields, an entrance drive, parking for more than 400 cars, a restroom/storage/picnic structure, maintenance area and 2 ponds.

In order to continue to provide quality educational experiences, it is imperative 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 already approved for next fiscal year are depicted below.

Description	Funding Source	Amount in Thousands	
Coastal Studies Institute	Statewide COPS	$	32,500
Mendenhall/Ledonia Wright	University Revenues		39,000
Dental School	Appropriations		90,000
Brody School of Medicine Family Medicine Center	Statewide COPS /Medical Faculty Practice Plan Revenues		39,000

The University has several upcoming projects, with one being a new dental school. This project will consist of a new, approximately 112,500 square foot building with classrooms, offices, labs and clinical operations on the Health Science Campus and will include up to ten community based dental clinic sites located through the region. It will focus on preparing dental students to provide services in underserved areas and poor counties of eastern North Carolina. It is planned that the first class will begin in 2011.

Another project is the Family Medicine Center. This new building will house both the Family Medicine Center and the Geriatric Clinic. It will include faculty and staff offices, more than 60 exam rooms, clinic support spaces, teaching rooms, better parking and the required building support functions. This new facility will triple the space available for patients. Groundbreaking for this project was held in September 2008.

A Coastal Studies Institute will be constructed on 40 acres of land in Manteo, NC. This 90,000 square foot complex will have an academic/administrative area, laboratory area, research plots, and residential facilities.

More detailed information on the University's capital assets is presented in Note 5 to the financial statements.

Debt

The University uses bonds, certificates of participation, and capital leases to finance construction projects and purchase equipment. As reflected in the following chart, total bonds, certificates of participation, and capital leases payable decreased by $7.1 million in 2008.

Dollars in Thousands	2008	2007	Change
Revenue Bonds Payable-Fixed Rate	$ 77,140	$ 81,820	$ (4,680)
Revenue Bonds Payable-Variable Rate	13,155	14,460	(1,305)
Certificates of Participation	5,970	6,845	(875)
Capital Leases Payable	830	1,115	(285)
	$ 97,095	$ 104,240	$ (7,145)

In March 2008, Moody's Investors Services upgraded the University's ratings for its general revenue and auxiliary system revenue bonds from A1 with a positive outlook to Aa3 with a stable outlook. This review was successful in achieving a higher bond rating, thus decreasing the University's future borrowing costs.

Economic Forecast

As indicated in the University's financial statements, the University demonstrated improved financial performance, highlighted by a $91 million increase in net assets during the year ended June 30, 2008. The University expects this positive trend to continue. One of the primary reasons for this belief is that the North Carolina General Assembly continues to demonstrate strong support for public higher education. Budgeted State appropriations for the 2008-2009 fiscal year total $287 million, an increase of $19 million or 7 percent. The change in budgeted appropriations consists of increases in salaries and benefits of $8 million, an enrollment increase of $9 million, an operational increase for the East Carolina Heart Institute of $3 million, a $1.5 million increase for the dental school, and a decrease of $2.5 million for indigent patient care, which was a nonrecurring budgetary item from the prior fiscal year.

Even though the General Assembly has demonstrated strong support for public higher education, the State's economy has slowed in recent months, which is having a detrimental effect on the State's revenue streams. In order to deal with the possibility of a state revenue shortfall and to ensure that the budget is balanced, the Governor through the Office of State Budget and Management has implemented a 2 percent nonrecurring budget reduction for all State agencies including the UNC System. This action translates into approximately a $5 million reduction for East Carolina University. Furthermore, the State plans to monitor the situation monthly and adjust budget management strategies appropriately.

Fiscal year 2009 tuition and fee increases of $14 and $24, respectively, will continue the upward trend in tuition and fee revenues. The University's headcount enrollment increased by 1,713 students, to 27,703 students for the Fall 2008 semester. This compares to 25,990 students for the Fall 2007 semester, an increase of nearly 7 percent. Demand for the University's instructional services remains strong.

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 for all funds received. If you have any questions or need additional financial information, please contact David Price, Financial Director for East Carolina University, at (252) 737-1140.

East Carolina University
Statement of Net Assets
June 30, 2008 *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	148,249,929.33
Restricted Cash and Cash Equivalents		20,493,798.68
Receivables, Net (Note 4)		34,146,832.56
Due from State of North Carolina Component Units		2,070,000.00
Due from University Component Units		467.00
Inventories		6,435,879.80
Notes Receivable, Net (Note 4)		1,680,746.36
Other Assets		551,663.20
Total Current Assets		213,629,316.93
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		50,987,349.41
Restricted Due from Primary Government		1,465,115.00
Endowment Investments		19,687,835.41
Other Investments		4,261,270.22
Notes Receivable (Note 4)		10,024,511.89
Capital Assets - Nondepreciable (Note 5)		105,767,914.52
Capital Assets - Depreciable, Net (Note 5)		531,382,717.13
Total Noncurrent Assets		723,576,713.58
Total Assets		937,206,030.51
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		27,671,256.71
Due to Primary Government		21,128.98
Unearned Revenue		12,286,682.13
Interest Payable		762,491.69
Long-Term Liabilities - Current Portion (Note 7)		8,565,683.84
Total Current Liabilities		49,307,243.35
Noncurrent Liabilities:		
Deposits Payable		1,094,667.04
Funds Held for Others		9,468,364.72
U. S. Government Grants Refundable		13,136,414.45
Long-Term Liabilities (Note 7)		106,283,469.36
Total Noncurrent Liabilities		129,982,915.57
Total Liabilities		179,290,158.92

NET ASSETS		
Invested in Capital Assets, Net of Related Debt		540,055,964.47
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,652,493.38
Endowed Professorships		10,767,773.59
Departmental Uses		330,149.77
Loans		3,286,650.37
Expendable:		
Scholarships and Fellowships		3,726,366.64
Endowed Professorships		3,771,590.48
Departmental Uses		314,161.89
Capital Projects		42,509,992.80
Debt Service		3,279,925.32
Other		1,667,614.30
Unrestricted		146,553,188.58
Total Net Assets	$	757,915,871.59

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, 2008 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	116,425,716.67
Patient Services, Net (Note 9)		132,394,265.91
Federal Grants and Contracts		33,126,359.37
State and Local Grants and Contracts		11,766,517.43
Nongovernmental Grants and Contracts		20,419,681.65
Sales and Services, Net (Note 9)		80,415,990.01
Interest Earnings on Loans		28,735.66
Other Operating Revenues		1,788,481.43
Total Operating Revenues		396,365,748.13
EXPENSES		
Operating Expenses:		
Salaries and Benefits		434,961,672.52
Supplies and Materials		64,194,454.01
Services		94,878,795.51
Scholarships and Fellowships		23,885,311.48
Utilities		18,665,716.11
Depreciation		16,812,845.94
Total Operating Expenses		653,398,795.57
Operating Loss		(257,033,047.44)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		267,768,989.32
Noncapital Gifts		9,047,635.90
Investment Income (Net of Investment Expense of $18,664.30)		7,190,051.93
Interest and Fees on Debt		(4,398,747.48)
Other Nonoperating Expenses		(512,509.64)
Net Nonoperating Revenues		279,095,420.03
Income Before Other Revenues		22,062,372.59
Capital Appropriations		32,005,400.00
Capital Grants		36,475,171.50
Capital Gifts		647,114.10
Increase in Net Assets		91,190,058.19
NET ASSETS		
Net Assets - July 1, 2007, as Restated (Note 17)		666,725,813.40
Net Assets - June 30, 2008	$	757,915,871.59

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, 2008 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 397,933,802.61
Payments to Employees and Fringe Benefits	(433,023,945.41)
Payments to Vendors and Suppliers	(181,728,394.75)
Payments for Scholarships and Fellowships	(23,885,311.48)
Loans Issued	(2,115,023.30)
Collection of Loans	1,345,131.43
Interest Earned on Loans	2,997.28
Student Deposits Received	3,386,903.08
Student Deposits Returned	(4,783,179.57)
Net Cash Used by Operating Activities	(242,867,020.11)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	267,768,989.32
Noncapital Gifts	9,047,635.90
Cash Provided by Noncapital Financing Activities	276,816,625.22
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	32,005,400.00
Capital Grants	40,272,008.71
Capital Gifts	160,025.45
Proceeds from Sale of Capital Assets	102,506.90
Acquisition and Construction of Capital Assets	(64,479,453.12)
Principal Paid on Capital Debt and Leases	(7,145,346.09)
Interest and Fees Paid on Capital Debt and Leases	(4,433,338.98)
Net Cash Used by Capital Financing and Related Financing Activities	(3,518,197.13)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	16,040,064.33
Investment Income	9,778,819.33
Purchase of Investments and Related Fees	(19,582,693.35)
Net Cash Provided by Investing Activities	6,236,190.31
Net Increase in Cash and Cash Equivalents	36,667,598.29
Cash and Cash Equivalents - July 1, 2007	183,063,479.13
Cash and Cash Equivalents - June 30, 2008	$ 219,731,077.42

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (257,033,047.44)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	16,812,845.94
Changes in Assets and Liabilities:	
Receivables (Net)	(1,720,504.59)
Due from State of North Carolina Component Units	(565,000.00)
Due from University Component Units	(358.50)
Inventories	(1,800,371.39)
Accounts Payable and Accrued Liabilities	(253,255.49)
Due to Primary Government	(43,107.48)
Unearned Revenue	3,856,914.85
Compensated Absences	45,032.35
Deposits Payable	(1,396,276.49)
Note Principal Repayments	1,345,131.43
Notes Issued	(2,115,023.30)
Net Cash Used by Operating Activities	$ (242,867,020.11)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 148,249,929.33
Restricted Cash and Cash Equivalents	20,493,798.68
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	50,987,349.41
Total Cash and Cash Equivalents - June 30, 2008	$ 219,731,077.42

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired Through a Gift	$ 487,088.65
Change in Fair Value of Investments	(2,588,829.30)
Loss on Disposal of Capital Assets	512,510.00

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

East Carolina University Foundation, Inc. and Consolidated Affiliate
Consolidated Statement of Financial Position
June 30, 2008 *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	4,317
Investments		69,552,560
Investment in Joint Venture		2,784,700
Cash Surrender Value of Life Insurance		163,757
Assets Held in Charitable Trusts and Annuities		2,178,129
Real Estate Held for Investments, Net		497,848
Receivables, Net		8,092,218
Prepaid Expenses		91,756
Total Assets		83,365,285
LIABILITIES		
Accounts Payable and Accrued Expenses		94,852
Due to University and Other Foundations		1,344,041
Funds Held for Others		116,217
Split Interest Agreement Obligations		337,313
Annuities Payable		869,110
Notes Payable		165,000
Total Liabilities		2,926,533
NET ASSETS		
Unrestricted		9,714,948
Temporarily Restricted		27,309,259
Permanently Restricted		43,414,545
Total Net Assets	$	80,438,752

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

East Carolina University Foundation, Inc. and Consolidated Affiliate
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2008 ***Exhibit B-2***

REVENUES , GAINS, ND OTHER SUPPORT		
Contributions	$	5,301,344
Gifts in Kind		1,489,117
Contributed Services and Facilities		2,206,515
Interest and Dividends		1,694,093
Net Unrealized and Realized Losses on Investments		(1,921,885)
Loss on Sale or Transfer of Property		(5,922)
Change in Value of Split Interest Agreements		(769,319)
Other Income		261,294
Total Revenues, Gains, and Other Support		8,255,237
EXPENSES AND LOSSES		
Program Services		5,339,966
General and Administrative		684,637
Fund Raising		2,479,437
Bad Debt Losses		41,592
Total Expenses and Losses		8,545,632
Decrease Net Assets		(290,395)
NET ASSETS		
Net Assets at Beginning of Year		80,729,147
Net Assets at End of Year	$	80,438,752

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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 multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

Discretely Presented Component Unit - The East Carolina University Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The East Carolina University Real Estate Foundation, Inc. is the consolidated affiliate of the East Carolina University Foundation, Inc.

The East Carolina University Foundation, Inc. is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 45 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The East Carolina University Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2008, the Foundation distributed $5,339,966.00 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Financial Services Office, 120 Reade Street, Greenville, NC 27858 or by calling (252) 737-1133.

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

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

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

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

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

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

E. Investments - Investments generally are reported at fair value, as determined by quoted market prices, or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

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

F. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services, which include charges for services rendered to patients. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

The University does not capitalize 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** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. If considered immaterial, the University expenses bond premiums/discounts at the time of issuance. The deferred losses on refunds are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method unless considered immaterial. 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 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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 for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. 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 investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $219,521,570.94 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 2.9 years as of June 30, 2008. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual*

Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2008 was $117,369.18. The carrying amount of the University's deposits not with the State Treasurer was $92,137.30 and the bank balance was $221,860.38. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2008, $100,621.29 of the University's bank balances was uninsured and uncollateralized.

B. Investments

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

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

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

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

Investments are subject to the following risks.

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

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Endowment Board does not have a formal policy for credit risk.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's Endowment Board does not have a formal policy for custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The University's Endowment Board does not have a formal policy for concentration of credit risk.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the University's investments.

Investments

	Fair Value	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
U.S. Treasuries	$ 817,949.26	$ 730,009.40	$ 44,932.25	$ 43,007.61
U.S. Agencies	52,423.00	12,157.56	25,053.83	15,211.61
Mutual Bond Funds	5,784.42			5,784.42
Money Market Mutual Funds	3,553,215.10	3,553,215.10		
		$ 4,295,382.06	$ 69,986.08	$ 64,003.64
Other Securities				
International Mutual Funds	2,923,630.53			
Other Mutual Funds	11,457,373.64			
Hedge Funds	3,512,678.24			
Limited Partnerships	1,431,935.51			
Domestic Stocks	194,115.93			
Total Investments	$ 23,949,105.63			

At June 30, 2008, the University's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa
U.S. Agencies	$ 52,423.00	$ 52,423.00	$ 0.00
Mutual Bond Funds	5,784.42		5,784.42
Money Market Mutual Funds	3,553,215.10	3,553,215.10	

Rating Agency: Moody's / Standard & Poors

At June 30, 2008, the University's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty	Held by Couterparty's Trust Dept or Agent not in University's Name
U.S. Treasuries	$ 92,949.26	$ 725,000.00
U.S. Agencies	52,423.00	
Domestic Stocks	194,115.93	
Total	$ 339,488.19	$ 725,000.00

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

Common Stock	$	161,658.00
Mutual Funds		46,580,059.00
Limited Partnerships		22,810,843.00
Total	$	69,552,560.00

NOTE 3 - 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 4 percent of the endowment principal's market value. To the extent that the total return for the current year exceeds the payout and a 1 percent 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, 2008, net appreciation of $3,609,449.69 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,004,518.88	$ 387,285.59	$ 2,617,233.29
Patient Accounts	66,377,655.76	40,596,067.94	25,781,587.82
Investment Earnings	2,365.87		2,365.87
Interest on Loans	210,140.13		210,140.13
Other	5,535,505.45		5,535,505.45
Total Current Receivables	$ 75,130,186.09	$ 40,983,353.53	$ 34,146,832.56
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,961,078.61	$ 287,559.96	$ 1,673,518.65
Institutional Student Loan Programs	7,227.71		7,227.71
Total Notes Receivable - Current	$ 1,968,306.32	$ 287,559.96	$ 1,680,746.36
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 10,024,511.89	$ 0.00	$ 10,024,511.89

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 26,679,431.45	$ 166,500.00	$ 0.00	$ 26,845,931.45
Construction in Progress	55,052,864.84	43,455,472.26	19,586,354.03	78,921,983.07
Total Capital Assets, Nondepreciable	81,732,296.29	43,621,972.26	19,586,354.03	105,767,914.52
Capital Assets, Depreciable:				
Buildings	564,141,363.86	15,158,804.10	1,686,097.18	577,614,070.78
Machinery and Equipment	94,011,808.55	20,011,686.45	7,331,389.02	106,692,105.98
General Infrastructure	39,678,653.03	5,760,432.99		45,439,086.02
Total Capital Assets, Depreciable	697,831,825.44	40,930,923.54	9,017,486.20	729,745,262.78
Less Accumulated Depreciation/Amortization for:				
Buildings	128,717,427.76	10,904,580.29	2,163,018.40	137,458,989.65
Machinery and Equipment	55,061,709.94	4,481,121.90	6,213,000.04	53,329,831.80
General Infrastructure	6,173,031.67	1,427,143.75	26,451.22	7,573,724.20
Total Accumulated Depreciation	189,952,169.37	16,812,845.94	8,402,469.66	198,362,545.65
Total Capital Assets, Depreciable, Net	507,879,656.07	24,118,077.60	615,016.54	531,382,717.13
Capital Assets, Net	$ 589,611,952.36	$ 67,740,049.86	$ 20,201,370.57	$ 637,150,631.65

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 7,869,338.90
Accrued Payroll	17,077,047.97
Contract Retainage	2,190,108.16
Intergovernmental Payables	472,188.62
Other	62,573.06
Total Accounts Payable and Accrued Liabilities	$ 27,671,256.71

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Revenue Bonds Payable	$ 96,280,000.00	$ 0.00	$ 5,985,000.00	$ 90,295,000.00	$ 6,195,000.00
Certificates of Participation Payable	6,845,000.00		875,000.00	5,970,000.00	905,000.00
Total Bonds and Certificates of Participation Payable	103,125,000.00		6,860,000.00	96,265,000.00	7,100,000.00
Capital Leases Payable	1,115,013.27		285,346.09	829,667.18	293,915.71
Compensated Absences	17,709,453.67	9,620,124.18	9,575,091.83	17,754,486.02	1,171,768.13
Total Long-Term Liabilities	$ 121,949,466.94	$ 9,620,124.18	$ 16,720,437.92	$ 114,849,153.20	$ 8,565,683.84

Additional information regarding capital lease obligations is included in Note 8.

B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2008	Principal Outstanding June 30, 2008	See Table Below
Revenue Bonds Payable							
Housing and Dining Services							
Residence Hall Renovation-Jarvis	1998	4.00-4.75	11/01/2018	$ 5,095,000.00	$ 1,730,000.00	$ 3,365,000.00	(1)
Jones Hall and Gallery Dining Facility Renovation	2001 A	4.25-5.75	11/01/2021	12,570,000.00	10,160,000.00	2,410,000.00	(1)
Housing and Dining Revenue Refunding Bonds	2001 B	4.25-5.75	11/01/2015	11,985,000.00	7,050,000.00	4,935,000.00	(1)
West End Dining Project	2003 A	2.60-5.00	05/01/2024	14,960,000.00	1,790,000.00	13,170,000.00	
Housing HVAC Renovation	2004	variable	05/01/2014	4,290,000.00	1,460,000.00	2,830,000.00	
College Hill Dormitory Construction	2004 C	3.00-5.00	06/30/2034	27,530,000.00	1,560,000.00	25,970,000.00	
College Hill Dormitory Supplemental Loan	2006 A	4.00-5.00	10/01/2033	3,805,000.00	75,000.00	3,730,000.00	
Refunding of Series 2001A Bonds	2006 A	4.00-5.00	10/01/2021	8,775,000.00	30,000.00	8,745,000.00	
Total Housing and Dining Services				89,010,000.00	23,855,000.00	65,155,000.00	
Student Services System							
Student Health Center	1999	4.75-5.25	05/01/2019	3,500,000.00	3,335,000.00	165,000.00	(2)
Student Recreation Center Refunding Bonds	2001 C	3.00-4.75	05/01/5019	14,555,000.00	4,605,000.00	9,950,000.00	(3)
University of North Carolina System Pooled Bonds	2004	variable	05/01/2009	1,245,000.00	960,000.00	285,000.00	
Refunding of Series 1999 Bonds	2006 A	4.00-5.00	10/01/2018	2,110,000.00		2,110,000.00	
Total Student Services System				21,410,000.00	8,900,000.00	12,510,000.00	
Athletic Facilities Revenue System							
Athletic Facilities Student Fee Refunding Bonds	2003 A	2.00-4.00	05/01/2009	4,630,000.00	3,800,000.00	830,000.00	
Dowdy-Ficklen Stadium Expansion Refunding	2004	variable	05/01/2017	5,145,000.00	1,255,000.00	3,890,000.00	
Baseball (Clark-LeClair) Stadium Construction	2004 C	variable	05/01/2024	7,110,000.00	960,000.00	6,150,000.00	
Dowdy-Ficklen Stadium Repairs	2004 C	3.00-5.00	06/30/2024	2,530,000.00	770,000.00	1,760,000.00	
Total Athletic Facilities Revenue System				19,415,000.00	6,785,000.00	12,630,000.00	
University of North Carolina Foundation Certificates of Participation							
Banner System Certificates of Participation				8,875,000.00	2,905,000.00	5,970,000.00	
Total Bonds Payable and Certificates of Participation (principal only)				$ 138,710,000.00	$ 42,445,000.00	$ 96,265,000.00	

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest
(1)	Housing & Dining Revenues	$ 12,892,533.75	$ 11,985,454.38	$ 2,017,837.50
(2)	Student Fee Revenues- Student Health Center-	173,250.00	488,917.06	170,845.00
(3)	Student Fee Revenues- Student Recreation Center	12,743,852.50	1,433,097.83	1,180,067.50

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

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

East Carolina University Variable Rate General Revenue Bonds, Series 2004: In 2004 the University issued tax exempt variable rate demand bonds in the amount of $17,790,000.00 that have a final maturity date of May 1, 2024. The bonds are subject to mandatory sinking fund redemption that began on May 1, 2005. The proceeds of this issuance were used for (i) renovating three residence halls known as Clement, White, and Greene Residence Halls located on the campus of East Carolina University, (ii) constructing and equipping a new baseball facility located on the University campus, (iii) refunding in advance of their maturities all of the outstanding East Carolina University Athletic Department Variable Rate Demand Revenue Bonds, Series 1996, the proceeds of which were applied to expanding the Dowdy-Ficklen Stadium located on the University campus, (iv) prepaying the East Carolina University Parking System Revenue Promissory Note dated November 3, 1998, the proceeds of which were used to refinance the construction of a parking lot at Dowdy-Ficklen Stadium located on the University campus, (v) prepaying the East Carolina University Student Fee Revenue Promissory Note dated November 3, 1998, the proceeds of which were used to refinance the improvements to the Blount Intramural Fields Complex located on the University campus, and (vi) paying the costs incurred in connection with the issuance of the 2004 Bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the University's paying, Wachovia Bank, National Association. Upon notice from the bond paying agent, the remarketing agent, US National Bank, National Association, has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wachovia Bank, N.A. a Liquidity Facility has been established for the Trustee (Wachovia Bank, N.A.) 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 required a commitment fee equal to 0.14 percent of the available commitment, payable semiannually in arrears, beginning on November 1, 2004, 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 (the greater of the bank prime commercial lending rate and the Bond Interest Rate.) 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, 2008, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expired on August 5, 2007, and was extended for an additional three year period ending August 5, 2010.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 10 equal semi-annual 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 prime rate plus one-half of one percent (1/2%).

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2008, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Certificates of Participation	
Fiscal Year	Principal	Interest	Principal	Interest
2009	$ 6,195,000.00	$ 3,943,095.36	$ 905,000.00	$ 237,950.00
2010	5,290,000.00	3,691,645.03	935,000.00	206,362.50
2011	5,495,000.00	3,489,428.84	970,000.00	168,962.50
2012	5,710,000.00	3,271,408.84	1,005,000.00	133,487.50
2013	5,015,000.00	3,063,678.64	1,060,000.00	83,237.50
2014-2018	25,880,000.00	11,892,601.94	1,095,000.00	43,775.00
2019-2023	18,080,000.00	6,558,923.46		
2024-2028	8,250,000.00	3,513,467.12		
2029-2033	8,450,000.00	1,642,105.00		
2034-2038	1,930,000.00	83,635.00		
Total Requirements	$ 90,295,000.00	$ 41,149,989.23	$ 5,970,000.00	$ 873,775.00

Interest on the variable rate 2004 revenue bonds is calculated at 1.5% at June 30, 2008. Debt is remarketed, so interest rates fluctuate based on supply and demand.

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

Prior Year Defeasance – During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2008, the outstanding balance of prior year defeased bonds was $10,725,000.00.

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to medical equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 315,303.52
2010	315,303.52
2011	236,477.64
Total Minimum Lease Payments	867,084.68
Amount Representing Interest (2.97% Rate of Interest)	37,417.50
Present Value of Future Lease Payments	$ 829,667.18

Machinery and equipment acquired under capital lease amounted to $1,986,174.66 at June 30, 2008.

B. Operating Lease Obligations - The University entered into operating leases for equipment and building. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 3,059,324.27
2010	2,163,803.88
2011	1,481,675.76
2012	915,859.59
2013	567,367.67
2014-2018	1,792,038.67
Total Minimum Lease Payments	$ 9,980,069.84

Rental expense for all operating leases during the year was $3,285,725.27.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees	$ 132,617,211.90	$ 0.00	$ 15,804,210.64	$ 387,284.59	$ 0.00	$ 116,425,716.67
Patient Services	$ 334,476,513.31	$ 0.00	$ 0.00	$ 21,655,819.40	$ 180,426,428.00	$ 132,394,265.91
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	$ 25,174,193.20	$ 758,385.00	$ 2,459,711.57	$ 0.00	$ 0.00	$ 21,956,096.63
Dining	20,690,265.52	729,431.95	1,884,349.77			18,076,483.80
Student Union Services	27,117.48					27,117.48
Health, Physical Education, and Recreation Services	1,951,523.48					1,951,523.48
Bookstore	14,525,145.65					14,525,145.65
Parking	2,365,361.11					2,365,361.11
Athletic	13,263,217.21					13,263,217.21
Other	2,623,257.64					2,623,257.64
Sales and Services of Education and Related Activities	5,627,787.01					5,627,787.01
Total Sales and Services	$ 86,247,868.30	$ 1,487,816.95	$ 4,344,061.34	$ 0.00	$ 0.00	$ 80,415,990.01

NOTE 10 - 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	$ 208,663,832.16	$ 13,194,352.84	$ 16,406,125.47	$ 0.00	$ 128,907.96	$ 0.00	$ 238,393,218.43
Research	13,577,968.42	2,741,177.10	3,910,023.71	49,569.63	6,364.09		20,285,102.95
Public Service	11,781,443.29	856,291.63	3,838,545.14	52,302.00			16,528,582.06
Academic Support	15,334,470.82	5,918,400.31	1,716,220.22	7,425.00	6,170.74		22,982,687.09
Student Services	7,181,494.46	813,724.64	3,121,270.37	250.00	11,981.41		11,128,720.88
Institutional Support	27,914,801.60	3,464,526.91	10,489,611.71	13,575.66	34,791.87		41,917,307.75
Operations and Maintenance of Plant	22,993,718.74	10,288,027.31	3,409,612.88		12,272,258.77		48,963,617.70
Student Financial Aid	545,680.43	516.25	86,347.38	19,365,794.07			19,998,338.13
Auxiliary Enterprises	126,968,262.60	26,917,437.02	51,901,038.63	4,396,395.12	6,205,241.27		216,388,374.64
Depreciation						16,812,845.94	16,812,845.94
Total Operating Expenses	$ 434,961,672.52	$ 64,194,454.01	$ 94,878,795.51	$ 23,885,311.48	$ 18,665,716.11	$ 16,812,845.94	$ 653,398,795.57

NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of $356,982,080.39, of which $164,968,763.35 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $5,032,096.29 and $9,899,205.81, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $5,032,096.29, $4,059,786.70, and $3,225,529.47, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2008, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of $356,982,080.39, of which $152,694,145.18 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $10,444,279.53 and $9,161,648.71, 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 $2,215,022.60 for the year ended June 30, 2008.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2008, were $120,546.94. The voluntary contributions by employees amounted to $1,623,609.67 for the year ended June 30, 2008.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit 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 $7,342,864.66 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $13,024,917.26, $11,249,731.02, and $10,200,822.19, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $1,651,940.73, $1,539,436.88, and $1,395,901.99, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - 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 $1,000,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 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 the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $500 per occurrence deductible, except theft losses are subject to a $1,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

The University has the option to purchase through the Fund different levels of coverage for the University's buildings and contents. The optional levels of coverage are decided upon and paid for by the departments occupying the University building.

The types of optional coverage are: Sprinkler Leakage Coverage for buildings with fire sprinklers; Flood Coverage for buildings prone to flood; Extended Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion and smoke; Broad Form Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion, smoke, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, and water damage; All Risk Special Form Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion, smoke, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, water damage, theft, any other loss not specifically excluded. The coverage rates are determined by the Department of Insurance State Property Fire Insurance Fund. Losses covered by the Fund are subject to a $500 per occurrence deductible, except theft losses are subject to a $1,000 per occurrence deductible.

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

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

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance for medical malpractice (a separate policy is purchased for employees of the Brody School of Medicine, see next paragraph for details of coverage); liability coverage; accident coverage; Study Abroad coverage; International Study coverage; University Crime coverage; Foundations' Crime coverage; and bond policy coverage for schedule participants. Additional insurance policies provide insurance coverage for "all risk" Computer and Miscellaneous equipment; on-loan collections of art; leased equipment and modular units; Boiler machinery; Musical Equipment; and University Boats.

The University provides medical malpractice insurance for Brody School of Medicine faculty physicians and independently licensed allied health providers (Nurse Practitioners, Certified Registered Nurse Anesthetists, Certified Nurse Midwifes, and Physician Assistants). There is a shared blanket policy for all other employees of the ECU Physicians. The medical malpractice is with a private insurance company with coverage of $3,000,000 per occurrence, $5,000,000 annual aggregate, and a $200,000 deductible; as well as an excess policy in the amount of $10,000,000. As part of the medical malpractice insurance agreement, the University was required to establish a $1,000,000, non-cancelable letter of credit. There have been no draws against this letter of credit to date.

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

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

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - 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 \$13,024,392.74 and on other purchases were \$16,502,554.34 at June 30, 2008.

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.

NOTE 15 - RELATED PARTIES

Foundations - There are three separately incorporated nonprofit foundations associated with the University. These foundations are the East Carolina University Educational Foundation, Inc., the East Carolina University Medical and Health Sciences Foundation, Inc, and the East Carolina University Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University.

The East Carolina University Educational Foundation, Inc. provided \$1,554,345.98 for construction projects, \$3,606,174.75 to the Department of Athletics in primary support of student athlete scholarships and \$921,530.22 other operating support. The Medical Foundation of East Carolina University provided indirect support to the University by distributing funds directly to recipients. The East Carolina University Alumni Association, Inc. provides support for the graduates of the University. The activities of the above Foundations are not included in the accompanying financial statements.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues*.

GASB Statement No. 50, *Pension Disclosures*.

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

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

GASB Statement No. 50, aligns the financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 17 - NET ASSET RESTATEMENTS

As of July 1, 2007, net assets as previously reported was restated as follows:

	Amount
July 1, 2007 Net Assets as Previously Reported	$ 658,831,387.19
Restatements: Correction of an Error Related to the Estimated Useful Lives of Capital Assets	7,367,029.27
Correct Prior Year Unearned Revenue Amount	527,396.94
July 1, 2007 Net Assets as Restated	$ 666,725,813.40

NOTE 18 - SUBSEQUENT EVENTS

Economic events subsequent to June 30, 2008 have negatively impacted the University's investments. Both the U.S. and international financial markets have experienced severe downturns in recent months.

Endowment Investments

According to the most recent information available at October 31, 2008, the value of the University's endowment investments was $15,278,314.12, representing a decline of $4,409,521.29, or 22 percent, from the value of $19,687,835.41 as reported at June 30, 2008.

Investments in marketable securities have declined in value by 27 percent, from $14,743,221.66 to $10,710,575.72 as of October 31, 2008. The University's investments in hedge funds, with financial reporting available most recently as of September 30, 2008, have declined in value by 11 percent, from $3,512,678.24 to $3,123,802.89. The University's investments in limited partnerships are reported at cost. An analysis of the underlying investments of the limited partnerships reveals a decline in fair market value of $152,288.93, a 9 percent change from June 30, 2008 to September 30, 2008.

Other Investments

Other investments of the University valued at $4,261,270.22 at June 30, 2008 have not experienced a decline in value. These investments were valued at $5,051,944.60 at October 31, 2008 and were comprised of money market mutual funds invested in United States Treasury securities with a market value equivalent to investment cost. The increase in the University's other investments is attributable to the funding requirements of bond resolutions.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 2, 2008. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

December 2, 2008

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