STATE OF NORTH CAROLINA

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves 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, 2010, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The University's response is included following the finding.

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.

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the accompanying financial statements of East Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliate, the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Carolina University and its discretely presented component units as of June 30, 2010, 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)

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2010 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 8, 2010

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, 2010 with comparative information for the fiscal year ended June 30, 2009. 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 $768 million (as restated) in 2009 to $802 million in 2010. The increase of $34 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.

Operating revenues increased from $400 million in 2009 to $418 million in 2010. Revenues represent amounts received or accrued, and are classified as either operating or nonoperating. The increase of $18 million is represented mostly by an increase in student tuition and fees and patient services. A decrease of $9 million related to sales and services was offset by a similar increase in student tuition and fees.

Operating expenses increased from $704 million in 2009 to $739 million in 2010. Operating expenses represent the amounts paid or accrued for operating purposes. A major part of the $35 million change is due to increases in supplies and materials.

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, 2010 and includes all assets and liabilities of the University. Assets and liabilities are classified as either current or noncurrent. The difference between total assets and total liabilities is net assets. Net assets are an indicator of the current financial condition of the University. This data provides information on assets available to continue operations;

amounts due to vendors, investors, and lending institutions; and the net assets available for expenditure by the University. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2010 and 2009 is as follows:

Assets, Liabilities, and Net Assets
(Dollars in Thousands)

	2010	2009	Variance	Percent
Assets				
Current Assets	$ 258,405	$ 217,740	$ 40,665	18.7 %
Noncurrent Assets:				
Endowment Investments	20,562	15,080	5,482	36.4 %
Other Investments	3,855	4,331	(476)	(11.0) %
Capital Assets, Net	715,887	654,811	61,076	9.3 %
Other Noncurrent Assets	95,454	64,752	30,702	47.4 %
Total Noncurrent Assets	835,758	738,974	96,784	13.1 %
Total Assets	1,094,163	956,714	137,449	14.4 %
Liabilities				
Current Liabilities	75,038	52,974	22,064	41.7 %
Noncurrent Liabilities:				
Long-Term Liabilities	192,600	107,949	84,651	78.4 %
Other Noncurrent Liabilities	24,777	28,014	(3,237)	(11.6) %
Total Noncurrent Liabilities	217,377	135,963	81,414	59.9 %
Total Liabilities	292,415	188,937	103,478	54.8 %
Net Assets				
Invested in Capital Assets, Net of Related Debt	590,782	558,499	32,283	5.8 %
Restricted for Nonexpendable	20,382	18,995	1,387	7.3 %
Restricted for Expendable	22,793	45,597	(22,804)	(50.0) %
Unrestricted	167,791	144,686	23,105	16.0 %
Total Net Assets	$ 801,748	$ 767,777	$ 33,971	4.4 %

The Statement of Net Assets at June 30, 2010 indicates an improvement of financial position compared to last fiscal year. In 2010, the University had total assets of $1.1 billion. Current assets increased $41 million, to $258 million. This increase is primarily due to the increase in patient receivables, cash and cash equivalents and current restricted cash.

Noncurrent assets increased by $97 million largely due to increases in three main areas. First, unexpended bond proceeds on hand at June 30 were the main factors in the increase of other noncurrent assets. Endowment investments also contributed to the increase, up 36 percent from the prior year. This increase was due to additional investments of contributions and the investment earnings for the year. Lastly, capital assets, net of depreciation, accounted for $61 million of the increase. Capital assets will be discussed in detail later.

Other long-term investments marginally decreased due to the expenditure of the remaining funds in the 2004 COPS proceeds available for the implementation of the University's accounting system. Also, awards on deposit with the fiscal agent were spent when the 1998 Housing and Dining Revenue bonds were defeased.

Current liabilities increased by $22 million, which is a 42 percent change from last fiscal year. This increase can be attributed mostly to accounts payable which included contract payable and retainage increases for capital improvement projects and the withholding of state funds earmarked for payables in June due to budget constraints.

Working capital was $183 million at June 30, 2010, an $18 million increase or an 11 percent change 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. Increases in cash balances and current receivables in the current year attributed to the increase.

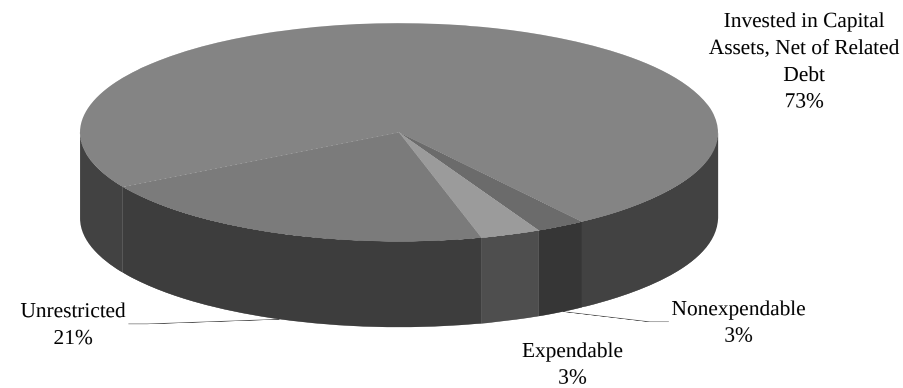
Net assets represent the value of the University's assets after all liabilities have been deducted. The University's net assets were $802 million, an increase of $34 million, or 4.4 percent over the prior year. For reporting purposes, net assets are divided into four categories: invested in capital assets, 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 $591 million of the $802 million in total net assets. The accumulated depreciation balance as of June 30, 2010, was $225 million.

Restricted nonexpendable net assets primarily include the University's permanent endowment fund, accounting for $20 million of net assets. Restricted expendable net assets are subject to externally imposed restrictions governing its use. In 2010, restricted expendable net assets decreased 50 percent. The decrease is primarily due to capital project expenditures in excess of revenues received in the current year.

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 fiscal year 2010, unrestricted net assets accounted for $168 million of the $802 million in net assets. Net assets classified as restricted for nonexpendable increased by 7 percent from the prior year. The following chart displays the contribution of each category to total net assets for 2010.

2010 Net Assets: $801,748,653



Statement of Revenues, Expenses and Changes in Net Assets

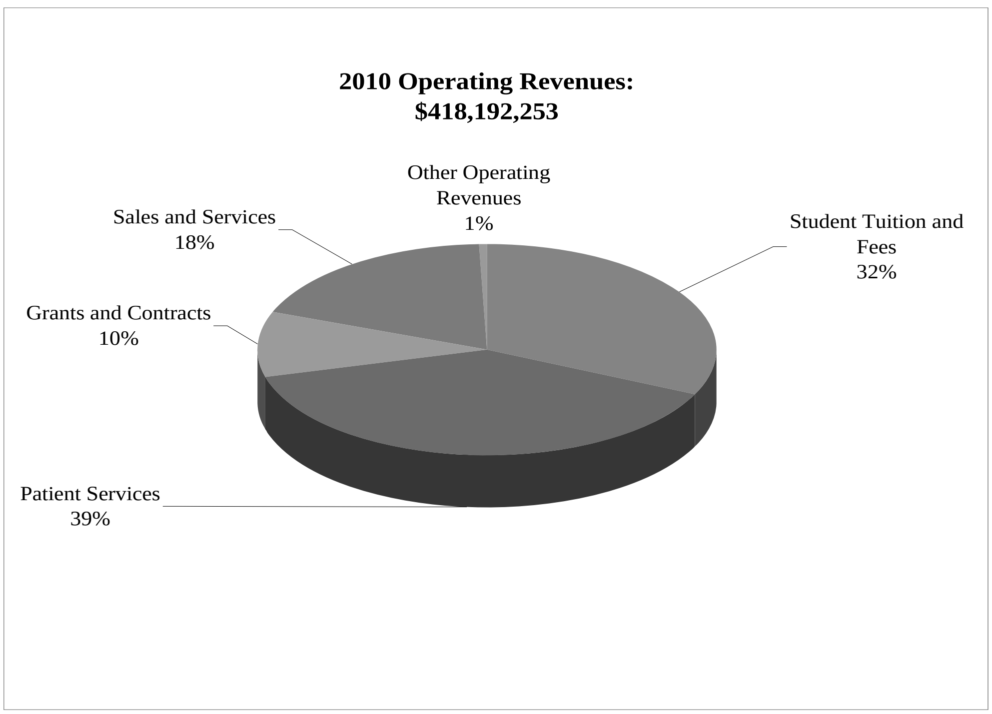
The Statement of Revenues, Expenses, and Changes in Net Assets portrays the University's results of operations and maintenance of financial strength. The Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2010, compared with that of 2009, are summarized as follows:

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

	2010	2009 Restated	Variance	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 134,286	$ 125,070	$ 9,216	7.4 %
Patient Services, Net	162,569	145,124	17,445	12.0 %
Grants and Contracts	42,732	40,921	1,811	4.4 %
Sales and Services, Net	77,435	86,466	(9,031)	(10.4) %
Other	1,170	2,351	(1,181)	(50.2) %
Total Operating Revenues	418,192	399,932	18,260	4.6 %
Operating Expenses				
Salaries and Benefits	471,230	465,888	5,342	1.1 %
Supplies and Materials	93,092	80,838	12,254	15.2 %
Services	91,087	88,772	2,315	2.6 %
Scholarships and Fellowships	41,645	28,707	12,938	45.1 %
Utilities	20,684	21,003	(319)	(1.5) %
Depreciation	21,352	19,275	2,077	10.8 %
Total Operating Expenses	739,090	704,483	34,607	4.9 %
Operating Loss	(320,898)	(304,551)	(16,347)	5.4 %
Nonoperating Revenues (Expenses)				
State Appropriations	263,532	241,752	21,780	9.0 %
State Aid - Federal Recovery Funds	14,906	6,550	8,356	127.6 %
Noncapital Grants	47,233	32,650	14,583	44.7 %
Noncapital Gifts	7,724	12,347	(4,623)	(37.4) %
Investment Income	5,295	2,438	2,857	117.2 %
Other Nonoperating Expenses	(7,517)	(6,359)	(1,158)	18.2 %
Net Nonoperating Revenues	331,173	289,378	41,795	14.4 %
Income Before Other Revenues (Expenses)	10,275	(15,173)	25,448	(167.7) %
Capital Appropriations		39	(39)	(100.0) %
Refund of Prior Years Capital Appropirations		(2,270)	2,270	100.0 %
Capital Grants	23,338	24,858	(1,520)	(6.1) %
Capital Gifts	358	2,407	(2,049)	(85.1) %
Increase in Net Assets	33,971	9,861	24,110	244.5 %
Net Assets-July 1	767,777	757,916	9,861	1.3 %
Net Assets-June 30	$ 801,748	$ 767,777	$ 33,971	4.4 %

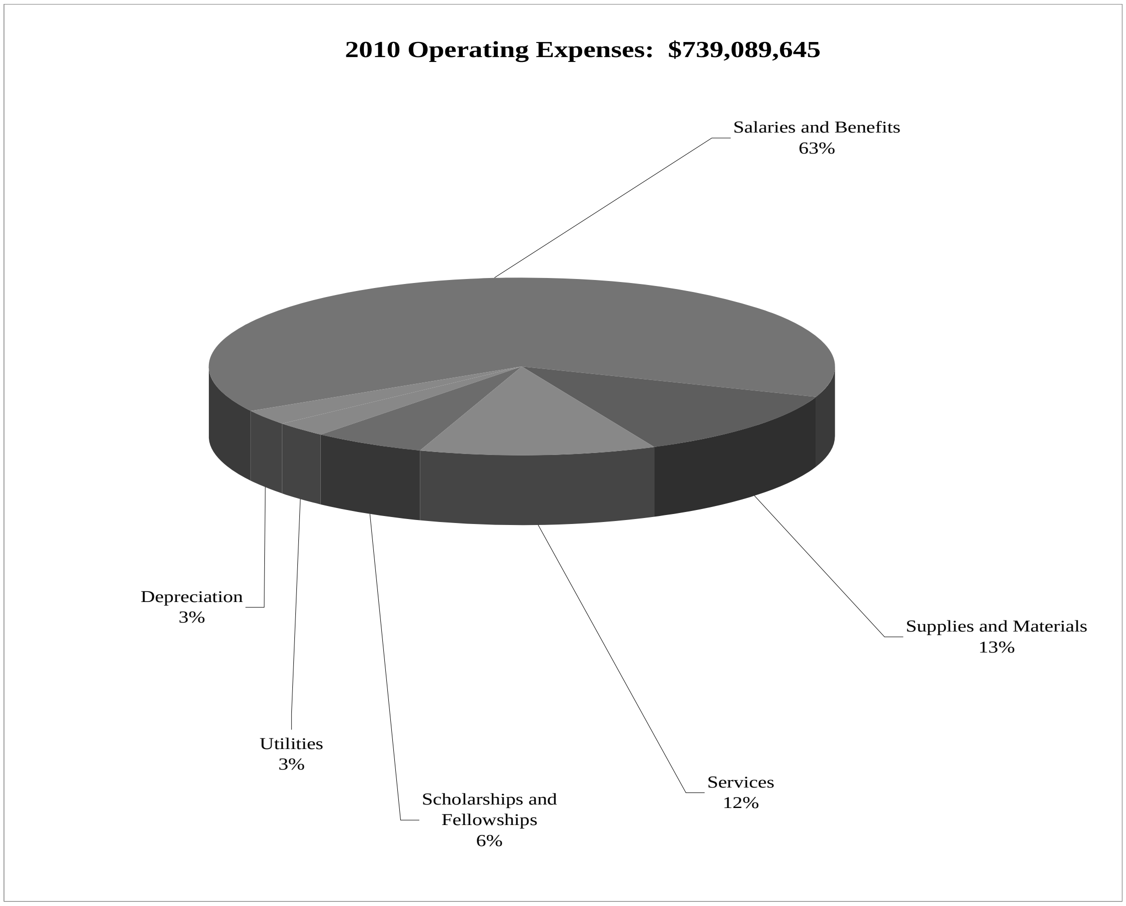
Operating revenues are generated by providing goods and services related to instruction, research, and public service. Total operating revenues increased by $18 million, or 4.6 percent from the prior year. Student tuition and fees, net of the tuition discount, increased

$9.2 million, or 7.4 percent. The tuition discount is an offset to revenues for the scholarships and fellowships that are applied to student accounts. Tuition rates increased $390 for resident undergraduate students and $135 for resident graduate students. For nonresident students, the tuition increases were $1,630 for undergraduates and $506 for graduates. Mandatory student fees increased by $70, or 5 percent. Patient services increased $17.4 million, a 12 percent increase from 2009. This increase is attributed to a 3.5 percent patient fee increase, 5 percent to a full year of clinical activity in Neurosurgery practice acquired in 2009 and the remaining percentage due to expansion projects and the addition of 21 medical doctors across a variety of specifications. Sales and Services decreased by $9 million (10 percent) from the prior year. This decrease is due primarily to three factors: Scott Residence Hall being closed for renovations, Croatan and Wright Place construction and renovation projects, and a dip in computer sales in the Dowdy Student Stores due to retail competition and the economic downturn. The following chart shows each component of operating revenue as it relates to total operating revenues as a whole:



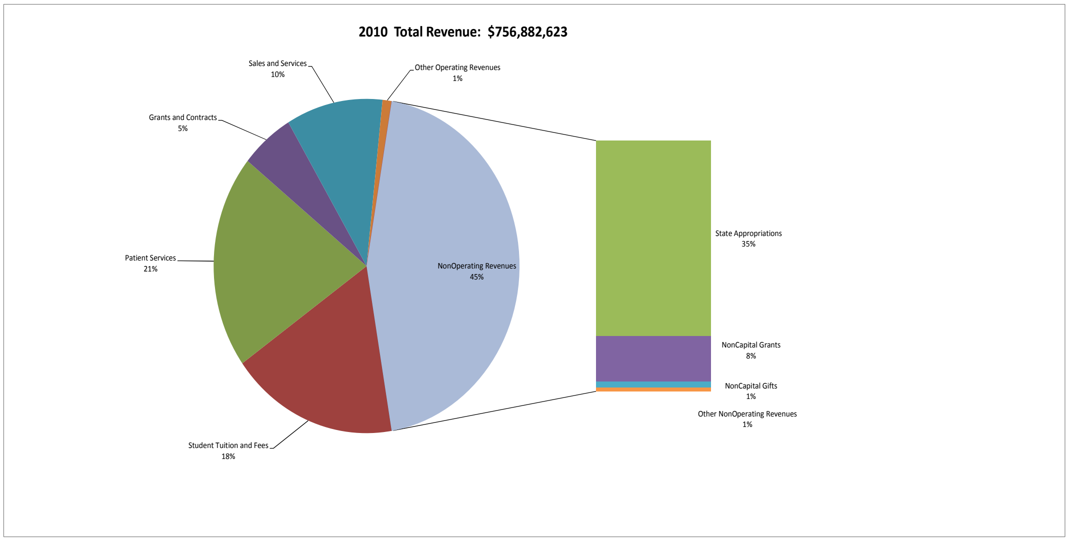
Operating expenses are the day-to-day expenses incurred to carry out the mission of the University. Operating expenses increased $35 million to $739 million. This increase is mainly attributed to supplies and materials which rose to $93 million, a $12 million increase from FYE 2009. Contributing factors in this increase were: Capital repair and maintenance projects, library journal renewals and materials preservation, building maintenance supplies, educational supplies, software licensing and certificates, information technology communication supplies and miscellaneous information technology supplies. Scholarships and fellowship also increased to $42 million, a $12.9 million increase form FYE 2009. This was caused by the increase in noncapital grants related to federal student financial aid awards.

Changes in the eligibility requirements and the establishment of year round PELL awards were the primary causes of the increase. The following chart shows each component of operating expenses as it relates to total operating expenses as a whole.



Nonoperating revenues and expenses are not generated by the principal operations of the University. Total net nonoperating revenues increased $42 million or 14 percent. State appropriations make up $21.8 million of the increase, including $8 million for enrollment increases, $3.1 million for employee benefit increases, $3 million for the dental school, $2 million for indigent patient care for ECU Physicians. Other nonoperating expenses, which include interest and fees on capital asset-related debt, miscellaneous non-operating revenue and expenditures, and loss on sale of fixed assets, increased by 18 percent from the prior year.

Overall, State appropriations were a significant component of total revenues for the University comprising 35 percent of total revenue. The following chart illustrates the University's operating and non-operating revenues which total $757 million for fiscal year 2009-2010.



In 2010, the University received $14.9 million in economic stimulus funds from the federal government (ARRA) as compared with $6.5 million in 2009.

The increase of $14.6 million in noncapital grants was due to an increase of $10.5 million in federal student financial aid awards.

There were no new capital appropriations in the current fiscal year.

Capital gifts had a $2 million decrease from 2009 to 2010 of gifts received. This difference can be attributed mainly to the receipt of a generous $1.4 million contribution of software by the ECU Foundation in 2009 as compared to only having received $358 thousand in capital gifts for 2010.

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, 2010 and 2009.

Cash Flows
(Dollars in Thousands)

	2010	2009	Variance	Percent Change
Cash Flows Provided (Used)				
Operating Activities	$ (301,867)	$ (270,941)	$ (30,926)	11.4 %
Noncapital Financing Activities	330,143	291,532	38,611	13.2 %
Capital Financing Activities	34,375	(28,367)	62,742	221.2 %
Investing Activities	205	6,300	(6,095)	(96.7) %
Net Change in Cash	62,856	(1,476)	64,332	4,358.5 %
Cash - July 1	218,255	219,731	(1,476)	(0.7) %
Cash - June 30	**$** 281,111	$ 218,255	$ 62,856	28.8 %

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 increased slightly to $410 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 $471 million.

Noncapital financing activities totaled $330 million at June 30, 2010. State appropriations made up $264 million of the total cash provided from noncapital financing activities. The remaining balance was made up of noncapital grants and noncapital 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 2009 to the end of fiscal year 2010. The main sources of capital financing activities were $101 million in proceeds from capital debt and $24 million in capital grants.

Investing activities include acquiring or disposing of debt or equity instruments. Proceeds from sales and maturities of investments make up $17 million of the $20 million of investing activities sources. The use of these funds was $20 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.

The University had $716 million invested in capital assets at fiscal year-end 2010 which resulted in a net increase from fiscal year end 2009 with $655 million invested.

Capital assets for the University were comprised of nondepreciable and depreciable assets. Nondepreciable assets were land, construction in progress and computer software in development. Depreciable assets are buildings, machinery and equipment, general infrastructure and computer software (as per implementation of GASB Statement No. 51, a new standard for 2010). 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. Computer software is depreciated 2 to 30 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, 2010 and June 30, 2009, were as follows:

Capital Assets
(Dollars in Thousands)

	2010	2009 Restated	Variance	Percent Change
Land	$ 36,247	$ 35,901	$ 346	1.0 %
Construction in Progress	84,611	17,929	66,682	371.9 %
Computer Software in Development	136		136	100.0 %
Buildings	635,265	632,906	2,359	0.4 %
General Infrastructure	59,988	59,909	79	0.1 %
Machinery and Equipment	110,437	103,427	7,010	6.8 %
Computer Software	13,777	12,584	1,193	9.5 %
Total Capital Assets	940,461	862,656	77,805	9.0 %
Accumulated Depreciation	224,574	207,845	16,729	8.0 %
Capital Assets, Net	$ 715,887	$ 654,811	$ 61,076	9.3 %

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 $78 million in 2010.

Construction in progress is primarily attributed to the new capital additions in 2010. Major projects included are: Scott Residence Hall project, East End Zone seating addition, the Dental School, and Family Medicine Center.

Scott Residence Hall is undergoing a complete renovation that will include the addition of an East side wing containing approximately 128 beds.

The East End Zone seating addition project will include the addition of 7,000 seats 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.

The Dental School project, currently in progress, consists 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 in progress 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.

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)	$ 31,358
Mendenhall/Ledonia Wright	University Revenues	39,000
Dental School	Appropriations	90,000
Brody School of Medicine Family Medicine Center	Statewide COPS /ECU Physicians/ Gift/ Golden Leaf Foundation	45,000
Athletic Facilites Additions	University Debt	8,000

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. A tennis and auxiliary gym to house 3 basketball practice courts is included in the scope of this project.

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 increased by $86 million in 2010.

Dollars in Thousands	**2010**	**2009**	**Change**
Revenue Bonds Payable-Fixed Rate	$ 159,355	$ 72,305	$ 87,050
Revenue Bonds Payable-Variable Rate	10,675	11,795	(1,120)
Bond Discounts/Charges	2,561		2,561
Certificates of Participation	4,130	5,065	(935)
Capital Leases Payable	5,797	7,591	(1,794)
	$ 182,518	$ 96,756	$ 85,762

In March 2010, 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 ECU A & B General Revenue bonds. In May 2010, Moody's Investors Services recalibrated the University's credit rating to Aa2, up one notch from the previous rating, with a stable outlook.

Also in May 2010, University management determined that bonds would sell better with the aid of an additional bond rating. Thus, Standard and Poor's was enlisted to review and calibrate the additional rating. Standard and Poor's assigned a rating of AA-, with a stable outlook.

On July 9, 2009, the University sold bonds in the amount $45.1 million in UNC System Pool Revenue Series 2009A tax-exempt bonds. 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.

On March 31, 2010 the University sold $21.8 million in UNC System Pool Revenue Series 2010A tax-exempt bonds. The bonds were issued to fund an athletic field expansion project, a partial refunding in advance of UNC System Pool Bonds Series 2004C, and to pay the costs incurred with the issuance of the 2010A pool bonds.

On May 26, 2010 the University sold $3.5 million in General Revenue Series 2010A tax-exempt bonds. The bonds were issued to fund a dormitory project, a dining hall project, an Olympic sport facility project, and to pay the costs incurred with the issuance of the 2010A bonds.

Also on May 26, 2010, the University sold $27.9 million in General Revenue Series 2010B taxable bonds. The University has elected to treat the General Revenue Series 2010B bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the General Revenue 2010B bonds for an effective yield of 3.555%. The bonds were issued to fund a dormitory project, a dining hall project, an Olympic sport facility project, and to pay the costs incurred with the issuance of the 2010B bonds.

Economic Forecast

As indicated in the University's financial statements, the University demonstrated improved financial performance, highlighted by a $34 million increase in net assets during the year ended June 30, 2010. This increase is more than the $19 million increase of the preceding year, and is largely attributable to increased availability of state appropriations. In spite of the State's budget situation, the North Carolina General Assembly has continued to support public higher education and has funded an increase in enrollment for the fiscal year ended 2011 in the amount of $12 million. In addition, East Carolina University received an additional $6 million for the operating of the new School of Dental Medicine. The General Assembly also allowed for an increase in tuition that helped significantly to mitigate the permanent reduction of $10.8 million and the 1% nonrecurring reduction in FY 2011.

The State is currently expecting a deficit between $2.5 billion and $3.5 billion in FY 2011; and so the governor has asked the universities to project the impact of a 5% and a 10% reduction for the next biennium.

The University's administration is working 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, 2010 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 163,370,392.87
Restricted Cash and Cash Equivalents	36,714,201.92
Receivables, Net (Note 4)	48,753,916.98
Due from State of North Carolina Component Units	1,149,515.00
Inventories	4,942,690.95
Notes Receivable, Net (Note 4)	868,626.82
Other Assets	2,605,852.99
Total Current Assets	258,405,197.53
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	81,026,084.73
Endowment Investments	20,562,486.02
Other Investments	3,855,035.51
Notes Receivable, Net (Note 4)	12,166,549.08
Investment in Joint Venture	1,372,685.84
Bond Issuance Costs	888,728.67
Capital Assets - Nondepreciable (Note 5)	120,994,033.40
Capital Assets - Depreciable, Net (Note 5)	594,892,704.90
Total Noncurrent Assets	835,758,308.15
Total Assets	1,094,163,505.68
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	48,446,114.13
Due to Primary Government	242,348.39
Unearned Revenue	14,534,959.41
Interest Payable	1,667,995.09
Long-Term Liabilities - Current Portion (Note 7)	10,146,988.78
Total Current Liabilities	75,038,405.80
Noncurrent Liabilities:	
Deposits Payable	2,468,678.09
Funds Held for Others	9,422,894.81
U. S. Government Grants Refundable	12,884,738.22
Long-Term Liabilities (Note 7)	192,600,136.05
Total Noncurrent Liabilities	217,376,447.17
Total Liabilities	292,414,852.97

NET ASSETS		
Invested in Capital Assets, Net of Related Debt		590,781,960.37
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,622,564.19
Endowed Professorships		14,901,296.64
Departmental Uses		332,207.27
Loans		3,526,102.61
Expendable:		
Scholarships and Fellowships		3,226,917.42
Endowed Professorships		2,782,169.99
Departmental Uses		234,131.55
Capital Projects		13,495,748.03
Debt Service		2,351,113.60
Other		703,502.46
Unrestricted		167,790,938.58
Total Net Assets	$	801,748,652.71

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, 2010 *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 134,286,362.67
Patient Services, Net (Note 9)	162,568,967.68
Federal Grants and Contracts	21,158,946.74
State and Local Grants and Contracts	9,504,822.87
Nongovernmental Grants and Contracts	12,068,129.45
Sales and Services, Net (Note 9)	77,434,855.16
Interest Earnings on Loans	72,028.23
Other Operating Revenues	1,098,139.70
Total Operating Revenues	418,192,252.50
EXPENSES	
Operating Expenses:	
Salaries and Benefits	471,230,394.82
Supplies and Materials	93,092,618.19
Services	91,086,507.74
Scholarships and Fellowships	41,644,610.17
Utilities	20,683,822.01
Depreciation/ Amortization	21,351,692.15
Total Operating Expenses	739,089,645.08
Operating Loss	(320,897,392.58)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	263,531,779.89
State Aid - Federal Recovery Funds	14,906,291.00
Noncapital Grants - Federal Student Financial Aid	28,830,630.68
Other Noncapital Grants	18,402,454.00
Noncapital Gifts	7,723,997.67
Investment Income (Net of Investment Expense of $25,141.39)	5,209,910.18
Interest and Fees on Debt	(5,361,316.91)
Federal Interest Subsidy on Debt	85,307.00
Loss on Sale of Fixed Assets	(1,589,067.93)
Other Nonoperating Expenses	(567,636.90)
Net Nonoperating Revenues	331,172,348.68
Income Before Other Revenues	10,274,956.10
Captial Grants	23,338,127.73
Capital Gifts	358,390.79
Increase in Net Assets	33,971,474.62
NET ASSETS	
Net Assets - July 1, 2009, as Restated (Note 17)	767,777,178.09
Net Assets - June 30, 2010	$ 801,748,652.71

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, 2010 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 410,336,207.64
Payments to Employees and Fringe Benefits	(471,333,896.71)
Payments to Vendors and Suppliers	(198,569,798.91)
Payments for Scholarships and Fellowships	(41,644,610.17)
Loans Issued	(2,492,704.25)
Collection of Loans	1,511,775.24
Interest Earned on Loans	27,099.30
Student Deposits Received	2,821,385.23
Student Deposits Returned	(2,522,272.89)
Net Cash Used by Operating Activities	(301,866,815.52)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	263,531,779.89
State Aid - Federal Recovery Funds	14,906,291.00
Noncapital Grants - Federal Student Financial Aid	28,838,325.68
Noncapital Grants	19,252,939.00
Noncapital Gifts	7,723,997.67
Federal Family Education Loan Receipts	117,851,185.97
Federal Family Eucation Loan Disbursements	(117,851,185.97)
Related Activity Agency Disbursements	(3,544,395.71)
Other Payments	(566,326.42)
Net Cash Provided by Noncapital Financing Activities	330,142,611.11
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	101,447,254.15
Capital Grants	24,117,609.11
Capital Gifts	194,115.39
Proceeds from Sale of Capital Assets	149,992.52
Acquisition and Construction of Capital Assets	(69,471,455.85)
Principal Paid on Capital Debt and Leases	(7,823,272.80)
Interest and Fees Paid on Capital Debt and Leases	(5,415,482.30)
Payment to Bond Escrow Agent	(8,067,115.42)
Other Payments	(756,754.46)
Net Cash Provided by Capital Financing and Related Financing Activities	34,374,890.34
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	16,577,202.30
Investment Income	3,530,025.62
Purchase of Investments and Related Fees	(19,901,970.02)
Net Cash Provided by Investing Activities	205,257.90
Net Increase in Cash and Cash Equivalents	62,855,943.83
Cash and Cash Equivalents - July 1, 2009	218,254,735.69
Cash and Cash Equivalents - June 30, 2010	$ 281,110,679.52

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

Operating Loss	$	(320,897,392.58)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		21,351,692.15
Allowances, Write-Offs, and Amortizations		123,764.56
Changes in Assets and Liabilities:		
Receivables (Net)		(8,713,965.10)
Inventories		658,774.96
Notes Receivable (Net)		(980,929.01)
Other Assets		(408,076.39)
Accounts Payable and Accrued Liabilities		7,609,029.56
Due to Primary Government		(1,564,778.40)
Unearned Revenue		885,019.54
Compensated Absences		(229,067.15)
Deposits Payable		299,112.34
Net Cash Used by Operating Activities	$	(301,866,815.52)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	163,370,392.87
Restricted Cash and Cash Equivalents		36,714,201.92
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		81,026,084.73
Total Cash and Cash Equivalents - June 30, 2010	$	281,110,679.52

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	13,378,858.12
Assets Acquired through a Gift		164,275.40
Change in Fair Value of Investments		1,681,604.51
Amortization of Bond Premiums/Discounts/Refunding Charge		4,354.12
Loss on Disposal of Capital Assets		(1,419,777.30)
Bond Issuance Cost Withheld		(146,918.20)

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

East Carolina University Foundation, Inc. and Consolidated Affiliate
Statement of Financial Position
June 30, 2010 *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	4,903,435
Investments		60,151,486
Investment in Joint Venture		2,174,073
Cash Surrender Value of Life Insurance		178,611
Assets Held in Charitable Trusts and Annuities		1,619,281
Beneficial Interest in Charitable Remainder Trust		3,545,135
Real Estate Held for Investment		310,777
Receivables, Net		285,791
Pledges Receivable/Promises		2,421,393
Prepaid Expenses		46,128
Other Assets		381,899
Capital Assets, Net of Accumulated Depreciation		3,461,615
Total Assets		79,479,624
LIABILITIES		
Accounts Payable and Accrued Expenses		67,617
Due to University and Other Foundations		1,608,904
Funds Held for Others		86,883
Interest Rate Swap Fair Value Liability		53,216
Annuities Payable		803,741
Notes Payable		3,200,920
Liabilities Under Charitable Remainder Trusts		243,940
Total Liabilities		6,065,221
NET ASSETS		
Unrestricted		6,894,204
Temporarily Restricted		20,748,353
Permanently Restricted		45,771,846
Total Net Assets	$	73,414,403

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

East Carolina University Foundation, Inc. and Consolidated Affiliate
Statement of Activities
For the Fiscal Year Ended June 30, 2010 *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 198,705	$ 2,379,248	$ 1,289,598	$ 3,867,551
Gifts in Kind	4,981	40,849		45,830
Contributed Services and Facilities	2,456,836			2,456,836
Interest and Dividends	155,272	1,121,826		1,277,098
Net Unrealized and Realized Gains on Investments	499,328	5,469,306		5,968,634
Other Income	747,545	126,668	1,000	875,213
Gain on Sales or Transfer of Property		3		3
Revaluation of Real Estate	(55,714)			(55,714)
Change in Value of Split Interest Agreements		60,031	279,276	339,307
Net Assets Released from Restrictions	3,734,008	(3,734,008)		
Total Revenues, Gains and Other Support	7,740,961	5,463,923	1,569,874	14,774,758
EXPENSES AND LOSSES				
Program Services	3,593,648			3,593,648
General and Administrative	779,090			779,090
Fund Raising	2,224,858			2,224,858
Total Expenses	6,597,596			6,597,596
Bad Debt Losses	3,140	34,451	115,040	152,631
Total Expenses and Losses	6,600,736	34,451	115,040	6,750,227
Increase in Net Assets	1,140,225	5,429,472	1,454,834	8,024,531
NET ASSETS				
Net Assets at Beginning of Year	5,753,979	15,318,881	44,317,012	65,389,872
Net Assets at End of Year	$ 6,894,204	$ 20,748,353	$ 45,771,846	$ 73,414,403

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

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 is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize their legal separateness.

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

The East Carolina University Foundation, Inc., a tax-exempt component unit of the University, 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, which the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2010, the Foundation distributed $3,593,648.00 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 27585 or by calling (252) 737-1133.

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

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

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

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

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

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

E. Investments - Investments generally are reported at fair value. The fair values of all debt and equity securities with readily determinable fair market values are based on quoted market prices. Investments for which a readily determinable fair value does not exist include limited partnerships. These investments are carried at estimated fair values determined by management. 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 not held by a governmental investment pool 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized when the value or cost is $100,000 or greater and internally generated software which is capitalized when the value or cost is $1,000,000 or greater. 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 method over the estimated useful lives of the assets, generally 25 to 50 years for general infrastructure, 10 to 50 years for buildings, 2 to 30 years for equipment, and 5 to 20 years for computer software.

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. 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 amortized over the life of the bond using straight-line method.

K. Compensated Absences - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

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

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

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

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

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

O. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, printing and graphics, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $280,916,476.27 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 1.6 years as of June 30, 2010. 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.osc.nc.gov/ 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.

Cash on hand at June 30, 2010 was $102,948.36. The carrying amount of the University's deposits not with the State Treasurer was $91,254.89 and the bank balance was $128,023.61. 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, 2010, $75.00 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 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 of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income.

UNC Investment Fund, LLC - At June 30, 2010, the University's investments include $594,022.67 which represents the University's equity position in the UNC Investment Fund, LLC (System Fund). The System Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the System Fund are determined on a market unit valuation basis each month. Investment risks associated with the System Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC CH Controller's Office, Campus Box 1270, Chapel Hill, NC 27599-1270.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University's Endowment Board has a formal investment policy that addresses interest rate risk. The policy states that fixed income investments should have a duration that is not greater than +/- 40% of the Barclays Capital Aggregate Bond Index in order to minimize interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Endowment Board has a formal investment policy that addresses credit risk. Each equity and fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies. Each fixed income portfolio must have an overall weighted average credit rating of "A" or better by Moody's and Standard & Poor's rating services. There shall be no bond investments rated below "B" and no more than 20% of the portfolio may be in investments rated below investment grade (below Baa/BBB). Split rated securities will be governed by the lower rating. Investments in corporate securities of any one economic sector may be no more than 25% of the Portfolio value. No more than 60% of the portfolio shall be invested in either corporate or mortgage-backed securities.

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. Currently, the Endowment Fund does not participate in a securities lending program, therefore counterparty risk is not material. With regard to the safety of assets held by the custodian, the Endowment Fund retains title to those assets; as such, in the event of the broker/dealer failure, the assets held do not become assets of the broker/dealer and are protected from any counterparty claimants. Those assets not held in the University's name are invested by the fiscal agent in accordance with a forward delivery agreement and are traded as funds are needed to meet debt service obligations. These assets are held in trust by the fiscal agent and are also protected from any counterparty claimants.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the University's investments.

Investments

	Fair Value	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 896,726.14	$ 843,124.52	$ 26,232.66	$ 27,368.96	$ 0.00
U.S. Agencies	36,593.44	9,480.96	13,128.76	13,983.72	
Mutual Bond Funds	3,522,371.05		654,155.69	2,306,713.26	561,502.10
Money Market Mutual Funds	3,163,628.83	3,163,628.83			
		$ 4,016,234.31	$ 693,517.11	$ 2,348,065.94	$ 561,502.10
Other Securities					
UNC Investment Fund	594,022.67				
International Mutual Funds	3,631,248.98				
Other Mutual Funds	7,832,134.63				
Hedge Funds	2,540,030.62				
Limited Partnerships	2,011,605.00				
Domestic Stocks	167,317.23				
Foreign Stocks	21,842.94				
Total Investments	$ 24,417,521.53				

At June 30, 2010, the University's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Agencies	$ 36,593.44	$ 36,593.44	$ 0.00	$ 0.00	$ 0.00
Mutual Bond Funds	3,522,371.05		2,306,713.26	654,155.69	561,502.10
Money Market Mutual Funds	3,163,628.83	3,163,628.83			

Rating Agency: Moody's/Standard and Poors

At June 30, 2010, the University's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty	Held by Couterparty's Trust Dept or Agent not in University's Name
U.S. Treasuries	$ 76,758.94	$ 819,967.20
U.S. Agencies	36,593.44	
Domestic Stocks	167,317.23	
Foreign Stocks	21,842.94	
Total	$ 302,512.55	$ 819,967.20

Component Units - 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	$	100,000.00
Mutual Funds		41,028,512.00
Alternative Investments		19,022,974.00
Total	$	60,151,486.00

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. 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 percent (4%) of its year-end endowment funds' 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 and a one percent administrative fee, 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, 2010, endowment net assets of $2,512,360.89 were available to be spent, all of which was restricted to specific purposes.

In prior years, 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, 2010 the amount of investment losses reported against the nonexpendable endowment balances were $686,642.62.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,171,579.68	$ 1,500,618.00	$ 1,670,961.68
Patients	83,158,993.93	46,449,090.00	36,709,903.93
Intergovernmental	116,778.98		116,778.98
Investment Earnings	0.57		0.57
Interest on Loans	302,104.77		302,104.77
Federal Interest Subsidy on Debt	85,307.00		85,307.00
Other	9,868,860.05		9,868,860.05
Total Current Receivables	$ 96,703,624.98	$ 47,949,708.00	$ 48,753,916.98
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,336,760.15	$ 478,764.39	$ 857,995.76
Institutional Student Loan Programs	17,382.12	6,751.06	10,631.06
Total Notes Receivable - Current	$ 1,354,142.27	$ 485,515.45	$ 868,626.82
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 12,166,549.08	$ 0.00	$ 12,166,549.08

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 35,901,142.74	$ 345,815.86	$ 0.00	$ 36,246,958.60
Construction in Progress	17,928,614.96	71,331,247.67	4,648,487.83	84,611,374.80
Computer Software in Development		135,700.00		135,700.00
Total Capital Assets, Nondepreciable	53,829,757.70	71,812,763.53	4,648,487.83	120,994,033.40
Capital Assets, Depreciable:				
Buildings	632,906,106.81	2,813,140.02	454,496.68	635,264,750.15
Machinery and Equipment	103,427,230.52	12,747,293.00	5,737,831.13	110,436,692.39
General Infrastructure	59,908,663.66	79,190.00		59,987,853.66
Computer Software	12,584,073.62	1,193,324.61		13,777,398.23
Total Capital Assets, Depreciable	808,826,074.61	16,832,947.63	6,192,327.81	819,466,694.43
Less Accumulated Depreciation/Amortization for:				
Buildings	148,676,460.51	12,265,678.36	211,155.01	160,730,983.86
Machinery and Equipment	48,007,866.64	6,388,829.60	4,411,402.98	49,985,293.26
General Infrastructure	9,103,370.27	1,769,598.83		10,872,969.10
Computer Software	2,057,157.95	927,585.36		2,984,743.31
Total Accumulated Depreciation	207,844,855.37	21,351,692.15	4,622,557.99	224,573,989.53
Total Capital Assets, Depreciable, Net	600,981,219.24	(4,518,744.52)	1,569,769.82	594,892,704.90
Capital Assets, Net	$ 654,810,976.94	$ 67,294,019.01	$ 6,218,257.65	$ 715,886,738.30

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	$ 28,872,491.94
Accrued Payroll	16,442,888.97
Contract Retainage	2,890,223.41
Other	240,509.81
Total Accounts Payable and Accrued Liabilities	$ 48,446,114.13

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, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	$ 84,100,000.00	$ 98,345,000.00	$ 12,415,000.00	$ 170,030,000.00	$ 5,865,000.00
Certificates of Participation	5,065,000.00		935,000.00	4,130,000.00	970,000.00
Add/Deduct Premium/Discount		3,249,172.35	106,051.93	3,143,120.42	
Deduct Deferred Charge on Refunding		(692,115.42)	(110,406.05)	(581,709.37)	
Total Revenue Bonds and Certificates of Participation Payable	89,165,000.00	100,902,056.93	13,345,645.88	176,721,411.05	6,835,000.00
Notes Payable	350,970.84			350,970.84	298,750.66
Capital Leases Payable	7,591,257.73	53,835.00	1,848,272.80	5,796,819.93	1,806,724.38
Compensated Absences	20,106,990.16	10,314,599.68	10,543,666.83	19,877,923.01	1,206,513.74
Total Long-Term Liabilities	$ 117,214,218.73	$ 111,270,491.61	$ 25,737,585.51	$ 202,747,124.83	$ 10,146,988.78

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

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010	See Table Below
Revenue Bonds Payable							
Housing and Dining Services							
Jones Hall and Galley Dining Facility Renovation	2001A	4.25 - 4.75	11/01/2011	$ 12,570,000.00	$ 11,315,000.00	$ 1,255,000.00	
Housing and Dining Revenue Refunding Bonds	2001B	4.5 - 5.75	11/01/2015	11,985,000.00	8,595,000.00	3,390,000.00	
Total Housing and Dining Services				24,555,000.00	19,910,000.00	4,645,000.00	(1)
Student Services							
Student Recreation Center Refunding Bonds	2001C	4.0 - 4.75	05/01/2019	14,555,000.00	6,130,000.00	8,425,000.00	(2)
General Revenue Bonds Payable							
West End Dining Project	2003A	3.0-5.0	05/01/2024	14,960,000.00	3,035,000.00	11,925,000.00	
Housing HVAC Renovaztion	2004	0.3*	05/01/2014	4,290,000.00	2,330,000.00	1,960,000.00	
Dowdy-Ficklen Stadium Expansion Refunding	2004	0.3*	05/01/2017	5,145,000.00	2,005,000.00	3,140,000.00	
Baseball (Clark-LeClair) Stadium Construction	2004	0.3*	05/01/2024	7,110,000.00	1,535,000.00	5,575,000.00	
Tyler Dorm Project	2010A	4	10/01/2013	1,305,000.00		1,305,000.00	
Wright Place Renovations	2010A	4	10/01/2013	735,000.00		735,000.00	
Olympic Sports Facility	2010A	4	10/01/2013	1,450,000.00		1,450,000.00	
Tyler Dorm Project (BAB)	2010B	2.791-5.825**	10/01/2030	10,045,000.00		10,045,000.00	
Wright Place Renovations (BAB)	2010B	2.791-4.581**	10/01/2020	1,990,000.00		1,990,000.00	
Olympic Sports Facility (BAB)	2010B	2.791-5.875**	10/01/2035	15,935,000.00		15,935,000.00	
Total General Revenue Bonds				62,965,000.00	8,905,000.00	54,060,000.00	
The University of North Carolina System Pool Revenue Bonds							
College Hill Dormitory Construction	2004C	3.5 - 5.0	06/30/2034	27,530,000.00	6,920,000.00	20,610,000.00	
Dowdy-Ficklen Stadium Expansion Refunding	2004C	3.5 - 5.0	06/30/2014	2,530,000.00	1,320,000.00	1,210,000.00	
College Hill Dormitory Supplemental Funds	2006A	4.0 - 5.0	10/01/2033	3,805,000.00	230,000.00	3,575,000.00	
Refunding of Series 1999 (Student Health)	2006A	4.0 - 5.0	10/01/2018	2,110,000.00	175,000.00	1,935,000.00	
Refunding of Series 2001A (Jones and Galley)	2006A	4.0 - 5.0	10/01/2021	8,775,000.00	90,000.00	8,685,000.00	
Dioning Project Croatan	2009A	3.0 - 5.25	10/01/2029	8,050,000.00		8,050,000.00	
Scott Residence Hall	2009A	3.0 - 5.25	10/01/2034	29,360,000.00		29,360,000.00	
Softball Field Project	2009A	3.0 - 5.25	10/01/2034	4,885,000.00		4,885,000.00	
Refunding of 1998 Housiong and Dining Bonds	2009A	3.0 - 5.0	10/01/2018	2,820,000.00		2,820,000.00	
East End Zone Project	2010A	2.0 - 5.0	10/01/2029	17,400,000.00		17,400,000.00	
Partial Refunding 2004C College Hill Dorm Construction	2010A	2.0 - 5.0	10/01/2021	4,370,000.00		4,370,000.00	
Total The University of North Carolina System Pool Revenue Bonds				111,635,000.00	8,735,000.00	102,900,000.00	
Certificates of Participation							
Banner System Certificates of Participation	2004	4.0	06/01/2014	8,875,000.00	4,745,000.00	4,130,000.00	
Total Revenue Bonds Payable and Certificates of Participation (principal only)				$ 222,585,000.00	$ 48,425,000.00	174,160,000.00	
Less: Unamortized Loss on Refunding						(581,709.37)	
Less: Unamortized Discount						(265,442.69)	
Plus: Unamortized Premium						3,408,563.11	
Total Revenue Bonds Payable and Certificates of Participation						$ 176,721,411.05	

* For variable rate debt, interest rates in effect at June 30, 2010 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The Unviersity has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds 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	Current Year Interest	Estimate of % of Revenues Pledged
(1)	Housing & Dining Revenues	$ 5,315,531.25	$ 11,222,386.30	$ 1,380,000.00	$ 249,762.50	15%
(2)	Student Fee Revenues - Student Recreation Center	10,396,717.50	1,362,105.80	775,000.00	390,900.83	86%

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 final maturity dates from May 1, 2014 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. 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, N.A. Upon notice from the paying agent, the remarketing agent, US Bank, N.A. 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 and 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 % 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 or 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 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, 2010, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on August 5, 2013.

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 $10,675,000 of demand bonds was "put" and not resold, the University would be required to pay $2,344,732 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, 2010, are as follows:

	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 5,865,000.00	$ 7,069,301.18	$ 970,000.00	$ 168,962.50	$ 298,750.66	$ 29,832.00
2012	8,375,000.00	7,079,045.84	1,005,000.00	133,487.50	52,220.18	720.88
2013	7,850,000.00	6,823,240.84	1,060,000.00	83,237.50		
2014	8,155,000.00	6,553,695.84	1,095,000.00	43,775.00		
2015	7,610,000.00	6,259,154.35				
2016-2020	41,575,000.00	26,365,045.21				
2021-2025	33,830,000.00	18,313,053.61				
2026-2030	32,385,000.00	10,583,840.27				
2031-2035	23,355,000.00	3,255,056.27				
2036-2040	1,030,000.00	30,256.25				
Total Requirements	$ 170,030,000.00	$ 92,331,689.66	$ 4,130,000.00	$ 429,462.50	$ 350,970.84	$ 30,552.88

Interest on the variable rate 2004 revenue bonds is calculated at 0.3% at June 30, 2010
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:

On July 9, 2009 the University issued $2,820,000 in UNC System Pool Series 2009A refunding bonds with an average interest rate of 4.08%. The bonds were issued for a current refunding of $3,130,000 of outstanding Housing and Dining System, Series 1998 bonds with an average interest rate of 4.65%. The refunding was undertaken to reduce total debt service payments by $209,835.18 over the next nine years and resulted in an economic gain of $164,637.30. At June 30, 2010, the outstanding balance was $2,820,000 for the defeased UNC System Pool Bonds, Series 2009A.

On March 31, 2010 the University issued $4,370,000 in UNC System Pool Revenue Series 2010A refunding bonds with an average interest rate of 4.27%. The bonds were issued to advance refund $4,245,000 of outstanding UNC System Pool Bonds Series 2004C bonds with an average interest rate of 5.0%. The net proceeds of the refunding bonds along with other resources were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by $228,989.44 over the next twelve years and resulted in an economic gain of $142,342.69. At June 30, 2010, the outstanding balance was $4,245,000 for the defeased UNC System Pool Revenue Bonds, Series 2004C.

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, 2010, the outstanding balance of prior year defeased bonds was $8,605,000.

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, 2010	Principal Outstanding June 30, 2010
Facilitate Purchase of Medical Practice	Pitt County Memorial Hospital	5.50%	11/01/2011	$ 350,970.84	$ 0.00	$ 350,970.84

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, 2010, the balance on the principal was $3,200,920. 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 $3,200,920, the current portion of which is $197,693.

Maturities of the long-term portion of notes payable as of June 30, 2010 were as follows:

Fiscal Year	Amount
2011	$ 197,693.00
2012	199,194.00
2013	201,980.00
2014	204,805.00
2015	207,670.00
Thereafter	2,189,578.00
	$ 3,200,920.00

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to medical equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	$ 2,002,735.97
2012	1,763,960.03
2013	1,704,891.09
2014	717,219.37
2015	4,896.00
Total Minimum Lease Payments	6,193,702.46
Amount Representing Interest (2.970 - 10.123% Rate of Interest)	396,882.53
Present Value of Future Lease Payments	$ 5,796,819.93

Machinery and equipment acquired under capital lease amounted to $9,912,477.83 at June 30, 2010.

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, 2010:

Fiscal Year	Amount
2011	$ 4,184,849.96
2012	3,046,884.31
2013	2,321,253.15
2014	1,768,853.58
2015	1,725,941.18
2016-2020	6,002,849.12
2021-2025	130,759.83
Total Minimum Lease Payments	$ 19,181,391.13

Rental expense for all operating leases during the year was $4,256,264.10.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees	$ 150,961,290.55	$ 0.00	$ 16,608,812.88	$ 66,115.00	$ 0.00	$ 134,286,362.67
Patient Services	$ 429,949,224.95	$ 0.00	$ 0.00	$ 22,605,853.27	$ 244,774,404.00	$ 162,568,967.68
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	$ 23,583,427.78	$ 0.00	$ 2,274,199.89	$ 0.00	$ 0.00	$ 21,309,227.89
Dining	20,912,189.02	753,168.51	1,947,525.09			18,211,495.42
Student Union Services	17,016.93					17,016.93
Health, Physical Education, and Recreation Services	1,736,670.84					1,736,670.84
Bookstore	13,978,702.40		848,229.11			13,130,473.29
Parking	2,501,631.59					2,501,631.59
Athletic	15,037,874.71					15,037,874.71
Other	2,685,433.97					2,685,433.97
Sales and Services of Education and Related Activities	2,805,030.52					2,805,030.52
Total Sales and Services	$ 83,257,977.76	$ 753,168.51	$ 5,069,954.09	$ 0.00	$ 0.00	$ 77,434,855.16

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	$ 218,099,880.45	$ 18,647,272.90	$ 12,699,797.60	$ 0.00	$ 97,439.67	$ 0.00	$ 249,544,390.62
Research	14,999,601.91	3,070,230.66	3,333,918.01	183,503.48	7,489.34		21,594,743.40
Public Service	15,631,851.17	1,345,406.31	4,371,589.08	101,372.37	41,572.12		21,491,791.05
Academic Support	16,912,243.14	8,114,225.78	1,146,537.25	7,280.00	5,003.09		26,185,289.26
Student Services	8,491,569.38	1,284,036.01	1,557,513.26	150.00	14,453.22		11,347,721.87
Institutional Support	29,347,643.76	3,391,253.13	8,998,401.54	1,065.28	28,860.64		41,767,224.35
Operations and Maintenance of Plant	22,541,455.69	18,127,331.13	3,870,031.39		14,137,008.69		58,675,826.90
Student Financial Aid	1,203,366.45	1,479.42	381,337.31	37,039,234.64			38,625,417.82
Auxiliary Enterprises	144,002,782.87	39,111,382.85	54,727,382.30	4,312,004.40	6,351,995.24		248,505,547.66
Depreciation						21,351,692.15	21,351,692.15
Total Operating Expenses	$ 471,230,394.82	$ 93,092,618.19	$ 91,086,507.74	$ 41,644,610.17	$ 20,683,822.01	$ 21,351,692.15	$ 739,089,645.08

NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of $383,522,004.27, of which $176,549,683.09 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $6,302,923.69 and $10,592,980.99, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were $6,302,823.69, $6,011,035.09, and $5,032,096.29, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "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 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, 2010, 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 $383,533,004.27, of which $166,087,275.00 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $11,360,369.61 and $9,965,236.50, 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 $2,375,404.29 for the year ended June 30, 2010.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2010, were $138,910.67. The voluntary contributions by employees amounted to $1,931,659.74 for the year ended June 30, 2010.

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 $6,153,560.84 for the year ended June 30, 2010.

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 Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the University contributed 4.5% 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, 2009, and 2008, were 4.1% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $15,418,663.12, $13,999,202.15, and $13,024,917.26, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended

June 30, 2010, 2009, and 2008, which were $1,781,712.19, $1,775,508.57, and $1,651,940.73, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to $1,000,000 are 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.

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 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 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. Outstanding commitments on construction contracts were $44,231,491.39 and on other purchases were $5,261,499.27 at June 30, 2010.

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 $5,896,104.30 for the year ended June 30, 2010.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.

NOTE 17 - NET ASSET RESTATEMENTS

As of July 1, 2009, net assets as previously reported were restated as follows:

	Amount
July 1, 2009 Net Assets as Previously Reported	$ 776,841,171.36
Restatements:	
Implementation of GASB Statement No. 51	126,097.50
Building Demolished in Prior Year	(453,775.86)
Prior Year Depreciation on Land Recorded as Buildings	74,928.68
Prior Year Unrecorded Investment Income from University Joint Venture	444,076.00
Prior Year Overstatement of CIP for Items Already Capitalized	(9,255,319.59)
July 1, 2009 Net Assets as Restated	$ 767,777,178.09

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the financial statements of East Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 8, 2010. Our report includes a reference to other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions,

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)

to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified a deficiency in internal control over financial reporting that we consider a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency.

<u>Compliance and Other Matters</u>

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*.

The University's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the University's response and, accordingly, we express no opinion on it.

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

Beth A. Wood, CPA
State Auditor

December 8, 2010

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses a condition that represents a deficiency in internal control.

INADEQUATE CONTROL OVER ACCESS TO THE UNIVERSITY'S HEALTHSPAN ELECTRONIC HEALTH RECORD SYSTEM

We identified deficiencies in the University's oversight and management of access to the HealthSpan Electronic Health Record System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

The HealthSpan Electronic Health Record System is used by The Brody School of Medicine at the University as an electronic medical record and patient billing system. The information and data are housed on the University Health System (UHS) server and is maintained by UHS personnel (not University personnel). UHS serves as the application service provider for the University for this specific information system.

During our review of system access, we found that programmers have the ability to access and update patient information, including billing, payment, and outstanding accounts receivable data. Access to systems and data should be limited to the minimum access necessary for the job function. If the programmers' rights cannot be removed, then procedures should be in place to monitor their activity. In addition, we determined that periodic reviews of user access for this system have not been performed as frequently as required by statewide information technology standards.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures requiring documented reviews of users' rights.

Recommendation: The University should improve internal control over granting and managing access to the HealthSpan Electronic Health Record System. Procedures should be in place to limit access to just those employees who need it for their assigned job function. When programmers must have access to production programs or data, their activity should be monitored. In addition, periodic security reviews should be conducted at intervals that meet the minimum schedule as required by statewide information security standards to ensure that access is restricted to authorized users and employee user access rights are systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

University Response: East Carolina University agrees with the State Auditor's recommendation:

- We have already begun coordination with our HealthSpan Application Service Provider (ASP), University Health Systems of Eastern Carolina, to remove: (1) programmers' access to change production data, and (2) programmers' ability to move programming changes into production. If this is not possible, then we will work with the ASP to ensure that programmers' activity in the production environment is closely monitored and controlled.

- A process for periodic review of HealthSpan user access is already in place and was reviewed by the State Auditor during the audit fieldwork. We will ensure that user access is reviewed at least twice annually, as required by the statewide information technology standards. We will also ensure that our ASP (University Health Systems of Eastern Carolina) reviews its employees' access to University data at least twice annually.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647