STATE OF NORTH CAROLINA

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the accompanying financial statements of East Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliate, the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Carolina University and its discretely presented component unit as of June 30, 2011, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011 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

Beth A. Wood, CPA
State Auditor

November 10, 2011

Introduction

Management's discussion and analysis of the financial report provides an overview of the financial position and activities of East Carolina University (the "University") for the fiscal year ended June 30, 2011 with comparative information for the fiscal year ended June 30, 2010. 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 $809 million (as restated) in 2010 to $861 million in 2011. The increase of $52 million represents the residual interest in the assets after the liabilities are deducted. This increase is mostly due to increases in the investment in capital assets, net of related debt and unrestricted net assets categories.

Operating revenues increased from $418 million in 2010 to $420 million in 2011. Revenues represent amounts received or accrued, and are classified as either operating or nonoperating. The $2 million increase is represented mostly by increases in student tuition and fees and sales and services revenue. However, these increases were offset by a $9.5 million decrease in patient services revenue.

Operating expenses increased from $736 million in 2010 to $754 million in 2011. Operating expenses represent the amounts paid or accrued for operating purposes. A major part of the $18 million change is due to an increase in salaries and benefits.

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 which reveals the University's overall financial position; the Statement of Revenues, Expenses, and Changes in Net Assets will provide a summation of the results of operations; and the Statement of Cash Flows that identifies sources of cash and how cash was used during the fiscal year. 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, 2011 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, 2011 and 2010 is as follows:

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

	2011	2010 Restated	Variance	Percent Change
Assets				
Current Assets	$ 255,046	$ 258,405	$ (3,359)	(1.3) %
Noncurrent Assets:				
Endowment Investments	30,491	20,562	9,929	48.3 %
Other Investments	3,688	3,855	(167)	(4.3) %
Capital Assets, Net	775,392	723,334	52,058	7.2 %
Other Noncurrent Assets	62,934	95,455	(32,521)	(34.1) %
Total Noncurrent Assets	872,505	843,206	29,299	3.5 %
Total Assets	1,127,551	1,101,611	25,940	2.4 %
Liabilities				
Current Liabilities	62,193	77,508	(15,315)	(19.8) %
Noncurrent Liabilities:				
Long-Term Liabilities	180,076	192,600	(12,524)	(6.5) %
Other Noncurrent Liabilities	23,783	22,307	1,476	6.6 %
Total Noncurrent Liabilities	203,859	214,907	(11,048)	(5.1) %
Total Liabilities	266,052	292,415	(26,363)	(9.0) %
Net Assets				
Invested in Capital Assets, Net of Related Debt	623,093	598,229	24,864	4.2 %
Restricted for Nonexpendable	25,172	20,382	4,790	23.5 %
Restricted for Expendable	23,896	22,794	1,102	4.8 %
Unrestricted	189,338	167,791	21,547	12.8 %
Total Net Assets	$ 861,499	$ 809,196	$ 52,303	6.5 %

The Statement of Net Assets at June 30, 2011 indicates an improvement of financial position compared to last fiscal year with total assets increasing by $26 million and total liabilities decreasing by $26 million. Current assets decreased by $3.4 million. This decrease is primarily due to decreases in patient receivables and a net increase in current cash. The decrease in patient receivables stems from the implementation of a new patient accounting system, Healthspan. The implementation in 2010 caused a backlog in processing which increased patient receivables and was corrected in 2011 with a more efficient system and better collections. In addition, Healthspan allowed for the earlier write-off of bad debt which further decreased patient receivables and revenue. The decrease in current cash is attributed to the decreases in Capital Improvements accounts payable offset by increases in the Leo Jenkins Cancer Center escrow funds and increases in Housing Capital Reserves.

Noncurrent assets increased by $29 million largely due to increases in three main areas. First, Investment in Joint Venture increased due to a $5.4 million new investment with Pitt County Memorial Hospital. Endowment investments increased $10 million or 48 percent from the prior year due to additional investments of contributions and increased investment earnings for the year. Thirdly, Capital Assets, net of depreciation, accounted for $52 million of the increase. Capital assets will be discussed in detail later. Lastly, a $38 million decrease in noncurrent restricted cash partially offset these increases. Noncurrent restricted cash decreased in 2011 due to the spending of Capital Improvements cash.

Current liabilities decreased by $15 million, which is a 20 percent change from last fiscal year. This decrease can be attributed mostly to accounts payable which saw a $9.1 million decrease in capital improvements accounts payable and a $5 million decrease in State funds accounts payable. In 2010, the Office of State Budget and Management required a June 25 cutoff of cash which forced the University to hold and accrue invoices in the 2010 accrual period. There was no such cutoff in fiscal year 2011 which explains part of the decrease in accounts payable.

Working capital was $193 million at June 30, 2011, a $10 million increase or a 5 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 were partially offset by decreases in current receivables in the current year which attributed to the overall increase in working capital. These changes were discussed previously. Another contributing factor was the decrease in accounts payable mentioned in the preceding paragraph.

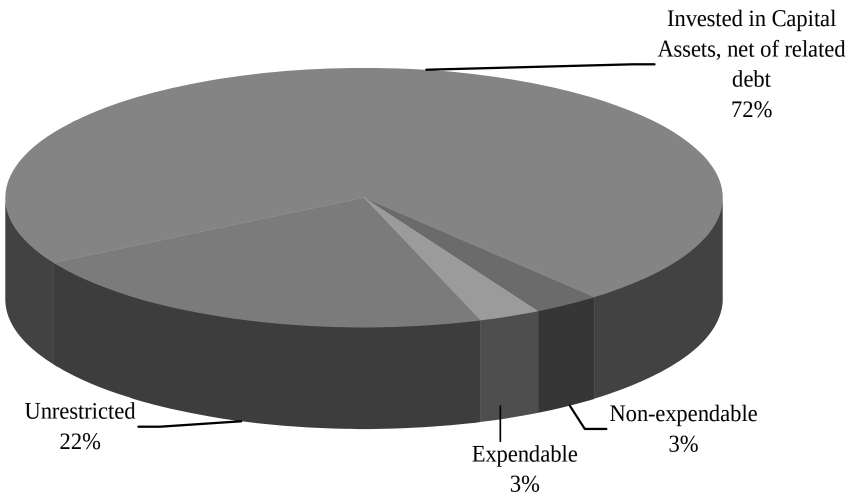
Net assets represent the value of the University's assets after all liabilities have been deducted. The University's net assets were $861 million, an increase of $52 million, or 6.5 percent over the prior year. For reporting purposes, net assets are divided into four categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted net assets.

Invested in capital assets, net of related debt, encompasses the University's capital assets net of accumulated depreciation and the outstanding principal balances of debt resulting from the acquisition, construction or improvement of those assets. Investments in capital assets make up $623 million of the $861 million in total net assets. The accumulated depreciation balance as of June 30, 2011, was $239 million.

Restricted nonexpendable net assets primarily include the University's permanent endowment fund, accounting for $25 million of net assets. Restricted expendable net assets are subject to externally imposed restrictions governing its use. In 2011, the restricted expendable net asset total saw a slight increase from the prior year making up $24 million of net assets.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects. For fiscal year 2011, unrestricted net assets accounted for $189 million of the $861 million in net assets, a 12.8 percent increase from the prior year. Net assets classified as restricted for nonexpendable increased by 23.5 percent from the prior year. The following chart displays the contribution of each category to total net assets for 2011.

2011 Net Assets: $861,499,251



Statement of Revenues, Expenses and Changes in Net Assets

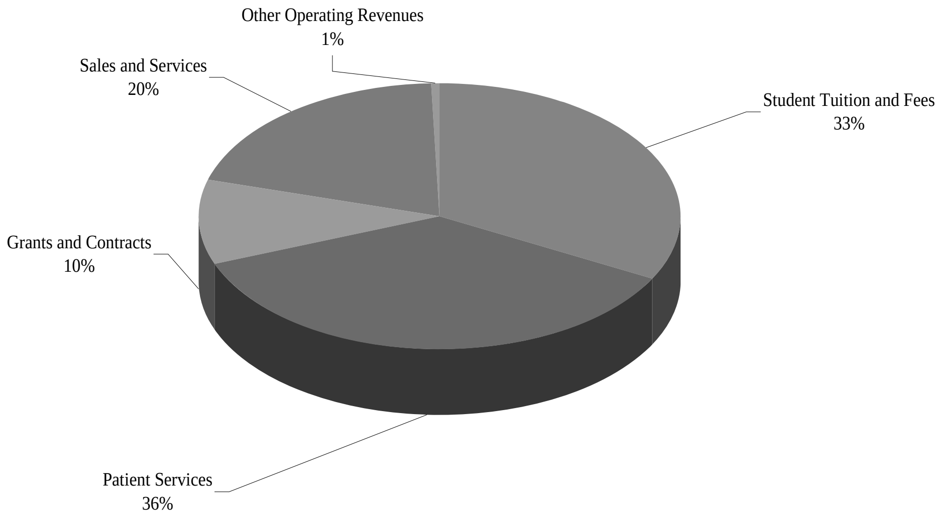
The Statement of Revenues, Expenses, and Changes in Net Assets portray the University's results of operations and maintenance of financial strength. The Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2011, compared with that of 2010, are summarized as follows:

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

	2011	2010 Restated	Variance	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 138,250	$ 134,286	$ 3,964	3.0 %
Patient Services, Net	153,057	162,569	(9,512)	(5.9) %
Grants and Contracts	43,779	42,732	1,047	2.5 %
Sales and Services, Net	84,159	77,435	6,724	8.7 %
Other	1,141	1,170	(29)	(2.5) %
Total Operating Revenues	420,386	418,192	2,194	0.5 %
Operating Expenses				
Salaries and Benefits	494,212	471,230	22,982	4.9 %
Supplies and Materials	85,915	89,527	(3,612)	(4.0) %
Services	94,823	91,087	3,736	4.1 %
Scholarships and Fellowships	39,624	41,645	(2,021)	(4.9) %
Utilities	19,099	20,684	(1,585)	(7.7) %
Depreciation	19,997	21,352	(1,355)	(6.3) %
Total Operating Expenses	753,670	735,525	18,145	2.5 %
Operating Loss	(333,284)	(317,333)	(15,951)	5.0 %
Nonoperating Revenues (Expenses)				
State Appropriations	269,499	263,532	5,967	2.3 %
State Aid - Federal Recovery Funds	13,216	14,906	(1,690)	(11.3) %
Noncapital Grants	53,797	47,232	6,565	13.9 %
Noncapital Gifts	12,682	6,534	6,148	94.1 %
Investment Income	7,902	5,295	2,607	49.2 %
Other Nonoperating Expenses	(4,422)	(7,517)	(3,095)	(41.2) %
Net Nonoperating Revenues	352,674	329,982	22,692	6.9 %
Income Before Other Revenues	19,390	12,649	6,741	53.3 %
Capital Grants	18,847	23,339	(4,492)	(19.2) %
Capital Gifts	2,214	358	1,856	518.4 %
Additions to Endowments	3,687	1,190	2,497	209.8 %
Special Items - Sale of Leo Jenkins Cancer Center Operations	8,165	0	(8,165)	100.0 %
Increase in Net Assets	52,303	37,536	14,767	39.3 %
Net Assets-July 1	809,196	771,660	37,536	4.9 %
Net Assets-June 30	$ 861,499	$ 809,196	$ 52,303	6.5 %

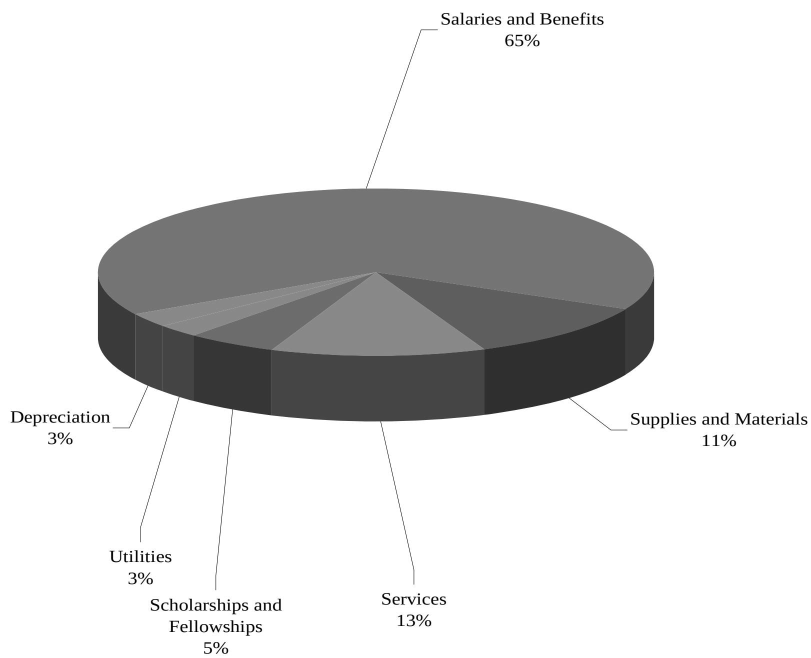
Operating revenues are generated by providing goods and services related to instruction, research, and public service. Total operating revenues increased by $2 million, or .5 percent from the prior year. Student tuition and fees, net of the tuition discount, increased $3.9 million, or 3 percent. The 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 graduate students while School of Medicine students saw a tuition increase of $1,284. Mandatory student fees increased by $80, or about 7 percent. Enrollment increased about 1%, up to 21,264 students, which also contributed to the increase. Patient services revenue decreased in 2011 by $9.5 million, a 5.9 percent change from 2010. This decrease is attributed mainly to a change in the patient accounting systems and receivables balance as discussed earlier in the Statement of Net Assets section. Sales and Services increased by $6.7 million (8.7 percent) from the prior year. The main areas that contributed to this increase were Athletics, Housing and Dining. First, Athletics experienced increased football ticket sales due to prior year successes and a rejuvenated fan base. Housing and Dining revenues increased mainly due to the re-opening of Scott Residence Hall. The following chart shows each component of operating revenue as it relates to total operating revenues as a whole:

2011 Operating Revenues: $420,385,999



Operating expenses are the day-to-day expenses incurred to carry out the mission of the University. Operating expenses increased $18 million to $754 million. This increase is mainly attributed to salaries and benefits which rose to $494 million, a $23 million increase from FYE 2010. Salaries alone went up by $13.9 million. The majority of the salary increases occurred within two divisions: Academic Affairs went up by $3.8 million while Health Sciences increased by $8.8 million from the prior year. Based on research and analytical review of salaries within these divisions, it appears that the timing of hire date for some employees and position changes for others were the main reasons for the salary increases. Of the fifteen employee salaries reviewed, three did not earn salaries in fiscal year 2010, six had a hire date of January 1, 2010 or later so they only received partial salaries in fiscal year 2010 and 6 took new, higher paying positions during fiscal year 2011. The following chart shows each component of operating expenses as it relates to total operating expenses as a whole.

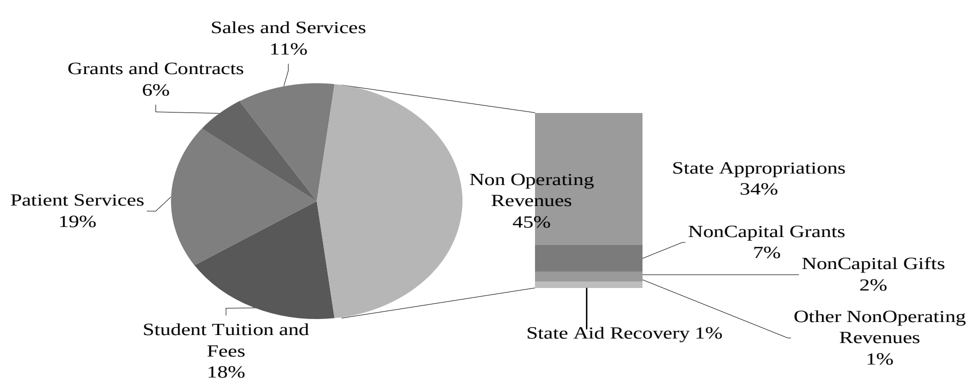
2011 Operating Expenses: $753,669,643



Nonoperating revenues and expenses are not generated by the principal operations of the University. Total net non-operating revenues increased $22.7 million or 6.9 percent. State appropriations make up $6 million of the increase, including $5.1 million for enrollment increases. Other nonoperating expenses, which include interest and fees on capital asset related debt, miscellaneous nonoperating revenue and expenditures, and gain on sale of fixed assets, decreased by 41 percent from the prior year.

Overall, State appropriations were a significant component of total revenues for the University comprising 34 percent of total revenue. The following chart illustrates the University's operating and nonoperating revenues which total $777 million for fiscal year 2010-2011.

2011 Total Revenue: $777,490,710



In 2011, the University received $13.2 million in economic stimulus funds from the federal government (American Recovery and Reinvestment Act) as compared with $14.9 million in 2010. The amount of these funds varies from year to year based on the total amount offered by the federal government and based on an allocation calculation by University of North Carolina General Administration, so the University has no influence on the amount received. As far as we know, 2011 will be the final year of this stimulus program.

The increase of $6.5 million in noncapital grants was mostly due to an increase in the Pell Grant program recipients for the 2011 summer school sessions. This was part of a two year program experiment implemented by the U.S. Department of Education which has since been discontinued.

Capital gifts increased by $1.8 million from 2010 to 2011 in gifts received. This difference can be attributed mainly to miscellaneous contributions made toward the construction of new athletic facilities.

As disclosed in Note 15 to the financial statements, in June of 2011, the University agreed to sell 50 percent of the Leo Jenkins Cancer Center professional practice and 100 percent of the Chemotherapy Infusion professional practice to Pitt County Memorial Hospital. This transaction is represented on the income statement as a special item for $8.1 million.

Statement of Cash Flows

The Statement of Cash Flows provides detail on the cash activity for the year. The sources and uses of cash are categorized as operating, noncapital financing, capital financing or investing. Net cash used is reconciled to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets. The following is a condensed version of the Statement of Cash Flows for the year ended June 30, 2011 and 2010.

Statement of Cash Flows
(Dollars in Thousands)

	2011	2010	Variance	Percent Change
Cash Flows Provided (Used)				
Operating Activities	$ (307,931)	$ (301,867)	$ 6,064	2.0 %
Noncapital Financing Activities	355,240	330,143	25,097	7.6 %
Capital Financing Activities	(73,980)	34,375	108,355	(315.2) %
Investing Activities	(7,789)	205	(7,994)	(3,899.5) %
Net Change in Cash	(34,460)	62,856	(97,316)	(154.8) %
Cash - July 1	281,111	218,255	62,856	28.8 %
Cash - June 30	$ 246,651	$ 281,111	$ (34,460)	(12.3) %

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 $435 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 $494 million.

Noncapital financing activities totaled $355 million at June 30, 2011. State appropriations made up $269 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 a significant change in the balance of capital financing activities from the end of fiscal year 2010 to the end of fiscal year 2011. The main reason for the change was there were no new bonds issued in fiscal year 2011 as compared to 2010 which saw proceeds of $101 million from capital debt. Another factor contributing to the change was a sale of capital assets that resulted in proceeds of $11 million. Also, acquisition and construction of capital assets was up by about $15 million from the prior year.

Investing activities increased in fiscal year 2011 mainly due to an increase in endowment investments.

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 $775 million invested in capital assets at fiscal year-end 2011 which resulted in a net increase from fiscal year end 2010 with $723 million invested.

Capital assets for the University are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land, construction in progress and computer software in development. Depreciable assets include buildings, machinery and equipment, general infrastructure and computer software. 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 30 to 75 years for buildings and 25 to 50 years for general infrastructure. Machinery and equipment are usually depreciated 5 to 50 years. Computer software is depreciated 5 to 20 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, 2011 and June 30, 2010, were as follows:

Capital Assets
(Dollars in Thousands)

	2011	2010 Restated	Variance	Percent Change
Land	$ 39,357	$ 39,249	$ 108	0.3 %
Construction in Progress	63,379	88,176	(24,797)	(28.1) %
Computer Software in Development	319	136	183	100.0 %
Buildings	715,849	636,408	79,441	12.5 %
General Infrastructure	75,381	60,084	15,297	25.5 %
Machinery and Equipment	106,201	110,561	(4,360)	(3.9) %
Computer Software	13,826	13,777	49	0.4 %
Total Capital Assets	1,014,312	948,391	65,921	7.0 %
Accumulated Depreciation	238,920	225,057	13,863	6.2 %
Capital Assets, Net	$ 775,392	$ 723,334	$ 52,058	7.2 %

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 $52 million in 2011.

Increases in General Infrastructure and Buildings were contributing factors in the increase in capital additions while a decrease in Construction in Progress partially offset these increases.

General Infrastructure increased as Athletic field projects were completed. However, the primary factor attributed to the capital additions increase was Buildings. In 2011, several major projects were completed and capitalized which in turn caused a decrease in Construction in Progress. Major projects completed were: Scott Residence Hall renovation and addition, Tyler Residence Hall renovation, Wright/Croatan renovation, Family Medicine Center building and Athletics field projects.

Scott Residence Hall underwent a complete renovation that included the addition of an East side wing containing approximately 128 beds.

Tyler Residence Hall underwent a general renovation that included a new fire suppression system, design improvements to resident rooms and bathrooms, replacement of room entry doors, window replacement and new paint.

Wright Place dining underwent a partial renovation to update facilities while the Croatan dining building was torn down and a new building constructed.

The Athletic field project included the construction of new fields and facilities for softball, soccer and track and field.

The Family Medicine Center houses both the Family Medicine Center and the Geriatric Clinic. It includes 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 tripled the space available for patients.

Ongoing Construction in Progress projects include: the East End Zone seating addition, Dental School Project and Coastal Studies Institute.

The East End Zone 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.

A Coastal Studies Institute is being 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.

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. During the 2012 fiscal year, the university plans to begin work on a $15 million auxiliary gymnasium as a continuation of the additions to the Athletic facilities project.

The University currently maintains a list of planned projects totaling $1.3 billion. These projects are awaiting external review, approval and funding by the Legislature or the approval for the University to proceed by issuing debt to construct the projects. These projects consist of a mix of new construction, repairs and renovations and infrastructure upgrades.

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

Debt

The University uses bonds, certificates of participation, and capital leases to finance construction projects and purchase equipment. As reflected in the following chart, total bonds, certificates of participation, and capital leases payable decreased by $12 million in 2011. Contributing factors in the decrease were capital lease pay offs related to the sale of the Leo Jenkins Cancer Center and no new debt was issued during the year.

Dollars in Thousands	2011	2010	Change
Revenue Bonds Payable-Fixed Rate	$ 154,650	$ 159,355	$ (4,705)
Revenue Bonds Payable-Variable Rate	9,515	10,675	(1,160)
Bond Discounts/Charges	2,483	2,561	(78)
Certificates of Participation	3,160	4,130	(970)
Capital Leases Payable	467	5,797	(5,330)
	$ 170,275	$ 182,518	$ (12,243)

Bond ratings have not been updated since fiscal year 2010. The most recent bond ratings were:

> 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. Standard and Poor's assigned a rating of AA-, with a stable outlook.

Economic Forecast

As indicated in the University's financial statements, the University demonstrated improved financial performance, highlighted by a $52 million increase in net assets during the year ended June 30, 2011. This increase is largely attributable to increases in a few areas: $6 million in state appropriations, $5 million in Pell Grants, $5 million in endowed Distinguished Professorships and $11 million in gain on sale of the Leo Jenkins Cancer Center to Pitt County Memorial Hospital. In spite of the State's budget situation, the North Carolina General Assembly has continued to support public higher education and has provided funds for an increase in enrollment for the fiscal year ended 2012 in the amount of $5.1 million. In addition, East Carolina University received an additional $3.5 million for the operations of the new School of Dental Medicine.

East Carolina University's share of the FY 2011-2012 Management Flexibility Reductions was $49 million. The administration's planning over the last 2 years enabled ECU to take these cuts in a thoughtful, open, and transparent manner; they were guided by a policy framework adopted by the Board of Trustees, guidance from the Board of Governors, and legislation. While every effort was made to protect the classroom and reduce the impact on the students, a 16% cut on top of permanent and temporary cuts in each of the last five years, means that adverse effects on the classroom, our students, and our faculty are unavoidable. The University continues to focus on using existing resources as efficiently as possible, and to that end, the Chancellor has charged leadership with developing a prioritization process that will create a roadmap for investment and reallocation over time.

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, 2011

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	181,286,116.71
Restricted Cash and Cash Equivalents		22,442,971.36
Receivables, Net (Note 4)		41,503,135.10
Due from State of North Carolina Component Units		329,695.00
Due from University Component Units		8,788.83
Inventories		5,363,705.13
Notes Receivable, Net (Note 4)		402,361.72
Other Assets		3,709,454.56
Total Current Assets		255,046,228.41
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		42,922,022.42
Endowment Investments		30,491,218.22
Other Investments		3,688,242.57
Notes Receivable (Note 4)		12,525,142.15
Investment in Joint Ventures		6,650,640.84
Bond Issuance Cost		835,044.98
Capital Assets - Nondepreciable (Note 5)		103,055,252.14
Capital Assets - Depreciable, Net (Note 5)		672,337,104.01
Total Noncurrent Assets		872,504,667.33
Total Assets		1,127,550,895.74
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		33,916,770.33
Due to Primary Government		57,117.28
Deposits Payable		1,875,193.34
Funds Held for Others		64,668.70
Unearned Revenue		13,400,322.89
Interest Payable		1,813,477.92
Long-Term Liabilities - Current Portion (Note 7)		11,065,752.18
Total Current Liabilities		62,193,302.64
Noncurrent Liabilities:		
Funds Held for Others		11,227,777.15
U. S. Government Grants Refundable		12,554,089.75
Long-Term Liabilities (Note 7)		180,076,474.48
Total Noncurrent Liabilities		203,858,341.38
Total Liabilities		266,051,644.02

NET ASSETS

Invested in Capital Assets, Net of Related Debt	623,092,534.90
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,830,178.90
Endowed Professorships	20,134,824.05
Departmental Uses	333,307.27
Loans	2,874,163.57
Expendable:	
Scholarships and Fellowships	3,625,944.17
Endowed Professorships	5,117,616.49
Departmental Uses	764,577.42
Capital Projects	11,536,869.92
Debt Service	2,076,295.57
Other	774,023.77
Unrestricted	189,338,915.69
Total Net Assets	$ 861,499,251.72

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, 2011 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	138,249,660.56
Patient Services, Net (Note 9)		153,056,832.72
Federal Grants and Contracts		22,132,687.29
State and Local Grants and Contracts		9,257,284.36
Nongovernmental Grants and Contracts		12,388,979.40
Sales and Services, Net (Note 9)		84,159,002.29
Interest Earnings on Loans		35,591.00
Other Operating Revenues		1,105,961.41
Total Operating Revenues		420,385,999.03
EXPENSES		
Operating Expenses:		
Salaries and Benefits		494,211,679.82
Supplies and Materials		85,915,143.38
Services		94,823,049.91
Scholarships and Fellowships		39,623,940.42
Utilities		19,098,937.39
Depreciation/ Amortization		19,996,892.74
Total Operating Expenses		753,669,643.66
Operating Loss		(333,283,644.63)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		269,499,479.27
State Aid - Federal Recovery Funds		13,216,294.00
Noncapital Grants - Student Financial Aid		33,842,119.75
Other Noncapital Grants		19,954,239.00
Noncapital Gifts		12,681,865.02
Investment Income (Net of Investment Expense of $26,052.95)		7,448,491.62
Interest and Fees on Debt		(4,430,983.44)
Federal Interest Subsidy on Debt		453,833.49
Other Nonoperating Revenues		8,389.17
Net Nonoperating Revenues		352,673,727.88
Income Before Other Revenues		19,390,083.25
Capital Grants		18,847,055.53
Capital Gifts		2,213,813.39
Additions to Endowments		3,687,354.90
Special Item - Sale of Leo Jenkins Cancer Center Operations (Note 15)		8,164,862.63
Increase in Net Assets		52,303,169.70
NET ASSETS		
Net Assets - July 1, 2010, as Restated (Note 18)		809,196,082.02
Net Assets - June 30, 2011	$	861,499,251.72

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, 2011 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 434,690,466.03
Payments to Employees and Fringe Benefits	(494,310,325.49)
Payments to Vendors and Suppliers	(207,546,417.58)
Payments for Scholarships and Fellowships	(39,623,940.42)
Loans Issued	(2,012,904.71)
Collection of Loans	1,459,986.40
Interest Earned on Loans	5,286.82
Student Deposits Received	2,267,580.99
Student Deposits Returned	(2,861,065.74)
Net Cash Used by Operating Activities	(307,931,333.70)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	269,499,479.27
State Aid - Federal Recovery Funds	13,216,294.00
Noncapital Grants - Federal Student Financial Aid	33,511,471.28
Noncapital Grants	20,774,059.00
Noncapital Gifts	12,681,865.02
Additions to Endowments	3,687,354.90
William D. Ford Direct Lending Receipts	133,781,139.00
William D. Ford Direct Lending Disbursements	(133,782,403.00)
Related Activity Agency Receipts	18,860,167.13
Related Activity Agency Disbursements	(16,989,352.09)
Net Cash Provided by Noncapital Financing Activities	355,240,074.51
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Capital Grants	18,847,055.53
Capital Gifts	7,500.00
Proceeds from Sale of Capital Assets	11,280,137.37
Acquisition and Construction of Capital Assets	(84,985,151.26)
Principal Paid on Capital Debt and Leases	(12,322,835.55)
Interest and Fees Paid on Capital Debt and Leases	(7,222,867.12)
Federal Interest Rate Subsidy on Debt	416,298.40
Net Cash Used by Capital Financing and Related Financing Activities	(73,979,862.63)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,034,177.57
Investment Income	3,222,853.19
Investment in Joint Venture	(5,475,000.00)
Purchase of Investments and Related Fees	(6,570,477.97)
Net Cash Used by Investing Activities	(7,788,447.21)
Net Decrease in Cash and Cash Equivalents	(34,459,569.03)
Cash and Cash Equivalents - July 1, 2010	281,110,679.52
Cash and Cash Equivalents - June 30, 2011	$ 246,651,110.49

East Carolina University
Statement of Cash Flows *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011 *Page 2*

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

Operating Loss	$	(333,283,644.63)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		19,996,892.74
Allowances, Write-Offs, and Amortizations		660,590.34
Special Item - Sale of Leo Jenkins Cancer Center Operations		8,164,862.63
Miscellaneous Nonoperating Expense		(1,566,258.22)
Changes in Assets and Liabilities:		
Receivables (Net)		7,288,316.54
Due from University Component Units		(8,788.83)
Inventories		(421,014.18)
Notes Receivable (Net)		(552,918.31)
Other Assets		(1,103,601.57)
Accounts Payable and Accrued Liabilities		(5,831,524.35)
Due to Primary Government		(185,231.11)
Unearned Revenue		(1,134,636.52)
Compensated Absences		639,106.52
Deposits Payable		(593,484.75)
Net Cash Used by Operating Activities	$	(307,931,333.70)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	181,286,116.71
Restricted Cash and Cash Equivalents		22,442,971.36
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		42,922,022.42
Total Cash and Cash Equivalents - June 30, 2011	$	246,651,110.49

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	157,598.40
Assets Acquired through a Gift		2,206,313.39
Change in Fair Value of Investments		4,225,638.86
Amortization of Bond Premiums/Discounts/Refunding Charge		(78,767.54)
Gain on Sale of Capital Assets		1,574,647.39

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, 2011 — *Exhibit B-1*

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	4,153,659
Current Portion of Pledges Receivable		768,562
Prepaid Expenses		57,573
Other Receivables		122,645
Total Current Assets		5,102,439
INVESTMENTS		
Investments		77,149,553
Real Estate Held for Investment		294,776
Total Investments		77,444,329
CAPITAL ASSETS		
Capital Assets, Net of Accumulated Depreciation of $281,463		6,369,021
OTHER ASSETS		
Life Insurance Policy - Cash Surrender Value		191,552
Student Loans		45,477
Beneficial Interest in Charitable Remainder Trusts		3,905,839
Assets Held in Charitable Remainder Trusts and Annuities		1,349,535
Investment in Joint Venture		2,099,550
Pledges Receivable, Less Current Portion		1,341,774
Other Assets		128,550
Total Other Assets		9,062,277
TOTAL ASSETS	$	97,978,066
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$	56,406
Line of Credit		3,149,715
Other Current Liabilities		50,020
Accrued Expenses		59,189
Current Portion of Note Payable		204,934
Current Portion of Charitable Gift Annuities Payable		100,665
Agency Payables		1,844,201
Total Current Liabilities		5,465,130
LONG-TERM LIABILITIES		
Refundable Advances		96,899
Note Payable, Less Current Portion		2,813,036
Interest Rate Swap Agreement		50,927
Charitable Gift Annuities Payable, Less Current Portion		676,707
Liabilities Under Charitable Remainder Trusts		67,995
Total Long-Term Liabilities		3,705,564
Total Liabilities		9,170,694
NET ASSETS		
Unrestricted		9,343,801
Temporarily Restricted		31,666,650
Permanently Restricted		47,796,921
Total Net Assets		88,807,372
TOTAL LIABILITIES AND NET ASSETS	$	97,978,066

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, 2011 *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 153,570	$ 3,161,367	$ 1,668,361	$ 4,983,298
Gifts in Kind	7,006	349,047		356,053
Contributed Services and Facilities	2,495,072			2,495,072
Interest and Dividends	240,349	1,501,029		1,741,378
Net Unrealized and Realized Gains on Investments	1,526,401	11,039,925		12,566,326
Other Income	759,233	178,806	1,250	939,289
Gain on Sales or Transfer of Property			2,699	2,699
Revaluation of Real Estate	(74,524)			(74,524)
Change in Value of Split Interest Agreements		302,102	368,127	670,229
Net Assets Released from Restrictions	5,063,429	(5,063,429)		
Total Revenues, Gains and Other Support	10,170,536	11,468,847	2,040,437	23,679,820
EXPENSES AND LOSSES				
Program Services	5,107,904			5,107,904
General and Administrative	877,370			877,370
Fund Raising	2,268,762			2,268,762
Total Expenses	8,254,036			8,254,036
Bad Debt Losses	85	16,115	16,615	32,815
Total Expenses and Losses	8,254,121	16,115	16,615	8,286,851
Increase in Net Assets	1,916,415	11,452,732	2,023,822	15,392,969
NET ASSETS				
Net Assets at Beginning of Year as Restated	7,427,386	20,213,918	45,773,099	73,414,403
Net Assets at End of Year	$ 9,343,801	$ 31,666,650	$ 47,796,921	$ 88,807,372

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 unit's financial data is reported in a separate financial statement because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – The East Carolina University Foundation, Inc. (Foundation) 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 Foundation.

The Foundation is a tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 62 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation 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, 2011, the Foundation distributed $5,107,904 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 27959, 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 value 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, 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. 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, 30 to 75 years for buildings, 5 to 50 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 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, 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 the 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, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $244,654,956.58 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 1.9 years as of June 30, 2011. 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2011 was $105,219.69. The carrying amount of the University's deposits not with the State Treasurer was $1,890,934.22 and the bank balance was $1,890,728.31. 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, 2011, $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, 2011, the University's investments include $683,558.99 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment 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 UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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% that of the Barclays Capital Aggregate Bond Index in order to minimize interest rate risk. The University has no formal investment policy that addresses interest rate risk for investments other than those under the control of the Endowment Board.

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, except where dedicated positions to less than investment grade securities are approved by the investment committee. There shall be no more than 7.5% of bond investments rated below "B" and no more than 25% 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. The University has no formal investment policy that addresses credit risk for investments other than those under the control of the Endowment Board.

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 University has no formal investment policy that addresses custodial credit risk for investments other than those under the control of the Endowment Board.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the University's Investments.

Investments

		Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
U.S. Treasuries	$ 945,223.88	$ 874,233.21	$ 37,430.71	$ 33,559.96
U.S. Agencies	26,829.80		12,863.36	13,966.44
Debt Mutual Funds	5,257,085.74		1,448,171.54	3,808,914.20
Money Market Mutual Funds	2,851,245.47	2,851,245.47		
		$ 3,725,478.68	$ 1,498,465.61	$ 3,856,440.60
Other Securities				
UNC Investment Fund	683,558.99			
International Mutual Funds	6,286,855.96			
Equity Mutual Funds	11,264,019.31			
Hedge Funds	2,484,411.05			
Private Equity Limited Partnerships	288,990.49			
Domestic Stocks	229,929.19			
Foreign Stocks	11,542.43			
Other	3,849,768.48			
Total Investments	$ 34,179,460.79			

At June 30, 2011, 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	$ 26,829.80	$ 26,829.80	$ 0.00	$ 0.00	$ 0.00
Debt Mutual Funds	5,257,085.74	21,327.90		4,358,194.55	877,563.29
Money Market Mutual Funds	2,851,245.47	2,851,245.47			

Rating Agency: Moodys/Standard and Poors

At June 30, 2011, the University's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
U.S. Treasuries	$ 945,223.88
U.S. Agencies	26,829.80
Domestic Stocks	229,929.19
Foreign Stocks	11,542.43
Total	$ 1,213,525.30

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

Common Stock	$ 100,000.00
Mutual Funds	53,183,139.00
Alternative Investments	23,866,414.00
Total	$ 77,149,553.00

C. Reconciliation of Deposits and Investment - A reconciliation of deposits and investments for the University of June 30, 2011, is as follows:

Cash on Hand	$	105,219.69
Amount of Deposits with Private Financial Institutions		1,890,934.22
Deposits in the Short-Term Investment Fund		244,654,956.58
Investments		34,179,460.79
Total Deposits and Investments	$	280,830,571.28

Deposits		
Current:		
Cash and Cash Equivalents	$	181,286,116.71
Restricted Cash and Cash Equivalents		22,442,971.36
Noncurrent:		
Restricted Cash and Cash Equivalents		42,922,022.42
Total Deposits	$	246,651,110.49

Investments		
Noncurrent:		
Endowment Investments	$	30,491,218.22
Other Investments		3,688,242.57
Total Investments	$	34,179,460.79

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 (4%) of its year end endowment fund's twelve month weighted average balance prior to the addition of the current year investment return. To the extent that the total return for the current year exceeds the payout 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, 2011, endowment net assets of $7,264,878.35 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, 2011 the amount of investment losses reported against the nonexpendable endowment balances were $32,594.20.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 2,812,200.08	$ 1,921,287.00	$ 890,913.08
Patients	30,833,360.87	2,851,011.00	27,982,349.87
Investment Earnings	0.14		0.14
Interest on Loans	332,408.95		332,408.95
Federal Interest Subsidy on Debt	122,842.09		122,842.09
Other	12,174,620.97		12,174,620.97
Total Current Receivables	$ 46,275,433.10	$ 4,772,298.00	$ 41,503,135.10
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,322,618.91	$ 926,380.74	$ 396,238.17
Institutional Student Loan Programs	6,123.55		6,123.55
Total Notes Receivable - Current	$ 1,328,742.46	$ 926,380.74	$ 402,361.72
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 12,521,928.64	$ 0.00	$ 12,521,928.64
Institutional Student Loan Programs	3,213.51		3,213.51
Total Notes Receivable - Noncurrent	$ 12,525,142.15	$ 0.00	$ 12,525,142.15

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 39,249,402.37	$ 107,698.27	$ 0.00	$ 39,357,100.64
Construction in Progress	88,176,073.99	71,906,200.70	96,702,680.54	63,379,594.15
Computer Software in Development	135,700.00	182,857.35		318,557.35
Total Capital Assets, Nondepreciable	127,561,176.36	72,196,756.32	96,702,680.54	103,055,252.14
Capital Assets, Depreciable:				
Buildings	636,407,790.00	79,440,935.17		715,848,725.17
Machinery and Equipment	110,561,692.39	11,168,495.72	15,529,168.70	106,201,019.41
General Infrastructure	60,083,565.66	15,297,824.68		75,381,390.34
Computer Software	13,777,398.23	49,025.87		13,826,424.10
Total Capital Assets, Depreciable	820,830,446.28	105,956,281.44	15,529,168.70	911,257,559.02
Less Accumulated Depreciation/Amortization for:				
Buildings	161,175,009.01	10,540,800.14		171,715,809.15
Machinery and Equipment	50,011,333.93	6,746,551.69	6,133,892.76	50,623,992.86
General Infrastructure	10,886,368.78	1,686,626.53		12,572,995.31
Computer Software	2,984,743.31	1,022,914.38		4,007,657.69
Total Accumulated Depreciation	225,057,455.03	19,996,892.74	6,133,892.76	238,920,455.01
Total Capital Assets, Depreciable, Net	595,772,991.25	85,959,388.70	9,395,275.94	672,337,104.01
Capital Assets, Net	$ 723,334,167.61	$ 158,156,145.02	$ 106,097,956.48	$ 775,392,356.15

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	$ 15,883,302.28
Accrued Payroll	15,705,136.78
Contract Retainage	2,109,086.55
Other	219,244.72
Total Accounts Payable and Accrued Liabilities	$ 33,916,770.33

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, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	$ 170,030,000.00	$ 0.00	$ 5,865,000.00	$ 164,165,000.00	$ 8,375,000.00
Certificates of Participation	4,130,000.00		970,000.00	3,160,000.00	1,005,000.00
Add/Deduct Premium/Discount	3,143,120.42		233,890.04	2,909,230.38	
Deduct Deferred Charge on Refunding	(581,709.37)		(155,122.50)	(426,586.87)	
Total Revenue Bonds and Certificates of Participation Payable	176,721,411.05		6,913,767.54	169,807,643.51	9,380,000.00
Notes Payable	350,970.84			350,970.84	350,970.84
Capital Leases Payable	5,796,819.93	157,598.40	5,487,835.55	466,582.78	189,211.65
Compensated Absences	19,877,923.01	11,453,827.73	10,814,721.21	20,517,029.53	1,145,569.69
Total Long-Term Liabilities	$ 202,747,124.83	$ 11,611,426.13	$ 23,216,324.30	$ 191,142,226.66	$ 11,065,752.18

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, 2011	Principal Outstanding June 30, 2011	See Table Below
Revenue Bonds							
Housing and Dining Services							
Jones Hall and Galley Dining Facility Renovation	2001A	4.75	11/01/2011	$ 12,570,000.00	$ 11,930,000.00	$ 640,000.00	
Housing and Dining Revenue Refunding Bonds	2001B	4.5-5.75	11/01/2015	11,985,000.00	9,425,000.00	2,560,000.00	
Total Housing and Dining Services				24,555,000.00	21,355,000.00	3,200,000.00	(1)
Student Services							
Student Recreation Center Refunding Bonds	2001C	4.0-4.75	05/01/2019	14,555,000.00	6,935,000.00	7,620,000.00	(2)
General Revenue Bonds Payable							
West End Dining Project	2003A	3.0-5.0	05/01/2024	14,960,000.00	3,685,000.00	11,275,000.00	
Housing HVAC Renovation	2004	0.1*	05/01/2014	4,290,000.00	2,790,000.00	1,500,000.00	
Dowdy-Ficklen Stadium Expansion Refunding	2004	0.1*	05/01/2017	5,145,000.00	2,400,000.00	2,745,000.00	
Baseball (Clark-LeClair) Stadium Construction	2004	0.1*	05/01/2024	7,110,000.00	1,840,000.00	5,270,000.00	
Tyler Dorm Project	2010A	4.0	10/01/2013	1,305,000.00		1,305,000.00	
Wright Place Renovations	2010A	4.0	10/01/2013	735,000.00		735,000.00	
Olympic Sports Facility	2010A	4.0	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	10,715,000.00	52,250,000.00	
The University of North Carolina System Pool Revenue Bonds							
College Hill Dormitory Construction	2004C	3.5-5.0	04/01/2034	27,530,000.00	7,505,000.00	20,025,000.00	
Dowdy-Ficklen Stadium Expansion Refunding	2004C	3.5-5.0	04/01/2014	2,530,000.00	1,605,000.00	925,000.00	
College Hill Dormitory Supplemental Funds	2006A	4.0-5.0	10/01/2033	3,805,000.00	315,000.00	3,490,000.00	
Refunding of Series 1999 (Student Health)	2006A	4.0-5.0	10/01/2018	2,110,000.00	360,000.00	1,750,000.00	
Refunding of Series 2001A (Jones and Galley)	2006A	4.0-5.0	10/01/2021	8,775,000.00	125,000.00	8,650,000.00	
Dining Project Croatan	2009A	3.0-5.25	10/01/2029	8,050,000.00	260,000.00	7,790,000.00	
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	110,000.00	4,775,000.00	
Refunding of 1998 Housing and Dining Bonds	2009A	3.0-5.0	10/01/2018	2,820,000.00	260,000.00	2,560,000.00	
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	10,540,000.00	101,095,000.00	
Certificates of Participation							
Banner System Certificates of Participation	2004	4.0	06/01/2014	8,875,000.00	5,715,000.00	3,160,000.00	
Total Revenue Bonds Payable and Certificates of Participation (principal only)				$ 222,585,000.00	$ 55,260,000.00	$ 167,325,000.00	
Less: Unamortized Loss on Refunding						(426,586.87)	
Less: Unamortized Discount						(253,508.44)	
Plus: Unamortized Premium						3,162,738.82	
Total Revenue Bonds Payable and Certificates of Participation						$ 169,807,643.51	

* For variable rate debt, interest rates in effect at June 30, 2011 are included.
** The University 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	$ 3,672,062.50	$ 12,984,263.98	$ 1,445,000.00	$ 198,468.74	13%
(2)	Student Fee Revenues - Student Recreation Center	9,226,650.00	1,373,366.94	805,000.00	365,067.50	85%

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) HVAC renovations on three residence halls known as Clement, White, and Greene Residence Halls located on the University campus, (ii) constructing and equipping a new baseball facility located on the University campus, and (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, US Bank, N.A. Upon notice from the paying agent, the remarketing agent, Wells Fargo 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 of the University of North Carolina and Wells Fargo Bank, N.A. a Liquidity Facility has been established for the Trustee (US 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 0.75% of the available commitment, payable semiannually in arrears, beginning on November 1, 2004, and on each May 1 and November 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (the greater of the bank prime commercial lending rate and the Bond Interest Rate). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment 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, 2011, 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 $9,515,000 of demand bonds was "put" and not resold, the University would be required to pay $2,089,941 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, 2011, are as follows:

	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 8,375,000.00	$ 7,060,015.84	$ 1,005,000.00	$ 133,487.50	$ 350,970.84	$ 30,552.88
2013	8,240,000.00	6,806,630.84	1,060,000.00	83,237.50		
2014	8,565,000.00	6,539,605.84	1,095,000.00	43,775.00		
2015	8,045,000.00	6,247,684.35				
2016	8,415,000.00	5,957,452.52				
2017-2021	39,305,000.00	24,637,124.86				
2022-2026	32,340,000.00	16,794,204.16				
2027-2031	31,750,000.00	8,976,899.43				
2032-2036	19,130,000.00	2,137,230.64				
Total Requirements	$ 164,165,000.00	$ 85,156,848.48	$ 3,160,000.00	$ 260,500.00	$ 350,970.84	$ 30,552.88

Interest on the variable rate 2004 revenue bonds is calculated at 0.10% at June 30, 2011.
Debt is remarketed, so interest rates fluctuate based on supply and demand.

E. 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, 2011, the outstanding balance of prior year defeased bonds was $4,245,000.00.

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, 2011	Principal Outstanding June 30, 2011
Facilitate Purchase of Medical Practice	Pitt County Memorial Hospital	5.5	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, 2011, the balance on the principal was $3,017,971. 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 $3,017,970, the current portion of which is $204,934.

Maturities of the long-term portion of notes payable as of June 30, 2011 were as follows:

Fiscal Year	Amount
2012	$ 204,934.00
2013	206,307.00
2014	208,866.00
2015	211,457.00
2016	214,080.00
Thereafter	1,972,326.00
	$ 3,017,970.00

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, 2011:

Fiscal Year	Amount
2012	$ 214,015.91
2013	154,946.96
2014	83,996.24
2015	40,638.00
2016	20,378.64
Total Minimum Lease Payments	513,975.75
Amount Representing Interest (2.9% - 10.123% Rate of Interest)	47,392.97
Present Value of Future Lease Payments	$ 466,582.78

Machinery and equipment acquired under capital lease amounted to $837,795.23 at June 30, 2011. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

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, 2011:

Fiscal Year	Amount
2012	$ 3,463,975.43
2013	3,620,099.72
2014	1,903,361.63
2015	1,745,112.10
2016	1,667,518.10
2017-2021	4,509,736.82
Total Minimum Lease Payments	$ 16,909,803.80

Rental expense for all operating leases during the year was $4,246,313.63.

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 Change in Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees	$ 166,892,573.12	$ 0.00	$ 28,222,243.56	$ 420,669.00	$ 0.00	$ 138,249,660.56
Patient Services	$ 388,747,912.72	$ 0.00	$ 0.00	$ (22,371,412.00)	$ 258,062,492.00	$ 153,056,832.72
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	$ 27,441,304.99	$ 3,745,675.00	$ 3,923,966.55	$ 0.00	$ 0.00	$ 19,771,663.44
Dining	23,435,094.68	526,724.29	3,314,999.09			19,593,371.30
Student Union Services	13,321.00					13,321.00
Health, Physical Education, and Recreation Services	2,203,283.64					2,203,283.64
Bookstore	13,133,114.55		1,290,738.58			11,842,375.97
Parking	2,705,448.51					2,705,448.51
Athletic	17,095,760.25					17,095,760.25
Other	4,526,350.84					4,526,350.84
Sales and Services of Education and Related Activities	6,407,427.34					6,407,427.34
Total Sales and Services	$ 96,961,105.80	$ 4,272,399.29	$ 8,529,704.22	$ 0.00	$ 0.00	$ 84,159,002.29

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	$ 230,482,552.86	$ 15,618,093.48	$ 14,767,000.69	$ 0.00	$ 85,973.10	$ 0.00	$ 260,953,620.13
Research	14,221,141.74	3,745,416.84	3,955,845.73		8,097.21		21,930,501.52
Public Service	16,931,824.77	501,150.70	5,216,560.40		38,706.88		22,688,242.75
Academic Support	17,341,979.20	6,876,315.20	1,251,433.57		5,094.92		25,474,822.89
Student Services	9,118,306.29	947,781.25	2,261,116.71		5,236.84		12,332,441.09
Institutional Support	31,097,615.91	3,895,569.53	9,651,029.32		48,687.98		44,692,902.74
Operations and Maintenance of Plant	22,866,501.34	11,390,209.60	2,997,889.68		12,270,692.78		49,525,293.40
Student Financial Aid	1,342,746.24	32,979.72	119,203.03	39,623,940.42			41,118,869.41
Auxiliary Enterprises	150,809,011.47	42,907,627.06	54,602,970.78		6,636,447.68		254,956,056.99
Depreciation						19,996,892.74	19,996,892.74
Total Operating Expenses	$ 494,211,679.82	$ 85,915,143.38	$ 94,823,049.91	$ 39,623,940.42	$ 19,098,937.39	$ 19,996,892.74	$ 753,669,643.66

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of $394,416,243.61, of which $181,527,200.57 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $8,949,290.99 and $10,891,632.04, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $8,949,290.99, $6,302,923.69, and $6,011,035.09, 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 "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, 2011, 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 $394,416,243.61, of which $169,921,024.42 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $11,622,598.07 and $10,195,261.47, 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 $2,404,161.71 for the year ended June 30, 2011.

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, 2011, were $141,216.19. The voluntary contributions by employees amounted to $1,853,118.85 for the year ended June 30, 2011.

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 $6,290,252.94 for the year ended June 30, 2011.

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 4.9% 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, 2010, and 2009, were 4.5% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $17,220,963.03, $15,418,663.12, and $13,999,202.15, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "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, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $1,827,530.77, $1,781,712.19, and $1,775,508.57, 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.

The risk of tort claims of up to $1,000,000 per claimant is 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 per occurrence 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 $5000 per occurrence deductible at the replacement value of the building at the time of the loss.

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 bodily injury/property damage per claim and $10,000,000 aggregate per occurrence. The University completes a self audit at the beginning of the physical year using the Department of Insurance web site and pays premiums to the North Carolina Association of Insurance Agents 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 purchases other authorized coverage through private insurance companies through the North Carolina Association of Insurance Agents 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; crime coverage, bond policy coverage; student internship coverage; study abroad coverage, international student insurance coverage, fine art coverage, on loan art collection coverage, leased equipment coverage; boiler machinery coverage; boat coverage; computers and miscellaneous equipment coverage.

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.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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 $71,838,675.38 and on other purchases were $13,998,958.06 at June 30, 2011.

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 - SPECIAL ITEM - SALE OF LEO JENKINS CANCER CENTER OPERATIONS

On June 10, 2011, the University entered into an agreement with Pitt County Memorial Hospital (PCMH) to sell the Leo Jenkins Cancer Center (LJCC) operation. PCMH paid $8,164,862.63 for the value of the practice as determined by a third party. This is reflected as a Special Item on the Statement of Revenues, Expenses, and Changes in Net Assets. As part of the agreement, the University also sold equipment valued at $11,280,137.37 to PCMH. The sale of the equipment resulted in a gain of $3,016,591.05, which is reflected as part of the overall Gain on Sale of Fixed Assets in the Statement of Revenues, Expenses, and Changes in Net Assets. As described in Note 16C, the University simultaneously entered into an agreement with PCMH to operate as a joint venture a newly formed legal entity doing business as the Leo Jenkins Cancer Center.

NOTE 16 - INVESTMENT IN JOINT VENTURES

A. Moye Medical Endoscopy Center, LLC - The University participates in a joint venture with Pitt County Memorial Hospital, Inc., to operate Moye Medical Endoscopy Center, LLC, doing business as East Carolina Endoscopy Center. The University has an equity interest of $996,000.84 which has been reflected in the financial statements. The University has an ongoing financial responsibility for the joint venture because of its 50% ownership stake in the company. Complete financial statements for Moye Medical Endoscopy Center, LLC can be obtained from 120 Reade Street, Greenville, NC 27858.

B. Carolina Behavioral Health Alliance, LLC - The University participates in a joint venture with The University of North Carolina at Chapel Hill and Wake Forest University to operate Carolina Behavioral Health Alliance, LLC. The University has an equity interest of $304,640.00 which has been reflected in the financial statements. The University has an ongoing financial responsibility for the joint venture because of its 33.33% ownership stake in the company. Complete financial statements for Carolina Behavioral Health Alliance, LLC can be obtained from 120 Reade Street, Greenville, NC 27858.

C. NewCo Cancer Services, LLC - The University participates in a joint venture with Pitt County Memorial Hospital, Inc., to operate NewCo Cancer Services, LLC, doing business as the Leo Jenkins Cancer Center. The University has an equity interest of $5,350,000.00 which has been reflected in the financial statements. The University has an ongoing financial responsibility for the joint venture because of its 50% ownership stake in the company. Complete financial statements for NewCo Cancer Services, LLC can be obtained from 120 Reade Street, Greenville, NC 27858. Also see Note 15.

NOTE 17 - RELATED PARTIES

Foundations - There are three separately incorporated nonprofit foundations associated with the University that are not included as component units. 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 was $12,920,960.64 for the year ended June 30, 2011. Indirect support from the foundations that was not included in the University's financial statements was $791,895.09 for the year ended June 30, 2011.

NOTE 18 - NET ASSET RESTATEMENTS

As of July 1, 2010, net assets as previously reported was restated as follows:

		Amount
July 1, 2010 Net Assets as Previously Reported	$	801,748,652.71
Restatements:		
To correct error for land previously recorded as buildings		3,882,730.12
To correct error for Tyler Residence Hall Construction In Progress		3,564,699.19
July 1, 2011 Net Assets as Restated	$	809,196,082.02

NOTE 19 - SUBSEQUENT EVENTS

On August 27, 2011, the university was hit by Hurricane Irene. Amounts for storm related and subsequent flooding damages have not been determined by the university. It has yet to be determined how much of the damages will be covered by insurance or by certain governmental agencies.

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

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the financial statements of East Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 10, 2011. Our report includes a reference to 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

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

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, 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.

<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*.

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

November 10, 2011

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