

# STATE OF NORTH CAROLINA

**EAST CAROLINA UNIVERSITY**

**GREENVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**EAST CAROLINA UNIVERSITY**  
**GREENVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, 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, 2009 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.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
East Carolina University  
Greenville, North Carolina

We have audited the accompanying basic financial statements of East Carolina University, a constituent institution of the 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, 2009, 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 an opinion 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2009 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, 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.



Beth A. Wood, CPA  
State Auditor

December 3, 2009

## **EAST CAROLINA UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **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, 2009 with comparative information for the fiscal year ended June 30, 2008. Management has prepared the discussion and analysis to be read in conjunction with the Notes to Financial Statements.

### **Financial Highlights**

The University's net assets increased from \$758 million in 2008 to \$777 million in 2009. The increase of \$19 million represents the residual interest in the assets after the liabilities are deducted. This increase is mostly due to increases in the investment in capital assets, net of related debt, and increases in endowed professorships due to gifts.

Operating revenues increased from \$369 million in 2008 to \$400 million in 2009. Revenues represent amounts received or accrued, and are classified as either operating or nonoperating. The increase of \$31 million is represented mostly by an increase in patient services, student tuition and fees, and auxiliary sales and services.

Operating expenses increased from \$653 million in 2008 to \$695 million in 2009. Operating expenses represent the amounts paid or accrued for operating purposes. A major part of the \$42 million change is due to increases in auxiliary enterprises expenses, instructional expenses, and student financial aid.

### **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, 2009 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

expenditure by the University. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2009 and 2008 is as follows:

### Assets, Liabilities, and Net Assets

(Dollars in Thousands)

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>Percent Change</u>
<b>Assets</b>				
Current Assets	\$ 217,740	\$ 213,629	\$ 4,111	1.9 %
Noncurrent Assets:				
Endowment Investments	15,080	19,688	(4,608)	(23.4) %
Other Investments	4,331	4,261	70	1.6 %
Capital Assets, Net	664,319	637,151	27,168	4.3 %
Other Noncurrent Assets	<u>64,308</u>	<u>62,477</u>	<u>1,831</u>	2.9 %
Total Noncurrent Assets	<u>748,038</u>	<u>723,577</u>	<u>24,461</u>	3.4 %
<b>Total Assets</b>	<u>965,778</u>	<u>937,206</u>	<u>28,572</u>	3.0 %
<b>Liabilities</b>				
Current Liabilities	52,974	49,307	3,667	7.4 %
Noncurrent Liabilities:				
Long-Term Liabilities	107,949	106,284	1,665	1.6 %
Other Noncurrent Liabilities	<u>28,014</u>	<u>23,699</u>	<u>4,315</u>	18.2 %
Total Noncurrent Liabilities	<u>135,963</u>	<u>129,983</u>	<u>5,980</u>	4.6 %
<b>Total Liabilities</b>	<u>188,937</u>	<u>179,290</u>	<u>9,647</u>	5.4 %
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	567,563	540,056	27,507	5.1 %
Restricted for Nonexpendable	18,995	16,037	2,958	18.4 %
Restricted for Expendable	45,597	55,270	(9,673)	(17.5) %
Unrestricted	<u>144,686</u>	<u>146,553</u>	<u>(1,867)</u>	(1.3) %
<b>Total Net Assets</b>	<u>\$ 776,841</u>	<u>\$ 757,916</u>	<u>\$ 18,925</u>	2.5 %

The Statement of Net Assets at June 30, 2009 indicates an improvement of financial position compared to last fiscal year. In 2009, the University had total assets of \$966 million. Current assets increased \$4 million, to \$218 million. This increase is primarily due to the increase in patient receivables and in other receivables.

Noncurrent assets increased \$24 million largely due to the increase in capital assets of over \$27 million. This increase in capital assets includes a land purchase for future expansion and major infrastructure projects of the Brody School of Medicine and East Campus. Endowment investments decreased 23 percent. The investment losses have impacted the University's ability to support professorships and scholarships. Other long-term investments only marginally increased.

Current liabilities increased \$3.7 million, which is a 7.4 percent change from last fiscal year. A decrease in accrued liabilities of \$1.7 million is specifically related to contract retainage. This decrease was offset by increases in deferred revenue of nearly \$1.4 million related to grants and student accounts. Decreasing from the prior year was accrued payroll, with a decrease by nearly \$0.8 million, attributable to a hiring freeze in place for much of the year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

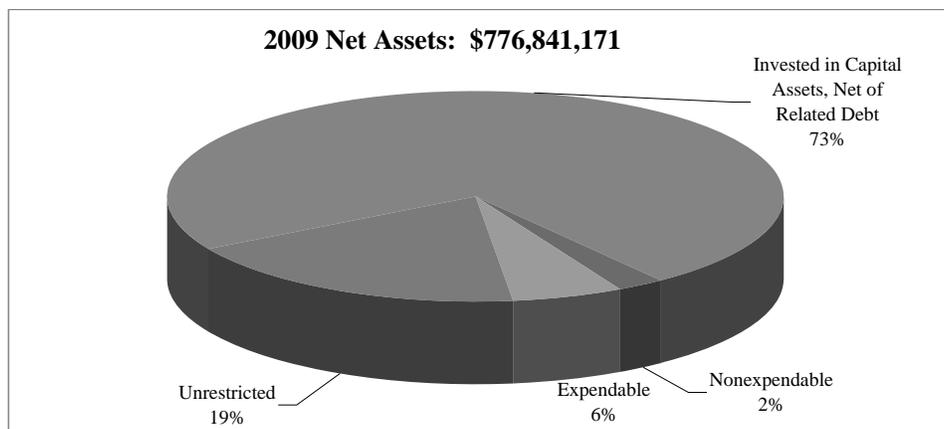
Working capital was \$165 million at June 30, 2009, an increase of only \$1 million from the prior year. Working capital reflects the University's short-term financial health and overall operating efficiency. It is the difference between current assets and current liabilities. Decreases in cash balances in the current year were offset by increases in receivables and other current assets. Accounts payable remained virtually unchanged from the prior year.

Net assets represent the value of the University's assets after all liabilities have been deducted. The University's net assets were \$777 million, an increase of \$19 million, or 2.5 percent over the prior year. For reporting purposes, net assets are divided into four categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted 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 \$567 million of the \$777 million in net assets. The accumulated depreciation balance as of June 30, 2009 was \$208 million.

Restricted nonexpendable net assets primarily include the University's permanent endowment fund, accounting for \$19 million of net assets. Restricted expendable net assets are subject to externally imposed restrictions governing its use. This category of net assets made up \$46 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 2009, unrestricted net assets were \$145 million of the \$777 million in net assets. Net assets classified as restricted for nonexpendable increased by 18 percent from the prior year. Net assets that were classified as restricted for expendable decreased 17 percent, a result attributable to the decline in market value of investments. The following chart displays the contribution of each category to total net assets for 2009.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### 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, 2009, compared with that of 2008, are summarized as follows:

#### Statement of Revenues, Expenses, and Changes in Net Assets

(Dollars in Thousands)

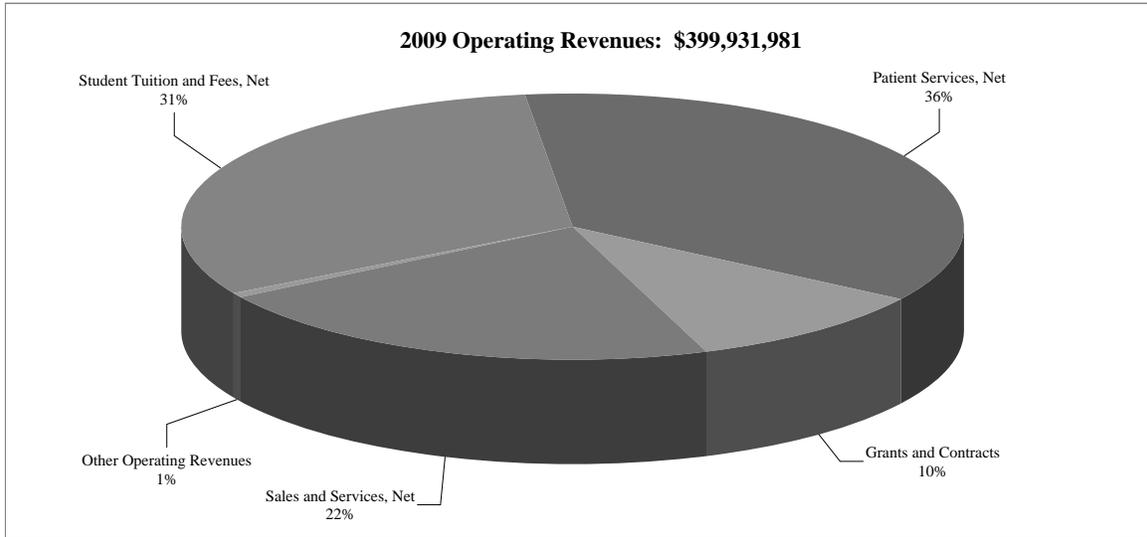
	2009	Restated 2008	Variance	Percent
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 125,070	\$ 116,426	\$ 8,644	7.4 %
Patient Services, Net	145,124	132,394	12,730	9.6 %
Grants and Contracts	40,921	38,271	2,650	6.9 %
Sales and Services, Net	86,466	80,416	6,050	7.5 %
Other	2,351	1,817	534	29.4 %
<b>Total Operating Revenues</b>	<b>399,932</b>	<b>369,324</b>	<b>30,608</b>	<b>8.3 %</b>
<b>Operating Expenses</b>				
Salaries and Benefits	465,888	434,962	30,926	7.1 %
Supplies and Materials	71,347	64,194	7,153	11.1 %
Services	88,772	94,879	(6,107)	(6.4) %
Scholarships and Fellowships	28,707	23,885	4,822	20.2 %
Utilities	21,003	18,666	2,337	12.5 %
Depreciation	19,258	16,813	2,445	14.5 %
<b>Total Operating Expenses</b>	<b>694,975</b>	<b>653,399</b>	<b>41,576</b>	<b>6.4 %</b>
<b>Operating Loss</b>	<b>(295,043)</b>	<b>(284,075)</b>	<b>10,968</b>	<b>3.9 %</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	241,752	267,769	(26,017)	(9.7) %
State Aid - Federal Recovery Funds	6,550		6,550	100.0 %
Noncapital Grants	32,650	27,042	5,608	20.7 %
Noncapital Gifts	12,347	9,048	3,299	36.5 %
Investment Income, Net	2,438	7,190	(4,752)	(66.1) %
Other Nonoperating Expenses	(6,803)	(4,912)	1,891	38.5 %
<b>Net Nonoperating Revenues</b>	<b>288,934</b>	<b>306,137</b>	<b>(17,203)</b>	<b>(5.6) %</b>
<b>Income Before Other Revenues (Expenses)</b>	<b>(6,109)</b>	<b>22,062</b>	<b>(6,235)</b>	<b>(28.3) %</b>
Capital Appropriations	39	32,006	(31,967)	(99.9) %
Refund of Prior Years Capital Appropriations	(2,270)		2,270	100.0 %
Capital Grants	24,858	36,475	(11,617)	(31.8) %
Capital Gifts	2,407	647	1,760	272.0 %
<b>Increase in Net Assets</b>	<b>18,925</b>	<b>91,190</b>	<b>(72,265)</b>	<b>(79.2) %</b>
<b>Net Assets - July 1</b>	<b>757,916</b>	<b>666,726</b>	<b>91,190</b>	<b>13.7 %</b>
<b>Net Assets - June 30</b>	<b>\$ 776,841</b>	<b>\$ 757,916</b>	<b>\$ 18,925</b>	<b>2.5 %</b>

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 percent from the prior year. Student tuition and fees, net of the tuition discount, increased \$8.6 million, or 7.4 percent. The tuition discount is an offset to revenues for the scholarships

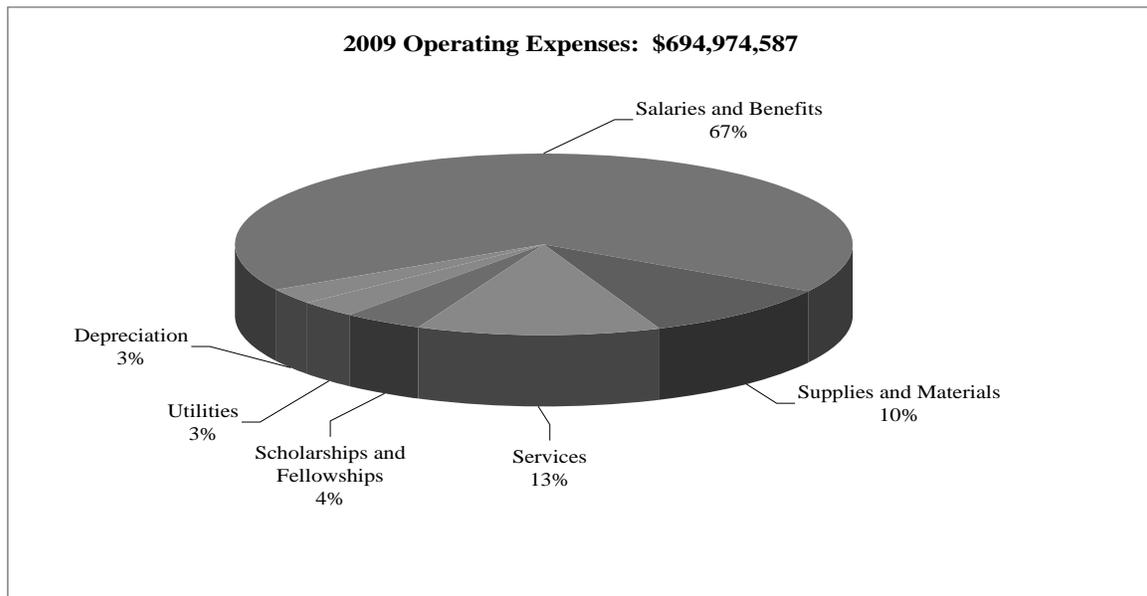
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

and fellowships that are applied to student accounts. Tuition rates increased \$46 for resident undergraduate students and \$69 for resident graduate students. For nonresident students, the tuition increases were \$366 for undergraduates and \$69 for graduates. Mandatory student fees increased by \$25, or 1.2 percent. Patient services increased \$12.7 million, or 9.6 percent.

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



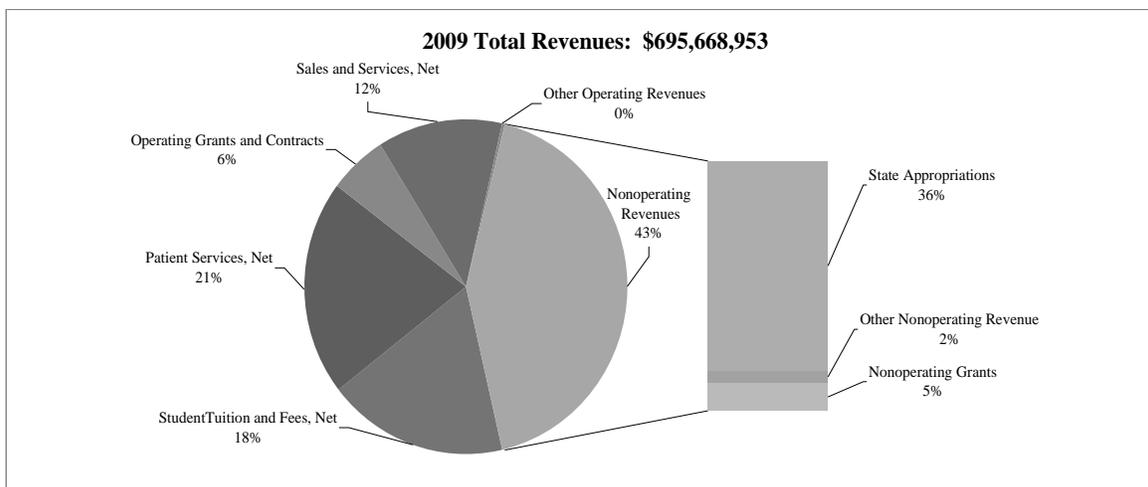
Operating expenses are the day-to-day expenses incurred to carry out the mission of the University. Operating expenses increased \$41.6 million to \$695 million. This increase is mainly attributed to salaries and benefits. Salaries and benefits increased \$31 million to \$466 million, in part due to the legislative increase. The following chart shows each component of operating expenses as it relates to total operating expenses as a whole.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues and expenses are not generated by the principal operations of the University. Total net nonoperating revenues decreased \$17.2 million. State appropriations declined by \$26 million due to budget cuts required to remedy the State budget shortfall. Federal recovery funds, received via the State, were received in the amount of \$6.5 million and were used to fund instructional payroll. Contributions to distinguished professorships increased over \$3.6 million. Nonoperating expenses include interest and fees on capital asset-related debt, which were 6.6 percent less than the prior year.

Overall, State appropriations were a significant component of total revenues for the University comprising 36 percent of total revenue. The following chart illustrates the University's operating and nonoperating revenues which total \$696 million for fiscal year 2008-2009.



Capital appropriations decreased by \$32 million, a change of 99.9 percent from the previous year, a result of state budget reductions. In fiscal year 2009, the State requested the return of prior year capital appropriations in the amount of \$2.3 million.

Capital gifts had an increase from 2008 to 2009. This increase was in large part due to the contribution of software by the ECU Foundation valued at \$1.4 million.

### 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, 2009 and 2008.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Cash Flows

(Dollars in Thousands)

	2009	2008	Variance	Percent Change
<b>Cash Flows Provided (Used)</b>				
Operating Activities	\$ (270,941)	\$ (242,867)	\$ 28,074	11.6 %
Noncapital Financing Activities	291,532	276,817	14,715	5.3 %
Capital Financing Activities	(28,367)	(3,518)	24,849	706.3 %
Investing Activities	6,300	6,236	64	1.0 %
<b>Net Change in Cash</b>	(1,476)	36,668	(38,144)	(104.0) %
<b>Cash - July 1</b>	219,731	183,063	36,668	20.0 %
<b>Cash - June 30</b>	<u>\$ 218,255</u>	<u>\$ 219,731</u>	<u>\$ (1,476)</u>	(0.7) %

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. The most significant source of operating cash is amounts received from customers, which decreased slightly to \$396 million. This includes tuition and fees, grants and contracts, patient services, and sales and services of an educational and auxiliary nature. The most notable use of operating cash was for payments to employees and fringe benefits which totaled \$464 million.

Noncapital financing activities include state appropriations for operations and noncapital gifts. State appropriations make up \$241 million of the \$292 million provided from noncapital financing activities. The remaining balance was federal recovery funds, noncapital grants and gifts.

Capital financing activities include the borrowing of money for the acquisition, construction, and improvement of capital assets used in providing services or producing goods. This also includes repayments of principal and interest. There was significant change in the balance of capital financing activities from the end of fiscal year 2008 to the end of fiscal year 2009. The use of capital lease financing increased by \$7.4 million in 2009. However, the majority of capital expenditures were paid by cash, as the current year saw a decline in State capital appropriations and capital grants of \$44 million.

Investing activities include acquiring or disposing of debt or equity instruments. Proceeds from sales and maturities of investments make up \$23 million of the \$28 million of investing activities sources. The use of these funds was \$22 million for the purchase of investments and for 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The University had \$664 million invested in capital assets at year-end. There was a net increase from \$637 million from last year. The University purchased land in the amount of \$8.2 million in Manteo, NC, located along the Croatan Sound. This will provide a site for continued development of the UNC Coastal Studies Institute campus. In 2009, there were also general infrastructure projects totaling approximately \$14 million, such as the Brody School of Medicine Utility Master Plan and East Campus Electrical Distribution System.

Capital assets for the University were comprised of nondepreciable and depreciable assets. Nondepreciable assets were 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, 2009 and June 30, 2008 were as follows:

### Capital Assets

*(Dollars in Thousands)*

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>Percent Change</u>
Land	\$ 35,329	\$ 26,846	\$ 8,483	31.6 %
Construction in Progress	27,184	78,922	(51,738)	(65.6) %
Buildings	634,021	577,614	56,407	9.8 %
General Infrastructure	59,908	45,409	14,499	31.9 %
Machinery and Equipment	<u>115,705</u>	<u>106,722</u>	<u>8,983</u>	8.4 %
<b>Total Capital Assets</b>	872,147	835,513	36,634	4.4 %
Accumulated Depreciation	<u>207,828</u>	<u>198,362</u>	<u>9,466</u>	4.8 %
<b>Capital Assets, Net</b>	<u><u>\$ 664,319</u></u>	<u><u>\$ 637,151</u></u>	<u><u>\$ 27,168</u></u>	4.3 %

Capital additions consist primarily of replacement, renovation and new construction of capital assets as well as significant investments in equipment, including information technology. Net capital additions totaled \$29 million in 2009.

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.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)**

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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 future fiscal years are depicted below.

Description	Funding Source	Amount in Thousands
Coastal Studies Institute	Statewide Certificate of Participation (COPS)	\$ 32,500
Mendenhall/Ledonia Wright	University Revenues	39,000
Dental School	Appropriations	90,000
Brody School of Medicine	Statewide COPS /ECU Physicians/	
Family Medicine Center	Gift/ Golden Leaf Foundation	45,000
Athletic Facilities Additions	University Debt	30,000
Scott Hall Renovations	University Debt	28,500
Croatan Demolition & Replacement	University Debt	8,200
East End Zone Seating Addition	Athletic Revenues/Gifts	24,000

One of the University’s upcoming projects is the 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.

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.

The Athletic Facilities Additions will expand and improve the facilities for a number of sports programs with growing athletic programs. The planned additions include the construction of a new 1,000 seat softball facility, with grand stands, press box, and other support elements. Other phases of this project will include the construction of a new 400 meter, 8-lane track and field complex, and grandstand seating for 1,000 spectators for the soccer complex. A team building is planned for the use of the varsity programs of softball, soccer, and track and field. A tennis and auxiliary gym to house 3 basketball practice courts is also included in the scope of this project.

The Croatan project is a replacement of an existing dining facility located in central campus with a new two-story food service facility of approximately 20,000 square feet. The facility will house 2 restaurants, multi-purpose room, and faculty club room.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Scott Residence Hall project is the complete renovation of the facility with the addition of a wing on the East side of the building that will contain approximately 128 beds.

The East End Zone seating addition project is a 7,000 seat expansion to Dowdy-Ficklen Stadium. The new seating capacity will enclose the East End Zone with bench seating and a two-tiered level of viewing spaces that comply with ADA requirements.

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 \$0.3 million in 2009.

<i>Dollars in Thousands</i>	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue Bonds Payable-Fixed Rate	\$ 72,305	\$ 77,140	\$ (4,835)
Revenue Bonds Payable-Variable Rate	11,795	13,155	(1,360)
Certificates of Participation	5,065	5,970	(905)
Capital Leases Payable	<u>7,591</u>	<u>830</u>	<u>6,761</u>
	<u>\$ 96,756</u>	<u>\$ 97,095</u>	<u>\$ (339)</u>

In June 2009, Moody's Investors Services affirmed the University's ratings for its general revenue and auxiliary system revenue bonds of Aa3 with a stable outlook. This review was undertaken in conjunction with the issuance of the UNC System's 2009 Pool Revenue Bonds.

On July 9, 2009, the University sold bonds in the amount \$45.1 million. The bond proceeds were used to renovate and construct dining facilities, renovate, equip, and furnish a residence hall, and construct a softball field and complex. The bond proceeds were also used to refund in advance the East Carolina University Housing and Dining Facilities System Revenue Bonds, Series 1998.

### Economic Forecast

As indicated in the University's financial statements, the University demonstrated improved financial performance, highlighted by a \$19 million increase in net assets during the year ended June 30, 2009. This increase is significantly less than the \$91 million increase of the preceding year, but given the economic environment of 2009, this is not surprising. In spite of the State's budget situation, the North Carolina General Assembly has continued to support public higher education and has funded increase in enrollment for the fiscal year ended 2010. In addition, East Carolina University received \$2 million for indigent patient care and \$3 million for operating the new School of Dentistry. As a result of these increases, the statewide budget reductions resulted in a very little reduction on the University's total budgeted state appropriations.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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While the State's fiscal outlook is somewhat better, there is still some uncertainty because newly adopted revenues will not be fully realized until the second half of the fiscal year. For this reason, the Governor has directed the Office of State Budget and Management to withhold 5% of appropriations from all State Agencies and the UNC system to ensure that the state's budget is balanced throughout Fiscal Year ended June 30, 2010. This action translates into approximately a \$14.5 million reduction for East Carolina University.

The University's administration has worked diligently with the rest of the University Community to develop a plan for addressing these reductions strategically in order to minimize the impact on the University's core mission and insure that the university is poised to take advantage of any opportunities as the economy stabilizes and improves.

### **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 the Financial Director for East Carolina University at (252)737-1140.

***East Carolina University***  
***Statement of Net Assets***  
***June 30, 2009***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 143,763,102.62
Restricted Cash and Cash Equivalents	22,980,608.67
Receivables, Net (Note 4)	39,956,364.83
Due from State of North Carolina Component Units	2,000,000.00
Inventories	5,601,465.91
Notes Receivable, Net (Note 4)	1,240,317.68
Other Assets	2,197,776.60
	<hr/>
Total Current Assets	217,739,636.31

Noncurrent Assets:

Restricted Cash and Cash Equivalents	51,511,024.40
Restricted Due from Primary Government	779,481.38
Endowment Investments	15,080,150.41
Other Investments	4,330,998.89
Investment in Joint Venture	1,079,912.84
Notes Receivable, Net (Note 4)	10,937,693.77
Capital Assets - Nondepreciable (Note 5)	62,512,668.43
Capital Assets - Depreciable, Net (Note 5)	601,806,377.78
	<hr/>
Total Noncurrent Assets	748,038,307.90

Total Assets	<hr/> <hr/> 965,777,944.21
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	27,512,061.45
Due to Primary Government	1,807,126.79
Unearned Revenue	13,649,939.87
Interest Payable	739,526.52
Long-Term Liabilities - Current Portion (Note 7)	9,265,664.68
	<hr/>
Total Current Liabilities	52,974,319.31

Noncurrent Liabilities:

Deposits Payable	2,169,565.75
Funds Held for Others	12,967,290.52
U. S. Government Grants Refundable	12,877,043.22
Long-Term Liabilities (Note 7)	107,948,554.05
	<hr/>

Total Noncurrent Liabilities	135,962,453.54
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Total Liabilities	<hr/> <hr/> 188,936,772.85
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***East Carolina University***  
***Statement of Net Assets***  
***June 30, 2009***

***Exhibit A-1***  
***Page 2***

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	567,562,788.48
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,619,487.98
Endowed Professorships	13,325,673.49
Departmental Uses	330,157.27
Loans	3,719,226.53
Expendable:	
Scholarships and Fellowships	3,188,014.86
Endowed Professorships	1,819,590.28
Departmental Uses	201,494.32
Capital Projects	35,208,358.73
Debt Service	3,389,546.37
Other	1,790,221.98
Unrestricted	<u>144,686,611.07</u>
Total Net Assets	<u><u>\$ 776,841,171.36</u></u>

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, 2009***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 125,070,005.03
Patient Services, Net (Note 9)	145,123,491.48
Federal Grants and Contracts	18,478,012.72
State and Local Grants and Contracts	10,989,163.47
Nongovernmental Grants and Contracts	11,454,253.04
Sales and Services, Net (Note 9)	86,465,603.88
Interest Earnings on Loans	477,401.93
Other Operating Revenues	<u>1,874,049.62</u>

Total Operating Revenues	<u>399,931,981.17</u>
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	465,888,330.09
Supplies and Materials	71,346,643.53
Services	88,771,315.60
Scholarships and Fellowships	28,707,259.83
Utilities	21,003,284.52
Depreciation	<u>19,257,752.99</u>

Total Operating Expenses	<u>694,974,586.56</u>
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Operating Loss	<u>(295,042,605.39)</u>
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	241,751,812.61
State Aid - Federal Recovery Funds	6,549,955.00
Noncapital Grants - Federal Student Financial Aid	18,356,353.31
Other Noncapital Grants	14,293,738.91
Noncapital Gifts	12,347,457.44
Investment Income (Net of Investment Expense of \$19,373.86)	2,437,654.85
Interest and Fees on Debt	(4,108,856.79)
Other Nonoperating Expenses	<u>(2,694,152.84)</u>

Net Nonoperating Revenues	<u>288,933,962.49</u>
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Loss Before Other Revenues (Expenses)	(6,108,642.90)
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State Capital Appropriations	39,259.86
Refund of Prior Years Capital Appropriations	(2,269,900.00)
Capital Grants	24,857,533.85
Capital Gifts	<u>2,407,048.96</u>

Increase in Net Assets	18,925,299.77
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**NET ASSETS**

Net Assets - July 1, 2008	<u>757,915,871.59</u>
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Net Assets - June 30, 2009	<u><u>\$ 776,841,171.36</u></u>
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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, 2009***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 395,801,560.25
Payments to Employees and Fringe Benefits	(464,295,550.21)
Payments to Vendors and Suppliers	(177,135,764.12)
Payments for Scholarships and Fellowships	(28,707,259.83)
Loans Issued	(1,961,836.83)
Collection of Loans	1,489,083.63
Interest Earned on Loans	430,366.22
Student Deposits Received	3,611,181.89
Student Deposits Returned	(2,536,283.18)
Other Receipts	2,363,646.19
	<hr/>
Net Cash Used by Operating Activities	(270,940,855.99)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	241,751,812.61
State Aid - Federal Recovery Funds	6,549,955.00
Noncapital Grants - Federal Student Financial Aid	18,356,353.31
Noncapital Grants	14,293,738.91
Noncapital Gifts	10,579,977.44
Federal Family Education Loan Receipts	107,492,296.29
Federal Family Education Loan Disbursements	(107,492,296.29)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	291,531,837.27

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Proceeds from Issuance of Debt	350,970.84
State Capital Appropriations	39,259.86
Refund of Prior Years Capital Appropriations	(2,269,900.00)
Capital Grants	25,543,167.47
Capital Gifts	476,312.90
Proceeds from Sale of Capital Assets	247,500.00
Acquisition and Construction of Capital Assets	(40,411,792.85)
Principal Paid on Capital Debt and Leases	(8,210,877.62)
Interest and Fees Paid on Capital Debt and Leases	(4,131,821.96)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(28,367,181.36)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	22,694,628.94
Investment Income	5,594,615.51
Purchase of Investments and Related Fees	(21,989,386.10)
	<hr/>
Net Cash Provided by Investing Activities	6,299,858.35
	<hr/>
Net Decrease in Cash and Cash Equivalents	(1,476,341.73)
Cash and Cash Equivalents - July 1, 2008	219,731,077.42
	<hr/>
Cash and Cash Equivalents - June 30, 2009	\$ 218,254,735.69

***East Carolina University  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2009***

***Exhibit A-3  
Page 2***

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

Operating Loss	\$ (295,042,605.39)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	19,257,752.99
Changes in Assets and Liabilities:	
Receivables (Net)	(5,133,779.44)
Due from State of North Carolina Component Units	70,000.00
Due from University Component Units	467.00
Inventories	834,413.89
Other Assets	(1,640,113.40)
Accounts Payable and Accrued Liabilities	2,496,922.52
Funds Held for Others	3,498,925.80
Due to Primary Government	48,281.81
Unearned Revenue	1,363,257.74
Note Payable	350,970.84
Compensated Absences	2,352,504.14
Deposits Payable	1,074,898.71
Note Principal Repayments	1,489,083.63
Notes Issued	<u>(1,961,836.83)</u>
Net Cash Used by Operating Activities	<u><u>\$ (270,940,855.99)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 143,763,102.62
Restricted Cash and Cash Equivalents	22,980,608.67
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>51,511,024.40</u>
Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 218,254,735.69</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through the Assumption of a Liability	\$ 7,872,468.17
Assets Acquired through a Gift	1,930,736.06
Change in Fair Value of Investments	(3,156,353.81)
Loss on Disposal of Capital Assets	(1,419,743.92)

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, 2009***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$ 1,832,368
Investments	52,570,235
Investment in Joint Venture	2,239,445
Real Estate Held for Investment	301,116
Cash Surrender Value of Life Insurance	157,637
Assets Held in Charitable Trusts and Annuities	1,560,049
Beneficial Interest in Charitable Remainder Trust	3,284,414
Receivables, Net	2,320,438
Pledges Receivable/Promises	3,193,637
Prepaid Expenses	17,162
Other Assets	392,848
Capital Assets, Net of Accumulated Depreciation	3,455,324
	<hr/>
Total Assets	71,324,673

**LIABILITIES**

Accounts Payable and Accrued Expenses	86,370
Due to Other University Foundations	1,234,750
Funds Held for Others	81,552
Interest Rate Swap Fair Value Liability	129,000
Annuities Payable	867,441
Notes Payable	3,300,000
Liabilities Under Charitable Remainder Trusts	235,688
	<hr/>
Total Liabilities	5,934,801

**NET ASSETS**

Unrestricted	3,403,460
Temporarily Restricted	17,670,543
Permanently Restricted	44,315,869
	<hr/>
Total Net Assets	\$ 65,389,872

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, 2009***

***Exhibit B-2***

**REVENUES, GAINS, AND OTHER SUPPORT**

Contributions	\$ 7,048,058
Gifts in Kind	3,872,910
Contributed Services and Facilities	2,470,058
Interest and Dividends	1,380,796
Net Unrealized and Realized Losses on Investments	(15,667,376)
Other Income	322,752
Loss on Sales or Transfer of Property	(3,004)
Revaluation of Real Estate	(382,141)
Change in Value of Split Interest Agreements	(1,705,474)
	<hr/>
Total Unrestricted Revenues and Gains	(2,663,421)

**EXPENSES AND LOSSES**

Program Services	9,015,838
General and Administrative	825,330
Fund Raising	2,442,245
Bad Debt Losses	102,046
	<hr/>
Total Expenses and Losses	12,385,459

Decrease in Net Assets	(15,048,880)
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**NET ASSETS**

Net Assets at Beginning of Year	<hr/> 80,438,752
Net Assets at End of Year	<hr/> <u>\$ 65,389,872</u>

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

**EAST CAROLINA UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

**Discretely Presented Component Unit** - The East Carolina 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 63 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2009, the Foundation distributed \$9,015,838.00 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- F. Receivables** - Receivables consist of tuition and fees charged to students, charges for services rendered to patients and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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.

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 require 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, certificates of participation, notes 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. Issuance costs are expensed.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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, 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$218,057,117.19 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 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Cash on hand at June 30, 2009 was \$107,608.67. The carrying amount of the University's deposits not with the State Treasurer was \$90,009.83 and the bank balance was \$105,208.64. 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, 2009, \$9.83 of the University's bank balance was exposed to custodial credit risk.

### **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 of the University's component unit, the East Carolina University Foundation, Inc. and Consolidated Affiliate, are subject to and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments are subject to the following risks:

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

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

*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 does not have a formal policy for custodial credit risk.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009 for the University’s investments.

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
U.S. Treasuries	\$ 850,665.03	\$ 785,109.00	\$ 27,869.97	\$ 37,686.06
U.S. Agencies	35,416.58	7,089.67	22,748.76	5,578.15
Money Market Mutual Funds	3,945,548.69	3,945,548.69		
		\$ 4,737,747.36	\$ 50,618.73	\$ 43,264.21
Other Securities				
International Mutual Funds	2,447,590.82			
Other Mutual Funds	8,040,807.70			
Hedge Funds	2,335,011.94			
Limited Partnerships	1,571,592.80			
Domestic Stocks	184,515.74			
Total Investments	\$ 19,411,149.30			

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2009, the University's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
U.S. Agencies	\$ 35,416.58	\$ 35,416.58
Money Market Mutual Funds	3,945,548.69	3,945,548.69

Rating Agency: Moody's/Standard & Poors

At June 30, 2009, the University's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept or Agent not in University's Name
U.S. Treasuries	\$ 80,703.53	\$ 769,961.50
U.S. Agencies	35,416.58	
Domestic Stocks	184,515.74	
Total	\$ 300,635.85	\$ 769,961.50

**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. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) 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	\$ 142,855.00
Mutual Funds	36,292,845.00
Alternative Investments	16,134,535.00
Total	\$ 52,570,235.00

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University’s endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable 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 provides a distribution of four and a half percent (4.5%) of its year end endowment fund’s twelve month weighted average balance prior to the addition of the current year investment return. To the extent that the total return for the current year exceeds the payout, the excess is added to accumulated earnings unless donor restrictions require that it be 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, 2009, endowment net assets of \$1,228,665.34 were available to be spent, all of which was restricted to specific purposes.

During the current year, the university incurred investment losses that exceeded the related endowment’s available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2009, the amount of investment losses reported against the nonexpendable endowment balances was \$1,070,870.69.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2009 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 3,046,738.83	\$ 1,566,733.00	\$ 1,480,005.83
Patient Accounts	71,340,080.13	41,896,873.65	29,443,206.48
Investment Earnings	1,720.52		1,720.52
Interest on Loans	257,175.84		257,175.84
Other	8,774,256.16		8,774,256.16
<b>Total Current Receivables</b>	<b>\$ 83,419,971.48</b>	<b>\$ 43,463,606.65</b>	<b>\$ 39,956,364.83</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 1,587,651.71	\$ 354,555.51	\$ 1,233,096.20
Institutional Student Loan Programs	14,416.86	7,195.38	7,221.48
<b>Total Notes Receivable - Current</b>	<b>\$ 1,602,068.57</b>	<b>\$ 361,750.89</b>	<b>\$ 1,240,317.68</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<b>\$ 10,937,693.77</b>	<b>\$ 0.00</b>	<b>\$ 10,937,693.77</b>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 26,845,931.45	\$ 8,482,802.43	\$ 0.00	\$ 35,328,733.88
Construction in Progress	78,921,983.07	22,243,972.04	73,982,020.56	27,183,934.55
<b>Total Capital Assets, Nondepreciable</b>	<b>105,767,914.52</b>	<b>30,726,774.47</b>	<b>73,982,020.56</b>	<b>62,512,668.43</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	577,614,070.78	59,482,442.92	3,075,640.00	634,020,873.70
Machinery and Equipment	106,722,105.98	17,366,637.00	8,383,568.84	115,705,174.14
General Infrastructure	45,409,086.02	14,499,577.64		59,908,663.66
<b>Total Capital Assets, Depreciable</b>	<b>729,745,262.78</b>	<b>91,348,657.56</b>	<b>11,459,208.84</b>	<b>809,634,711.50</b>
<b>Less Accumulated Depreciation/Amortization for:</b>				
Buildings	139,119,835.25	11,411,738.11	1,691,602.00	148,839,971.36
Machinery and Equipment	51,695,377.02	6,289,977.99	8,100,362.92	49,884,992.09
General Infrastructure	7,547,333.38	1,556,036.89		9,103,370.27
<b>Total Accumulated Depreciation</b>	<b>198,362,545.65</b>	<b>19,257,752.99</b>	<b>9,791,964.92</b>	<b>207,828,333.72</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>531,382,717.13</b>	<b>72,090,904.57</b>	<b>1,667,243.92</b>	<b>601,806,377.78</b>
<b>Capital Assets, Net</b>	<b>\$ 637,150,631.65</b>	<b>\$ 102,817,679.04</b>	<b>\$ 75,649,264.48</b>	<b>\$ 664,319,046.21</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 were as follows:

	Amount
Accounts Payable	\$ 10,393,673.63
Accrued Payroll	16,317,323.71
Contract Retainage	483,011.86
Other	318,052.25
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 27,512,061.45</b>

### NOTE 7 - LONG-TERM LIABILITIES

#### UNIVERSITY

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds Payable	\$ 90,295,000.00	\$ 0.00	\$ 6,195,000.00	\$ 84,100,000.00	\$ 5,290,000.00
Certificates of Participation	5,970,000.00		905,000.00	5,065,000.00	935,000.00
Total Bonds and Certificates of Participation Payable	96,265,000.00		7,100,000.00	89,165,000.00	6,225,000.00
Notes Payable		350,970.84		350,970.84	185,234.61
Capital Leases Payable	829,667.18	7,872,468.17	1,110,877.62	7,591,257.73	1,842,257.73
Compensated Absences	17,754,486.02	12,558,568.25	10,206,064.11	20,106,990.16	1,013,172.34
<b>Total Long-Term Liabilities</b>	<b>\$ 114,849,153.20</b>	<b>\$ 20,782,007.26</b>	<b>\$ 18,416,941.73</b>	<b>\$ 117,214,218.73</b>	<b>\$ 9,265,664.68</b>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**B. Bonds Payable and Certificates of Participation** - The University was indebted for 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, 2009	Principal Outstanding June 30, 2009	See Table Below
<b>Revenue Bonds Payable</b>							
<b>Housing and Dining Services</b>							
Residence Hall Renovations - Jarvis	1998	4.25-4.75	11/01/2018	\$ 5,095,000.00	\$ 1,965,000.00	\$ 3,130,000.00	(1)
Jones Hall and Gallery Dining Facility Renovation	2001A	4.25-4.75	11/01/2021	12,570,000.00	10,725,000.00	1,845,000.00	(1)
Housing and Dining Revenue Refunding Bonds	2001B	4.25-5.75	11/01/2015	11,985,000.00	7,805,000.00	4,180,000.00	(1)
West End Dining Project	2003A	2.60-5.00	05/01/2024	14,960,000.00	2,400,000.00	12,560,000.00	
Housing HVAC Renovation	2004	variable	05/01/2014	4,290,000.00	1,885,000.00	2,405,000.00	
College Hill Dormitory Construction	2004C	3.00-5.00	06/30/2034	27,530,000.00	2,110,000.00	25,420,000.00	
College Hill Dormitory Supplemental Loan	2006A	4.00-5.00	10/01/2033	3,805,000.00	150,000.00	3,655,000.00	
Refunding of Series 2001A Bonds	2006A	4.00-5.00	10/01/2021	8,775,000.00	60,000.00	8,715,000.00	
Total Housing and Dining Services				<u>89,010,000.00</u>	<u>27,100,000.00</u>	<u>61,910,000.00</u>	
<b>Student Services System</b>							
Student Recreation Center Refunding Bonds	2001C	4.00-4.75	05/01/2019	14,555,000.00	5,355,000.00	9,200,000.00	(2)
Refunding of Series 1999 Bonds	2006A	4.00-5.00	10/01/2018	2,110,000.00		2,110,000.00	
Total Student Services System				<u>16,665,000.00</u>	<u>5,355,000.00</u>	<u>11,310,000.00</u>	
<b>Athletic Facilities Revenue System</b>							
Dowdy-Ficklen Stadium Expansion Refunding	2004	variable	05/01/2017	5,145,000.00	1,625,000.00	3,520,000.00	
Baseball (Clark-LeClair) Stadium Construction	2004	variable	05/01/2024	7,110,000.00	1,240,000.00	5,870,000.00	
Dowdy-Ficklen Stadium Repairs	2004C	3.00-5.00	06/30/2024	2,530,000.00	1,040,000.00	1,490,000.00	
Total Athletic Facilities Revenue System				<u>14,785,000.00</u>	<u>3,905,000.00</u>	<u>10,880,000.00</u>	
<b>Certificates of Participation</b>							
Banner System Certificates of Participation	2004	3.00-5.00	06/01/2014	8,875,000.00	3,810,000.00	5,065,000.00	
Total Bonds Payable and Certificates of Participation (principal only)				<u>\$ 129,335,000.00</u>	<u>\$ 40,170,000.00</u>	<u>\$ 89,165,000.00</u>	

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	Estimate of % of Revenues Pledged
(1)	Housing & Dining Revenues	\$ 10,871,946.25	\$ 8,989,799.59	\$ 2,020,587.50	22%
(2)	Student Fee Revenues - Student Recreation Center	11,567,785.00	1,450,516.74	1,176,067.50	81%

**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 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 \$16,545,000 that have a final maturity dates from May 1, 2017 to 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 agent, 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 Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, 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%). In the event the entire issue of \$11,795,000 of demand bonds was “put” and not resold, the University would be required to pay \$2,590,737 a year for five years under this agreement assuming a 3.75% interest rate.

**D. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009 are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 5,290,000.00	\$ 3,691,645.03	\$ 935,000.00	\$ 206,362.50	\$ 185,234.61	\$ 23,331.99
2011	5,495,000.00	3,489,428.84	970,000.00	168,962.50	120,674.57	6,500.00
2012	5,710,000.00	3,271,408.84	1,005,000.00	133,487.50	45,061.66	720.88
2013	5,015,000.00	3,063,678.64	1,060,000.00	83,237.50		
2014	5,220,000.00	2,858,155.04	1,095,000.00	43,775.00		
2015-2019	25,655,000.00	10,713,316.90				
2020-2024	15,890,000.00	5,760,915.58				
2025-2029	6,980,000.00	3,115,850.00				
2030-2034	8,845,000.00	1,242,495.00				
<b>Total Requirements</b>	<b>\$ 84,100,000.00</b>	<b>\$ 37,206,893.87</b>	<b>\$ 5,065,000.00</b>	<b>\$ 635,825.00</b>	<b>\$ 350,970.84</b>	<b>\$ 30,552.87</b>

Interest on the variable rate 2004 revenue bonds is calculated at 0.32% at June 30, 2009.

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 Defeasances** - 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, 2009, the outstanding balance of prior year defeased bonds was \$8,605,000.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009
Facilitate Purchase of Medical Practice	Pitt County Memorial Hospital	5.50%	11/01/2011	\$ 350,970.84	\$ 0.00	\$ 350,970.84

**G. Component Unit** - In December 2008, the East Carolina University Real Estate Foundation, Inc., which is an affiliate of the East Carolina University Foundation, Inc., purchased real estate located at 2325 Stantonsburg Road in Greenville, North Carolina for \$3,300,000. This acquisition was financed for 100% of the purchase price, less associated costs, based on a twenty year amortization with a final payment of all remaining principal and accrued interest due on January 5, 2019. As of June 30, 2009, the balance on the principal was \$3,300,000. The note has a variable interest rate of LIBOR plus 1.05%. The Affiliate entered into an interest rate swap agreement which effectively converts the variable rate note to a fixed rate note at an annual interest rate of 3.85%. The total note payable is \$3,300,000, the current portion of which is \$46,306.

Maturities of the long-term portion of notes payable as of June 30, 2009 were as follows:

Fiscal Year	Amount
2011	\$ 112,974.00
2012	117,413.00
2013	122,061.00
2014	126,983.00
2015	132,029.00
Thereafter	2,642,234.00
	<u>\$ 3,253,694.00</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**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, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 2,105,232.56
2011	1,983,094.59
2012	1,745,301.03
2013	1,698,363.09
2014	<u>710,691.35</u>
Total Minimum Lease Payments	8,242,682.62
Amount Representing Interest (2.97% - 10.123% Rate of Interest)	<u>651,424.89</u>
Present Value of Future Lease Payments	<u><u>\$ 7,591,257.73</u></u>

Machinery and equipment acquired under capital lease amounted to \$9,858,643.17 at June 30, 2009.

- B. Operating Lease Obligations** - The University entered into operating leases for equipment and buildings. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 3,854,724.14
2011	2,598,442.56
2012	1,451,484.37
2013	985,108.49
2014	815,851.54
2015-2019	<u>2,276,610.00</u>
Total Minimum Lease Payments	<u><u>\$ 11,982,221.10</u></u>

Rental expense for all operating leases during the year was \$4,728,577.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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
<b>Operating Revenues:</b>						
<b>Student Tuition and Fees</b>	\$ 142,215,055.33	\$ 0.00	\$ 15,965,601.89	\$ 1,179,448.41	\$ 0.00	\$ 125,070,005.03
<b>Patient Services</b>	\$ 379,433,180.13	\$ 0.00	\$ 0.00	\$ 19,960,276.65	\$ 214,349,412.00	\$ 145,123,491.48
<b>Sales and Services:</b>						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 25,402,186.65	\$ 0.00	\$ 2,436,024.02	\$ 0.00	\$ 0.00	\$ 22,966,162.63
Dining	23,180,273.46	822,129.25	1,977,599.62			20,380,544.59
Student Union Services	30,817.97					30,817.97
Health, Physical Education and Recreation Services	1,981,704.68					1,981,704.68
Bookstore	14,289,526.53					14,289,526.53
Parking	2,694,428.45					2,694,428.45
Athletic	15,296,137.41					15,296,137.41
Other	2,823,725.36					2,823,725.36
Sales and Services of Education and Related Activities	6,002,556.26					6,002,556.26
<b>Total Sales and Services</b>	<b>\$ 91,701,356.77</b>	<b>\$ 822,129.25</b>	<b>\$ 4,413,623.64</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 86,465,603.88</b>

### 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	\$ 222,731,280.98	\$ 7,240,245.98	\$ 11,239,689.37	\$ 0.00	\$ 141,400.54	\$ 0.00	\$ 241,352,616.87
Research	14,792,548.91	3,205,945.07	4,208,146.07	102,771.94	8,700.33		22,318,112.32
Public Service	13,071,667.89	1,791,821.63	3,949,766.21	144,045.63	5,238.84		18,962,540.20
Academic Support	16,869,405.78	6,554,682.53	1,425,108.26	6,075.00	4,912.88		24,860,184.45
Student Services	8,569,389.29	366,596.72	1,941,606.88	51.31	10,073.66		10,887,717.86
Institutional Support	30,154,344.94	810,250.69	8,116,698.74	108,426.83	32,660.69		39,222,381.89
Operations and Maintenance of Plant	23,680,594.05	11,434,707.07	2,028,115.64		13,559,894.94		50,703,311.70
Student Financial Aid	1,009,135.85	4,306.34	814,357.71	24,222,230.92			26,050,030.82
Auxiliary Enterprises	135,009,962.40	39,938,087.50	55,047,826.72	4,123,658.20	7,240,402.64		241,359,937.46
Depreciation						19,257,752.99	19,257,752.99
<b>Total Operating Expenses</b>	<b>\$ 465,888,330.09</b>	<b>\$ 71,346,643.53</b>	<b>\$ 88,771,315.60</b>	<b>\$ 28,707,259.83</b>	<b>\$ 21,003,284.52</b>	<b>\$ 19,257,752.99</b>	<b>\$ 694,974,586.56</b>

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$382,460,852.40, of which \$178,899,853.69 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$6,011,035.09 and \$10,733,991.23, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$6,011,035.09, \$5,032,096.29, and \$4,059,786.70, 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 "Proceed directly to OSC's index page," then "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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2009, 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 \$382,460,852.40, of which \$162,544,101.02 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$11,118,016.51 and \$9,752,646.06, 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 \$2,274,977.26 for the year ended June 30, 2009.

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,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2009 were \$134,176.16. The voluntary contributions by employees amounted to \$1,679,800.75 for the year ended June 30, 2009.

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 \$6,572,904.74 for the year ended June 30, 2009.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2008, and 2007, were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$13,999,202.15, \$13,024,917.26, and \$11,249,731.02, 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 "Proceed directly to OSC's index page," then "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, 2009, 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, 2008, and 2007, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$1,775,508.57, \$1,651,940.73, and \$1,539,436.88, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 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 \$5,000 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 buildings.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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State Property Fire Insurance Fund. Losses covered by the Fund are subject to a \$5,000 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 \$10,000,000 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. The private insurance company pays 90% of each loss less a \$75,000 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 Midwives, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

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. At June 30, 2009, outstanding commitments on construction contracts were \$42,634,292.90 and on other purchases were \$11,215,882.39.

**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. This support approximated \$5,821,460.16 for the year ended June 30, 2009.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the University reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

### NOTE 17 - SUBSEQUENT EVENT

On July 9, 2009, the University issued \$45,115,000 of Pool Revenue Bonds, Series 2009A. The bond proceeds were used to renovate and construct dining facilities, renovate, equip, and furnish a residence hall, and construct a softball field and complex. The bond proceeds were also used to refund in advance East Carolina University Housing and Dining Facilities System Revenue Bonds, Series 1998.

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**Beth A. Wood, CPA**  
State Auditor

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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**

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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, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 3, 2009. 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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.

**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 (CONCLUDED)**

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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.



Beth A. Wood, CPA  
State Auditor

December 3, 2009

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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