

STATE OF NORTH CAROLINA

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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THE UNIVERSITY OF NORTH CAROLINA

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carolina

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 Affiliates, the University's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely 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 from material misstatement. The financial statements of East Carolina University, Foundation, Inc. and Consolidated Affiliates were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Carolina University, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 12, 2013

EAST CAROLINA UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

East Carolina University (ECU or University) provides this Management's Discussion and Analysis as supplementary information to assist in understanding the financial statements and related notes for the fiscal year ended June 30, 2013. The University is one of the 16 universities in the University of North Carolina System (UNC System), a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report (CAFR)*. The University's financial report includes three basic financial statements:

- ECU Statement of Net Position;
- ECU Statement of Revenues, Expenses, and Changes in Net Position;
- ECU Statement of Cash Flows.

It also includes two financial statements from the discretely presented component unit:

- ECU Foundation, Inc. and Consolidated Affiliates Consolidated Statement of Financial Position; and
- ECU Foundation, Inc. and Consolidated Affiliates Consolidated Statement of Activities and Changes in Net Assets.

The University's basic financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. Please note that although the University's Foundation identified under guidance from GASB standards, is reported in the component unit financial statements, this Management's Discussion and Analysis excludes it except where specifically noted.

This discussion and analysis provides an overview of the University's financial position and activities for the year ended June 30, 2013, emphasizing current year data and significant changes between the prior and current fiscal year. Comparative information for the year ended June 30, 2012 has been provided where applicable. This overview has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements that are included in this annual report. The Statement of Net Position reveals the University's overall financial position; the Statement Revenues, Expenses and Changes in Net Position provide a summation of the results of operations, and the Statement of Cash Flows identifies the sources of cash and how cash was used during the year.

Statement of Net Position

The Statement of Net Position presents a fiscal snapshot of the University's financial position at a point-in-time, specifically, as of June 30, 2013 and includes all assets and liabilities of the University. The assets are available to continue the operations of the University and the liabilities are amounts owed to vendors, investors, and lending institutions. Assets and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

liabilities are classified as either current or noncurrent. The difference between total assets and total liabilities is net position. Net position represents the residual interest in the University's assets net of its liabilities and is an indicator of the current financial strength of the University. The change in net position is an indicator of whether the overall financial condition of the University has improved or worsened during the year. The following table presents a summarized comparison of the University's assets, liabilities and net position at June 30, 2013 and 2012.

Condensed Statement of Net Position

(Dollars in Thousands)

	2013	2012	Increase/ (Decrease)	Percent Change
Assets				
Current Assets	\$ 287,261	\$ 280,611	\$ 6,650	2.4 %
Capital Assets, Net	874,772	846,035	28,737	3.4 %
Other Noncurrent Assets	83,576	80,323	3,253	4.0 %
Total Assets	1,245,609	1,206,969	38,640	3.2 %
Liabilities				
Current Liabilities	61,006	58,971	2,035	3.5 %
Noncurrent Liabilities:				
Long-Term Liabilities	168,400	176,823	(8,423)	(4.8) %
Other Noncurrent Liabilities	24,127	22,730	1,397	6.1 %
Total Noncurrent Liabilities	192,527	199,553	(7,026)	(3.5) %
Total Liabilities	253,533	258,524	(4,991)	(1.9) %
Net Position				
Net Investment in Capital Assets	724,155	697,295	26,860	3.9 %
Restricted	46,328	36,958	9,370	25.4 %
Unrestricted	221,593	214,192	7,401	3.5 %
Total Net Position	\$ 992,076	\$ 948,445	\$ 43,631	4.6 %

The condensed statement above indicates a stronger financial position compared to last fiscal year with total assets increasing by \$38.6 million and total liabilities decreasing by \$5 million for a net increase of \$43.6 million in the University's net position. Current assets increased by \$6.7 million with \$6.3 million of the increase in cash and cash equivalents. The increase is due to a higher amount of cash held at year-end related to a \$1.5 million increase in Summer School Tuition collected and \$2.6 million in the Chancellor's approved capital projects. In addition, the medical faculty practice plan had a \$1.5 million increase in cash due to increased efficiencies in operations.

Capital assets (net of depreciation) increased by \$28.7 million. Capital assets will be discussed in detail in the capital assets section of this discussion and analysis.

Noncurrent long-term liabilities decreased by \$8.4 million, which is a 4.8 percent change from the prior year. A decrease of \$7.4 million is attributable to scheduled payments made on

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

bonds and certificates of participation. The changes in long-term liabilities are discussed in greater detail in the debt section of this report and in Note 7 to the financial statements.

The University's liquidity remains strong. The current ratio, defined as current assets divided by current liabilities, of 4.7 indicates that the University, if needed, could pay its current obligations nearly five times before current assets are exhausted. Working capital, defined as current assets less current liabilities, is \$226.3 million at June 30, 2013 and represents a \$4.6 million increase or a 2 percent change from the prior year. The amount of available working capital is a measure of the University's ability to meet its short term obligations.

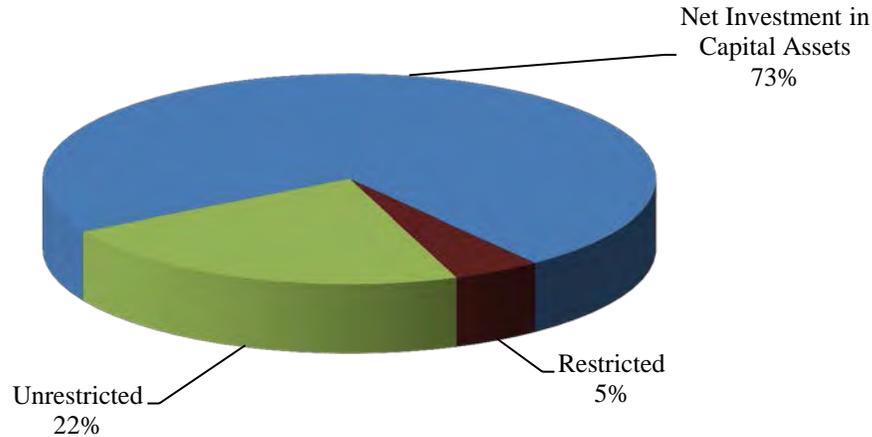
The University's net position is made up of three classifications: net investment in capital assets, restricted and unrestricted. The balance in each classification increased \$26.9, \$9.4 and \$7.4 million, respectively. The University's total net position at June 30, 2013 was \$992.1 million, an increase of \$43.6 million, or 4.6 percent over the prior year. The net investment in capital assets encompasses the University's capital assets net of accumulated depreciation and the unspent principal balances of debt resulting from the acquisition, construction, or improvement of those assets. The \$26.9 million increase in net investment in capital assets resulted from the net effect of the \$28.7 million increase in capital assets, the net capital debt reduction of \$7 million and the expenditure of \$8.9 million in unspent principal balances of debt.

Restricted net position includes the University's permanent endowment fund and expendable funds subject to externally imposed restrictions governing their use. Restricted net assets increased from \$36.9 million to \$46.3 million, an increase of \$9.4 million or 25.4 percent. The University received \$1.3 million in endowment professorships in fiscal year 2013. Interest and investment earnings on endowments were \$3.3 million in fiscal year 2013 compared to a \$.5 million loss in the prior year. In addition the University increased its cash position for capital projects such as the dance studio and fourth floor of the School of Dental Medicine by \$4.8 million.

Although the unrestricted portion of the University's net position is not subject to externally imposed stipulations, substantially all of the unrestricted funds have been designated for various academic and research programs and initiatives, as well as capital projects. For fiscal year 2013, unrestricted net assets accounted for \$221.6 million of the \$992.1 million in net assets, a 3.5 percent increase from the prior year. The following chart displays the contribution of each category to total net position for 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2013 Net Assets: \$992.1 Million



Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year, and provides information to evaluate the University's management of operations and maintenance of financial strength. Activities are classified and reported as operating, nonoperating, or other. In general, operating revenues are generated by providing goods and services and operating expenses are incurred to acquire or produce the goods and services needed to fulfill the mission of the University. The University consistently shows an operational loss (operating revenues less operating expenses) because public universities are dependent on state appropriations, which is not included in operating revenues. State appropriations and certain noncapital grants and gifts are classified as nonoperating revenues because they are revenues received for which goods and services are not provided. When the nonoperating revenues, net of nonoperating expenses, are added to the operational loss, the University shows an increase in income before other revenues of \$17.3million. Other revenues are neither operating nor nonoperating and include capital appropriations, capital grants and gifts and additions to endowments. The University shows a \$43.6 million increase in net position as of June 30, 2013 when these other revenues are added. The following table presents a summarized comparison of the statements as of June 30, 2013 and June 30, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Position

(Dollars in Thousands)

	2013	2012	Increase / (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 162,272	\$ 154,636	\$ 7,636	4.9 %
Patient Services, Net	178,590	181,295	(2,705)	(1.5) %
Grants and Contracts	40,675	41,161	(486)	(1.2) %
Sales and Services, Net	80,954	82,889	(1,935)	(2.3) %
Other	1,147	1,795	(648)	(36.1) %
Total Operating Revenues	463,638	461,776	1,862	0.4 %
Operating Expenses				
Salaries and Benefits	524,631	500,811	23,820	4.8 %
Supplies and Materials	79,651	74,826	4,825	6.4 %
Services	97,177	93,742	3,435	3.7 %
Scholarships and Fellowships	38,568	36,397	2,171	6.0 %
Utilities	18,778	19,064	(286)	(1.5) %
Depreciation/Amortization	24,546	22,616	1,930	8.5 %
Total Operating Expenses	783,351	747,456	35,895	4.8 %
Operating Loss	(319,713)	(285,680)	(34,033)	11.9 %
Nonoperating Revenues (Expenses)				
State Appropriations	285,530	271,701	13,829	5.1 %
Noncapital Grants and Gifts	57,237	59,269	(2,032)	(3.4) %
Other Nonoperating Expenses	(5,748)	(8,172)	2,424	(29.7) %
Net Nonoperating Revenues	337,019	322,798	14,221	4.4 %
Income Before Other Revenues	17,306	37,118	(19,812)	(53.4) %
Capital Appropriations	1,065		1,065	100.0 %
Capital Grants and Gifts	23,925	47,569	(23,644)	(49.7) %
Additions to Endowments	1,335	2,259	(924)	(40.9) %
Increase in Net Position	43,631	86,946	(43,315)	(49.8) %
Net Position-July 1	948,445	861,499	86,946	10.1 %
Net Position-June 30	\$ 992,076	\$ 948,445	\$ 43,631	4.6 %

Fiscal year 2012-2013 total revenues are \$838,903 and total expenses are \$795,272.

Fiscal year 2011-2012 total revenues are \$843,821 and total expenses are \$756,875.

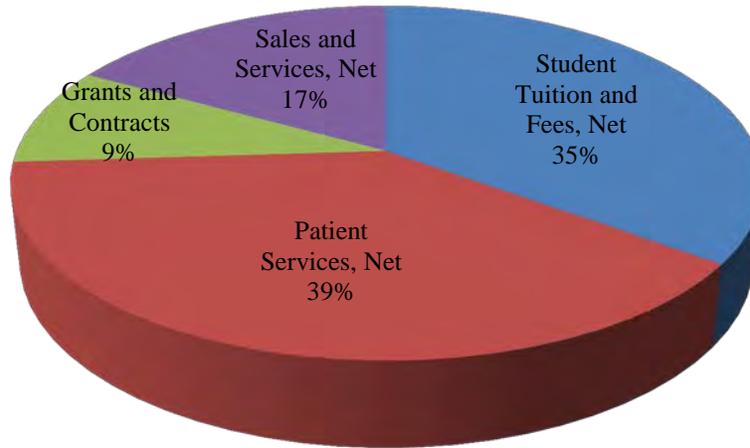
Operating revenues are generated by providing goods and services related to instruction, research, and public service missions. The most significant change in operating revenues is the increase in student tuition and fees which is shown net of the scholarship discount. Gross revenues for student tuition and fees increased \$13.4 million or 7.3 percent, from \$182.9 million to \$196.3 million, and is the result of increased tuition and fee rates partially offset by a 1.6 percent decrease in student enrollment from 27,386 to 26,947 students. The scholarship discount is an offset to tuition and fees revenues for the scholarships and fellowships that are applied to student accounts. The scholarship discount increased from \$27.8 million in 2012 to \$34.4 million in 2013, or \$6.6 million primarily as a result of an

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

increase in scholarship funding from institutional resources. The increases in tuition and fees rates and the scholarship discount combined with the decrease in student enrollment resulted in a total increase in student tuition and fees, net, of \$7.6 million, or 4.9 percent.

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

**2013 Operating Revenues by
Source: \$463.6 Million**



Operating expenses are the day-to-day expenses incurred to carry out the mission of the University. Operating expenses are reported by natural classification. Amounts changed at varying rates with an overall increase of \$35.9 million, or 4.8 percent. Salaries and benefits increased \$23.8 million, or 4.8 percent, in 2013. This change is attributed to several factors including the 1.2 percent legislative increase in salaries, a 3 percent increase in physician salaries, new positions in internal medicine and emergency medicine, staffing of Ross Hall for the new School of Dental Medicine and the new dental clinic in Elizabeth City and increases in health insurance and retirement rates. Supplies and materials increased \$4.8 million of which \$1.7 million is for increases in repair and replacement expenses. Depreciation and amortization expenses increased \$1.9 million, or 8.5 percent, as capital construction projects for the UNC Coastal Studies Institute and the School of Dental Medicine were completed and capitalized in 2013. The following chart shows each component of operating expenses as it relates to total operating expenses as a whole and the consistency between the two years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2013 Operating Expenses: \$783.4 Million

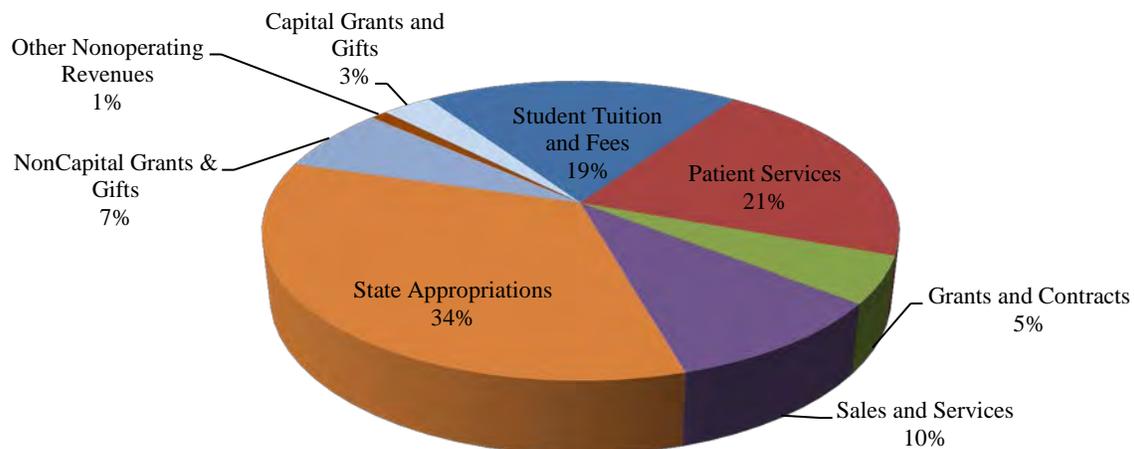
	% to Total 2013	% to Total 2012
Salaries and Benefits	67%	67%
Supplies and Materials	10%	10%
Services	13%	13%
Scholarships and Fellowships	5%	5%
Utilities	3%	2%
Depreciation	3%	3%
	100%	100%

Nonoperating revenues and expenses are not generated by the principal operations of the University. Total net nonoperating revenues increased by \$14.2 million or 4.4 percent from the prior year. The most significant increase occurred in state appropriations which increased \$13.8 million, or 5.1 percent, primarily to fund the legislative increases for salaries, retirement and health care and growth in the School of Dental Medicine and the UNC Coastal Studies Institute.

The most significant change in other revenues occurred in capital grants and gifts which decreased \$23.6 million from the prior year. The decrease is attributed to reduced capital grant funding needs as the UNC Coastal Studies Institute and the School of Dental Medicine were completed in 2013. The University received \$1.1 million in capital appropriations in 2013 for various repairs and renovations and received no capital appropriations in 2012.

The following chart illustrates the University's total revenues by source (operating, nonoperating and other revenues) which total \$838.9 million for fiscal year-end 2013.

2013 Total Revenues: \$838.9 Million



Note: Accounts with less than .5% of total revenues are not shown.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

Capital assets for the University are comprised of non-depreciable and depreciable assets. Non-depreciable assets include land, construction in progress and computer software in development. Depreciable assets include buildings, machinery and equipment, general infrastructure and computer software. Buildings which have been completed or that are construction in progress comprise 77 percent of the University's 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.

Capital assets at June 30, 2013 and June 30, 2012, were as follows:

Capital Assets

(Dollars in Thousands)

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Land	\$ 44,520	\$ 43,904	\$ 616	1.4 %
Construction in Progress	29,875	94,670	(64,795)	(68.4) %
Computer Software in Development	967	349	618	177.1 %
Buildings	837,475	736,387	101,088	13.7 %
General Infrastructure	100,574	98,761	1,813	1.8 %
Machinery and Equipment	126,771	115,502	11,269	9.8 %
Computer Software	13,925	13,811	114	0.8 %
Total Capital Assets	1,154,107	1,103,384	50,723	4.6 %
Accumulated Depreciation	279,335	257,349	21,986	8.5 %
Capital Assets, Net	\$ 874,772	\$ 846,035	\$ 28,737	3.4 %

Capital additions consist primarily of replacement, renovation and new construction of capital assets as well as significant investments in equipment, including information technology. The University had \$874.8 million in capital assets at fiscal year-end 2013 which is a net increase of \$28.7 million from the prior year.

Several major construction projects were completed in fiscal year 2013 and the costs were removed from construction in progress and added to buildings. These included the UNC Coastal Studies Institute, the School of Dental Medicine in Greenville and the School of Dental Medicine in Elizabeth City. Much of the \$11.3 million increase in machinery and equipment was to make these facilities and the fourth floor of the ECU Heart Institute operational.

The UNC Coastal Studies Institute was constructed on 40 acres of land in Manteo, NC. This 84,000 square foot complex has an academic/administrative area, laboratory area, research

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

plots, and residential facilities. The School of Dental Medicine is housed in Ross Hall on the Health Sciences Campus. Construction on Ross Hall was completed in 2013 and consists of a new, approximately 112,500 square foot building with classrooms, offices, labs and clinical operations. The School of Dental Medicine opened its second community based dental clinic site in Elizabeth City after completing construction of a 7,700 square-foot facility. It will focus on preparing dental students to provide services in underserved areas and poor counties in North Carolina.

The completion of these projects resulted in a significant decrease in the University's outstanding commitments on construction projects which were \$28.1 million at year-end 2012 and \$20.8 million at year-end 2013, a decrease of \$7.3 million. Significant construction projects that remain in progress at the end of fiscal year 2013 include the Auxiliary Gym and Belk Hall. The University and the State Construction Office accepted completion of the Auxiliary Gym on August 29, 2013. The Auxiliary Gym project includes the construction of a 46,000 square foot practice facility that adjoins the current Minges Coliseum. The facility provides two practice courts, offices, video review rooms, lockers, equipment storage and training facilities. Additionally, the project includes renovations to current facilities such as new elevators and HVAC upgrades.

The Belk Hall demolition and replacement project has only recently begun. It will be funded from housing receipts and has been approved at a project cost of \$56 million. The Belk Residence Hall will be raised and replaced with two residential housing wings and community center and pool for use by students. This building will have modern campus living facilities and approximately 205,000 square feet.

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 marketing tool for attracting more students to the school. The University currently maintains a list of planned projects for the coming years. These projects are awaiting external review, approval and funding by the North Carolina Legislature or the approval for the University to proceed by issuing debt to construct the projects. The projects consist of a mix of new construction, repairs and renovations and infrastructure upgrades. One of the largest planned projects, if approved, is the construction of a new student union to replace the Mendenhall Student Center on main campus and the construction of a student life facility on the Health Sciences campus. Total costs are estimated to be \$163.5 million.

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

Debt

The University uses revenue bonds, certificates of participation, notes payable and capital leases to finance construction projects and purchase equipment. As reflected in the following chart, total debt decreased by \$7 million in 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt Summary

Dollars in Thousands

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>
Revenue Bonds Payable	\$ 140,965	\$ 147,430	\$ (6465)
Bond Discounts/Charges	3,290	2,938	352
Certificates of Participation	1,095	2,155	(1060)
Capital Leases Payable	350	479	(129)
Notes Payable	<u>13,603</u>	<u>13,351</u>	<u>252</u>
Total Debt	<u>\$ 159,303</u>	<u>\$ 166,353</u>	<u>\$ (7050)</u>

Debt decreased due to scheduled principal payments made by the University. The University made its final debt payment on the West End Dining Project in fiscal year 2013. In addition, on February 7, 2013, the University issued \$10.9 million in General Revenue Refunding Series 2013A bonds to advance refund and defease \$10.3 million of outstanding UNC System Pool Series 2004C bonds. The advance refunding will reduce total debt service payments by \$2.6 million over the next 21 years and resulted in an economic gain of \$2 million.

In January 2013, Moody's assigned a rating of Aa2 and Standard and Poor's assigned a rating of AA- to the Series 2013A General Revenue refunding bonds.

See Notes 7 and 8 to the financial statements for additional information on debt administration.

Economic and Strategic Outlook

The University's financial position remains strong and net assets grew by \$43.6 million due to effective institutional planning and continued support from the State to meet educational needs. During the recent legislative session, State budget cuts were necessary to balance the budget for fiscal year 2014 and the UNC System was hit hard with a \$94.6 million cut in funding that it divided with the 16 universities in the System. The University's share of this budget cut is \$10.4 million in state appropriations. The University did receive an increase of \$2.4 million in state appropriations to fund enrollment growth. To continue to provide quality education, the UNC System Board of Governors and the University Board of Trustees approved a permanent increase of campus based tuition of \$6.7 million. The University will use a portion of this increase to fund need-based financial aid.

The University began preparing for anticipated budget cuts in early spring 2013. Cuts will primarily be absorbed in areas identified for implementation of administrative, operational, and instructional efficiencies. The Legislature also suggested additional areas to consider for reduction which the University is evaluating.

ECU Physicians (ECUP) is the clinical practice plan of the University's Brody School of Medicine within the Health Sciences Division. It faces additional challenges as a result of recent legislation that affects the Setoff Debt Collection Act (SODCA) and the Upper

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Payment Limit (UPL), a federal limit placed on fee-for service reimbursement of Medicaid providers.

ECUP has collected on delinquent accounts using processes provided by the SODCA for approximately 30 years. The SODCA allows ECUP and other state agencies to “garnish” NC tax return refunds on patients with delinquent accounts up to the amount the NC taxpayer owes. The Legislature eliminated both state medical schools (ECU and UNC) from receiving payments through SODCA beginning in 2014.

In fiscal year 2013, ECUP received \$6 million from these “garnished” tax return refunds. SODCA patients are those that the University has exhausted all billing and collection efforts and have reported their debts to the credit bureaus. This means ECUP will have approximately \$6 million less in total revenue in 2014 and possibly more in future years.

The UPL is an enhancement of the Medicaid payment, funded by Federal dollars, which allows state medical schools to receive Medicaid payments closer to amounts received from third party payers. In fiscal year 2013, ECUP received over \$13 million from this revenue source.

While the Legislature did not eliminate the UPL funding, it did restrict future payments to only those physicians that were employed by the state system as of May 22, 2013. The average turnover in physicians over the last three years is 53 per year. The Legislature’s decision will not allow ECUP to receive UPL funding on new physicians employed after May 22, 2013. ECUP estimates it could lose approximately \$1 million in patient revenues from the UPL funding in fiscal year 2014 and that number will continue to increase as physicians leave ECUP.

The University recently formed a University Committee on Fiscal Sustainability to examine the long-term fiscal well-being of the University. This committee is charged to recommend opportunities for revenue growth, identify additional resources for allocation and reallocation, and identify additional efficiencies. This committee will build upon the work of the Program Prioritization Committee, but with the added emphasis of fiscal sustainability across the entire University. This committee is expected to provide the Chancellor with a set of recommendations during the spring term aimed at dealing with additional reductions in 2014-15 followed by a set of longer term recommendations. The University continues to work with the Board of Governors and the North Carolina Legislators on more favorable legislation.

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.

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East Carolina University
Statement of Net Position
June 30, 2013

Exhibit A-1

Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 213,889,703.21
Restricted Cash and Cash Equivalents	26,993,340.38
Receivables, Net (Note 4)	39,167,871.97
Due from State of North Carolina Component Units	179,695.00
Due from University Component Units	18,357.18
Inventories	4,872,916.11
Notes Receivable, Net (Note 4)	345,011.34
Other Assets	1,793,662.40

Total Current Assets 287,260,557.59

Noncurrent Assets:

Restricted Cash and Cash Equivalents	25,984,650.85
Endowment Investments	38,259,360.38
Restricted Investments	1,614,589.25
Notes Receivable (Note 4)	10,917,586.83
Investment in Joint Ventures	6,073,024.84
Bond Issuance Cost	727,677.60
Capital Assets - Nondepreciable (Note 5)	75,361,799.34
Capital Assets - Depreciable, Net (Note 5)	799,410,154.31

Total Noncurrent Assets 958,348,843.40

Total Assets 1,245,609,400.99

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources 0.00

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	31,973,120.07
Due to Primary Government	75,262.18
Deposits Payable	1,816,462.11
Funds Held for Others	34,498.00
Unearned Revenue	13,053,540.63
Interest Payable	1,598,294.11
Long-Term Liabilities - Current Portion (Note 7)	12,455,240.58

Total Current Liabilities 61,006,417.68

Noncurrent Liabilities:

Funds Held for Others	11,730,481.03
U. S. Government Grants Refundable	12,396,459.71
Long-Term Liabilities (Note 7)	168,399,612.80

Total Noncurrent Liabilities 192,526,553.54

Total Liabilities 253,532,971.22

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources 0.00

***East Carolina University
Statement of Net Position
June 30, 2013***

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

NET POSITION

Net Investment in Capital Assets	724,155,321.95
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,874,955.15
Endowed Professorships	24,082,759.37
Departmental Uses	340,527.27
Loans	2,479,025.16
Expendable:	
Scholarships and Fellowships	3,832,893.08
Endowed Professorships	6,985,899.40
Departmental Uses	611,308.49
Capital Projects	4,822,813.18
Debt Service	238,183.83
Other	1,059,357.47
Unrestricted	<u>221,593,385.42</u>
Total Net Position	<u><u>\$ 992,076,429.77</u></u>

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

***East Carolina University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 162,272,426.65
Patient Services, Net (Note 9)	178,589,836.52
Federal Grants and Contracts	20,332,650.84
State and Local Grants and Contracts	9,811,689.72
Nongovernmental Grants and Contracts	10,531,435.82
Sales and Services, Net (Note 9)	80,953,709.90
Interest Earnings on Loans	42,608.06
Other Operating Revenues	1,103,821.31
	<hr/>
Total Operating Revenues	463,638,178.82

EXPENSES

Operating Expenses:	
Salaries and Benefits	524,630,947.55
Supplies and Materials	79,650,737.66
Services	97,177,379.62
Scholarships and Fellowships	38,567,742.87
Utilities	18,777,513.01
Depreciation / Amortization	24,546,485.47
	<hr/>
Total Operating Expenses	783,350,806.18
	<hr/>
Operating Loss	(319,712,627.36)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	285,530,376.40
Noncapital Grants - Federal Student Financial Aid	30,513,224.23
Noncapital Grants	16,928,523.50
Noncapital Gifts	9,793,960.39
Investment Income (Net of Investment Expense of \$34,814.54)	5,692,007.46
Interest and Fees on Debt	(7,299,726.59)
Federal Interest Subsidy on Debt	480,681.08
Other Nonoperating Expenses	(4,620,918.67)
	<hr/>
Net Nonoperating Revenues	337,018,127.80
	<hr/>
Income Before Other Revenues, Expenses, Gains, or Losses	17,305,500.44

Capital Appropriations	1,065,200.00
Capital Grants	23,550,457.91
Capital Gifts	374,302.87
Additions to Endowments	1,335,417.35
	<hr/>
Increase in Net Position	43,630,878.57

NET POSITION

Net Position - July 1, 2012	<hr/> 948,445,551.20
Net Position - June 30, 2013	<hr/> <hr/> \$ 992,076,429.77

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, 2013

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 463,884,806.75
Payments to Employees and Fringe Benefits	(523,665,833.42)
Payments to Vendors and Suppliers	(196,281,808.97)
Payments for Scholarships and Fellowships	(38,567,742.87)
Loans Issued	(1,289,839.50)
Collection of Loans	1,578,248.77
Interest Earned on Loans	(14,282.69)
Student Deposits Received	1,921,069.90
Student Deposits Returned	(2,063,405.35)
	<hr/>
Net Cash Used by Operating Activities	(294,498,787.38)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	285,530,376.40
Noncapital Grants - Federal Student Financial Aid	30,352,904.76
Noncapital Grants	17,003,523.50
Noncapital Gifts	9,793,960.39
Additions to Endowments	1,335,417.35
William D. Ford Direct Lending Receipts	142,987,119.18
William D. Ford Direct Lending Disbursements	(141,720,770.00)
Related Activity Agency Receipts	22,030,090.61
Related Activity Agency Disbursements	(20,471,981.16)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	346,840,641.03

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	141,107.74
State Capital Appropriations	1,065,200.00
Capital Grants	23,550,457.91
Capital Gifts	43,000.00
Acquisition and Construction of Capital Assets	(53,286,984.62)
Principal Paid on Capital Debt and Leases	(8,308,298.04)
Interest and Fees Paid on Capital Debt and Leases	(6,665,418.47)
Federal Interest Subsidy on Debt Received	491,368.34
Other Payments	(155,627.15)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(43,125,194.29)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,225,463.93
Investment Income	2,663,243.37
Investment in Joint Venture	(3,011,140.00)
Purchase of Investments and Related Fees	(4,765,896.85)
	<hr/>
Net Cash Used by Investing Activities	(2,888,329.55)
	<hr/>
Net Increase in Cash and Cash Equivalents	6,328,329.81
Cash and Cash Equivalents - July 1, 2012	260,539,364.63
	<hr/>
Cash and Cash Equivalents - June 30, 2013	\$ 266,867,694.44

East Carolina University Foundation, Inc. and Consolidated Affiliates
Consolidate Statement of Financial Position
June 30, 2013

Exhibit B-1

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 11,902,084
Current portion of unconditional promises to give, net	558,060
Prepaid Expenses	25,452
Other Receivables	23,500
	<hr/>
Total Current Assets	12,509,096

INVESTMENTS

Investments	78,438,151
Real Estate Held for Investment	791,592
	<hr/>
Total Investments	79,229,743

CAPITAL ASSETS

Capital Assets, net	<hr/> 3,123,418
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OTHER ASSETS

Life Insurance Policy - Cash Surrender Value	223,961
Student Loans	44,272
Beneficial Interest in Charitable Remainder Trusts	3,583,685
Assets Held in Charitable Remainder Trusts and Annuities	1,473,727
Investment in Joint Venture	1,966,218
Unconditional promises to give, less current portion, net	1,100,990
Other Assets	50,170
	<hr/>
Total Other Assets	8,443,023

TOTAL ASSETS

\$ 103,305,280

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 130,664
Line of Credit	497,047
Accrued Expenses	38,205
Current Portion of Note Payable	126,983
Current Portion of Charitable Gift Annuities Payable	111,372
Agency Payables	554,137
	<hr/>
Total Current Liabilities	1,458,408

LONG-TERM LIABILITIES

Refundable Advances	57,927
Note Payable, Less Current Portion	2,781,003
Interest Rate Swap Agreement	183,288
Charitable Gift Annuities Payable, Less Current Portion	797,955
Liabilities Under Charitable Remainder Trusts	50,982
	<hr/>
Total Long-Term Liabilities	3,871,155

Total Liabilities	<hr/> 5,329,563
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NET ASSETS

Unrestricted	11,404,507
Temporarily Restricted	35,210,815
Permanently Restricted	51,360,395
	<hr/>
Total Net Assets	97,975,717

TOTAL LIABILITIES AND NET ASSETS

\$ 103,305,280

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

***East Carolina University Foundation, Inc. and Consolidated Affiliates
Consolidated Statements of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2013***

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 341,296	\$ 3,032,879	\$ 1,683,298	\$ 5,057,473
Gifts in Kind	6,980	285,839		292,819
Contributed Services and Facilities	2,090,431			2,090,431
Return on Investments				
Interest and Dividends	329,060	1,559,901	1,660	1,890,621
Net Unrealized and Realized Gains on Investments	1,300,823	6,986,858		8,287,681
Other Income	605,703	133,674	1,000	740,377
Net loss on sales or transfer of property	(104,695)			(104,695)
Revaluation of real estate	(133,332)			(133,332)
Change in Value of Split Interest Agreements		126,982	(82,512)	44,470
Net Assets Released from Restrictions	5,030,854	(5,030,854)		
Total Revenues, Gains and Other Support	9,467,120	7,095,279	1,603,446	18,165,845
EXPENSES AND LOSSES				
Program Services				
Program Development	2,565,347			2,565,347
Scholarships	1,991,518			1,991,518
Total Program Services	4,556,865			4,556,865
General and Administrative	696,917			696,917
Fund Raising	2,085,078			2,085,078
Total Operating Expenses	7,338,860			7,338,860
Bad Debt Losses		400,475	31,000	431,475
Total Expenses and Losses	7,338,860	400,475	31,000	7,770,335
Changes in Net Assets	2,128,260	6,694,804	1,572,446	10,395,510
NET ASSETS				
Net Assets at Beginning of Year	9,248,911	28,902,451	49,428,845	87,580,207
Reclassification of net assets, donor stipulations	(64,734)	(294,370)	359,104	
Reclassification of Net Assets	92,070	(92,070)		
Net Assets at End of Year	\$ 11,404,507	\$ 35,210,815	\$ 51,360,395	\$ 97,975,717

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

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EAST CAROLINA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

Discretely Presented Component Unit - The East Carolina University Foundation, Inc. (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. and Green Town Properties, Inc. are the consolidated affiliates of the Foundation. Green Town Properties, Inc. was incorporated in July 2012.

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 66 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the Financial Accounting Standards Board (FASB) Codification. 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, 2013, the Foundation distributed \$4,556,865 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Financial Services Office, 3800 East Tenth Street, Second Floor, Greenville, NC 27858, or by calling (252) 737-1133.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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.

- 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, include 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, cash on

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF 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 investments in certain commingled funds, hedge funds, and limited partnerships. These investments are carried at estimated fair values as provided by the respective investment fund managers or third party administrators. ECU management, through an investment consultant, reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. The net increase or decrease in the fair value of investments is recognized as a component of investment income. The majority of limited partnerships and hedge funds are subject to fair value estimation, which includes discounted cash flow and transaction comparison.

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.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

Depreciation is computed using the straight-line and/or units of output 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, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 Position** - The University's net position is classified as follows:

Net Investment in Capital Assets - 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 Net Investment in Capital Assets.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position. 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 Position. 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 Position. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$266,641,062.80 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) 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) 707-0500.

Cash on hand at June 30, 2013 was \$101,058.64. The carrying amount of the University's deposits not with the State Treasurer was \$125,573.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and the bank balance was \$126,413.35. 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, 2013, \$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 Affiliates, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the University’s investments include \$777,616.59 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, for the University's Investments.

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
U.S. Treasuries	\$ 496,655.27	\$ 437,514.87	\$ 36,694.46	\$ 22,445.94
U.S. Agencies	36,682.44	4,051.92	32,630.52	
Debt Mutual Funds	5,733,888.94		1,541,780.62	4,192,108.32
Money Market Mutual Funds	1,994,998.09	1,994,998.09		
Total Debt Securities	8,262,224.74	\$ 2,436,564.88	\$ 1,611,105.60	\$ 4,214,554.26
Other Securities				
UNC Investment Fund	777,616.59			
International Mutual Funds	6,389,452.51			
Equity Mutual Funds	17,449,986.66			
Hedge Funds	5,238,384.02			
Private Equity Limited Partnerships	340,108.08			
Domestic Stocks	269,178.17			
Foreign Stocks	31,046.51			
Commodity Mutual Funds	730,897.35			
Private Distressed Debt Limited Partnership	385,055.00			
Total Investments	\$ 39,873,949.63			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2013, the University's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Agencies	\$ 36,682.44	\$ 36,682.44	\$ 0.00	\$ 0.00	\$ 0.00
Debt Mutual Funds	5,733,888.94	21,322.84	3,204,782.80	1,520,457.78	987,325.52
Money Market Mutual Funds	1,994,998.09	1,994,998.09			
Totals	\$ 7,765,569.47	\$ 2,053,003.37	\$ 3,204,782.80	\$ 1,520,457.78	\$ 987,325.52

Rating Agency: Moodys / Standard and Poors

At June 30, 2013, investments in the University's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty	Held by Couterparty's Trust Dept or Agent not in University's Name
U. S. Treasuries	\$ 73,177.28	\$ 423,477.99
U. S. Agencies	36,682.44	
Domestic Stocks	269,178.17	
Foreign Stocks	31,046.51	
Totals	\$ 410,084.40	\$ 423,477.99

Component Unit - Investments of the University's discretely presented component unit, the East Carolina University Foundation, Inc. and Consolidated Affiliates, 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:

Investment Type	Carrying Value
Common Stock	\$ 94,847.00
Mutual Funds	58,707,980.00
Alternative Investments	19,635,324.00
Total	\$ 78,438,151.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2013, is as follows:

	<u>Amount</u>
Cash on Hand	\$ 101,058.64
Amount of Deposits with Private Financial Institutions	125,573.00
Deposits in the Short-Term Investment Fund	266,641,062.80
Investments	<u>39,873,949.63</u>
Total Deposits and Investments	<u><u>\$ 306,741,644.07</u></u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 213,889,703.21
Restricted Cash and Cash Equivalents	26,993,340.38
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>25,984,650.85</u>
Total Deposits	<u>\$ 266,867,694.44</u>
Investments	
Noncurrent:	
Endowment Investments	38,259,360.38
Restricted Investments	<u>1,614,589.25</u>
Total Investments	<u>\$ 39,873,949.63</u>
Total Deposits and Investments	<u><u>\$ 306,741,644.07</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

provides a distribution of four (4%) of its calendar 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 1.1 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, 2013, endowment net assets of \$9,353,933.25 were available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,456,451.91	\$ 1,100,000.00	\$ 1,356,451.91
Student Sponsors	398,775.81		398,775.81
Patients	33,914,893.05	4,422,861.00	29,492,032.05
Accounts	2,060,680.91	163,691.49	1,896,989.42
Intergovernmental	3,811,002.45		3,811,002.45
Investment Earnings	0.04		0.04
Interest on Loans	367,852.57		367,852.57
Federal Interest Subsidy on Debt	112,154.83		112,154.83
Other	1,741,527.94	8,915.05	1,732,612.89
Total Current Receivables	\$ 44,863,339.51	\$ 5,695,467.54	\$ 39,167,871.97
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,577,522.79	\$ 1,233,835.86	\$ 343,686.93
Institutional Student Loan Programs	8,603.47	7,279.06	1,324.41
Total Notes Receivable - Current	\$ 1,586,126.26	\$ 1,241,114.92	\$ 345,011.34
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 10,917,586.83	\$ 0.00	\$ 10,917,586.83

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 43,904,344.36	\$ 615,582.88	\$ 0.00	\$ 44,519,927.24
Construction in Progress	94,669,626.59	41,380,186.15	106,174,419.64	29,875,393.10
Computer Software in Development	349,207.00	617,272.00		966,479.00
Total Capital Assets, Nondepreciable	138,923,177.95	42,613,041.03	106,174,419.64	75,361,799.34
Capital Assets, Depreciable:				
Buildings	736,386,613.27	101,465,766.07	377,483.98	837,474,895.36
Machinery and Equipment	115,501,688.35	14,213,187.37	2,943,806.41	126,771,069.31
General Infrastructure	98,761,109.69	1,937,603.93	124,912.44	100,573,801.18
Computer Software	13,810,907.54	114,223.00		13,925,130.54
Total Capital Assets, Depreciable	964,460,318.85	117,730,780.37	3,446,202.83	1,078,744,896.39
Less Accumulated Depreciation/Amortization for:				
Buildings	183,569,521.43	12,373,082.27	198,367.10	195,744,236.60
Machinery and Equipment	54,742,606.52	8,584,083.90	2,288,406.74	61,038,283.68
General Infrastructure	14,953,971.74	2,754,087.68	73,698.38	17,634,361.04
Computer Software	4,082,629.14	835,231.62		4,917,860.76
Total Accumulated Depreciation/Amortization	257,348,728.83	24,546,485.47	2,560,472.22	279,334,742.08
Total Capital Assets, Depreciable, Net	707,111,590.02	93,184,294.90	885,730.61	799,410,154.31
Capital Assets, Net	\$ 846,034,767.97	\$ 135,797,335.93	\$ 107,060,150.25	\$ 874,771,953.65

During the year ended June 30, 2013, the University incurred \$7,447,033.44 in interest costs related to the acquisition and construction of capital assets. Of this total, \$7,270,081.93 was charged in interest expense, and \$176,951.51 was capitalized.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 15,223,796.67
Accrued Payroll	14,997,306.49
Contract Retainage	1,352,824.39
Other	399,192.52
Total	\$ 31,973,120.07

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	\$ 147,430,000.00	\$ 10,905,000.00	\$ 17,370,000.00	\$ 140,965,000.00	\$ 7,235,000.00
Certificates of Participation	2,155,000.00		1,060,000.00	1,095,000.00	1,095,000.00
Add/Deduct Premium/Discount	4,220,849.16	245,650.00	428,849.09	4,037,650.07	
Deduct Unamortized Cost on Refunding	(1,282,397.93)	(542,718.20)	(1,077,963.79)	(747,152.34)	
Total Revenue Bonds and Certificates of Participation Payable	152,523,451.23	10,607,931.80	17,780,885.30	145,350,497.73	8,330,000.00
Notes Payable	13,350,970.84	251,669.83		13,602,640.67	2,281,093.66
Capital Leases Payable	478,544.64	89,752.89	218,298.04	349,999.49	134,584.84
Compensated Absences	20,360,017.63	12,969,020.06	11,777,322.20	21,551,715.49	1,709,562.08
Total Long-Term Liabilities	\$ 186,712,984.34	\$ 23,918,374.58	\$ 29,776,505.54	\$ 180,854,853.38	\$ 12,455,240.58

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2013	Principal Outstanding June 30, 2013	See Table Below
Revenue Bonds							
Housing and Dining Services							
Housing and Dining Revenue Refunding Bonds	2001B	5.75	11/01/2015	\$ 11,985,000.00	\$ 10,685,000.00	\$ 1,300,000.00	(1)
General Revenue Bonds Payable							
Tyler Dorm Project	2010A	4.0	10/01/2013	1,305,000.00	855,000.00	450,000.00	
Wright Place Renovations	2010A	4.0	10/01/2013	735,000.00	480,000.00	255,000.00	
Olympic Sports Facility	2010A	4.0	10/01/2013	1,450,000.00	950,000.00	500,000.00	
Tyler Dorm Project (BAB)	2010B	2.791-5.825**	10/01/2030	10,045,000.00	0.00	10,045,000.00	
Wright Place Renovations (BAB)	2010B	2.791-4.581**	10/01/2020	1,990,000.00	0.00	1,990,000.00	
Olympic Sports Facility(BAB)	2010B	2.791-5.875**	10/01/2035	15,935,000.00	0.00	15,935,000.00	
Refunding of 2003A West End Dining Project	2012	2.984	04/01/2024	4,650,000.00	30,000.00	4,620,000.00	
Refunding of 2004C College Hill Dormitory Construction	2012	2.984	04/01/2027	5,770,000.00	60,000.00	5,710,000.00	
Refunding of 2004C College Hill Dormitory Construction	2013	2.5-4.0	10/01/2033	10,905,000.00	0.00	10,905,000.00	
Total General Revenue Bonds				<u>52,785,000.00</u>	<u>2,375,000.00</u>	<u>50,410,000.00</u>	
The University of North Carolina System Pool Revenue Bonds							
College Hill Dormitory Construction	2004C	5.0	04/01/2014	27,530,000.00	26,875,000.00	655,000.00	
Dowdy-Ficklen Stadium Expansion Refunding	2004C	5.0	04/01/2014	2,530,000.00	2,205,000.00	325,000.00	
College Hill Dormitory Supplemental Funds	2006A	4.0-5.0	10/01/2033	3,805,000.00	490,000.00	3,315,000.00	
Refunding of Series 1999 (Student Health)	2006A	4.0-5.0	10/01/2018	2,110,000.00	745,000.00	1,365,000.00	
Refunding of Series 2001A (Jones and Galley)	2006A	4.0-5.0	10/01/2021	8,775,000.00	860,000.00	7,915,000.00	
Dining Project Croatan	2009A	3.0-5.25	10/01/2029	8,050,000.00	810,000.00	7,240,000.00	
Scott Residence Hall	2009A	3.0-5.25	10/01/2034	29,360,000.00	1,415,000.00	27,945,000.00	
Softball Field Project	2009A	3.0-5.25	10/01/2034	4,885,000.00	340,000.00	4,545,000.00	
Refunding of 1998 Housing and Dining Bonds	2009A	3.0-5.0	10/01/2018	2,820,000.00	815,000.00	2,005,000.00	
East End Zone Project	2010A	2.0-5.0	10/01/2029	17,400,000.00	1,005,000.00	16,395,000.00	
Refunding of 2004C College Hill Dormitory Construction	2010A	2.0-5.0	10/01/2021	4,370,000.00	20,000.00	4,350,000.00	
Refunding of 2001C Student Fee Revenue Refunding Bonds	2011A	3.0-5.0	05/01/2019	7,125,000.00	1,670,000.00	5,455,000.00	
Refunding of 2003A West End Dining Project	2011A	4.0-5.0	05/01/2021	5,215,000.00	5,000.00	5,210,000.00	
Refunding of 2004C College Hill Dormitory Construction	2011A	4.0-5.0	05/01/2023	2,545,000.00	10,000.00	2,535,000.00	
Total The University of North Carolina System Pool Revenue Bonds				<u>126,520,000.00</u>	<u>37,265,000.00</u>	<u>89,255,000.00</u>	
Certificates of Participation							
Banner System Certificates of Participation	2004	4.0	06/01/2014	8,875,000.00	7,780,000.00	1,095,000.00	
Total Revenue Bonds Payable and Certificates of Participation (principal only)				<u>\$ 200,165,000.00</u>	<u>\$ 58,105,000.00</u>	142,060,000.00	
Less: Unamortized Cost on Refunding						(747,152.34)	
Less: Unamortized Discount						(229,639.94)	
Plus: Unamortized Premium						4,267,290.01	
Total Revenue Bonds Payable and Certificates of Participation						<u>\$ 145,350,497.73</u>	

** 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing & Dining Revenues	\$ 1,414,712.50	\$ 11,488,844.06	\$ 390,000.00	\$ 85,962.50	4.14%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 7,235,000.00	\$ 6,168,692.36	\$ 1,095,000.00	\$ 43,775.00	\$ 2,281,093.66	\$ 252,365.06
2015	7,215,000.00	5,874,126.70			1,968,450.46	214,037.42
2016	7,510,000.00	5,613,032.79			2,007,539.19	174,948.69
2017	7,310,000.00	5,317,113.88			2,047,404.13	135,083.75
2018	7,620,000.00	4,988,880.28			2,088,060.69	94,427.19
2019-2023	34,780,000.00	19,917,529.50			3,210,092.54	63,639.30
2024-2028	30,640,000.00	12,671,015.72				
2029-2033	29,115,000.00	5,324,416.28				
2034-2036	9,540,000.00	532,318.76				
Total Requirements	\$ 140,965,000.00	\$ 66,407,126.27	\$ 1,095,000.00	\$ 43,775.00	\$ 13,602,640.67	\$ 934,501.41

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

Advance Refunding - On February 7, 2013 the University issued \$10,905,000.00 in General Revenue Refunding Series 2013A bonds with an average interest rate of 2.97%. The bonds were issued to advance refund \$10,340,000.00 of outstanding UNC System Pool Series 2004C bonds with an average interest rate of 4.69%. The net proceeds of the refunding bonds along with additional funds in the amount of \$170,142.00 were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$2,568,686.12 over the next 21 years and resulted in an economic gain of \$1,964,172.22. At June 30, 2013, the outstanding balance was \$10,340,000.00 for the defeased UNC System Pool Series 2004C bonds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the outstanding balance of prior year defeased bonds was \$12,045,000.00.

E. 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, 2013	Principal Outstanding June 30, 2013
Facilitate Purchase of Medical Practice	Vidant Medical Center	5.50%	11/01/2011	\$ 350,970.84	\$ 0.00	\$ 350,970.84
Auxiliary Gym	US Bank NA	1.976%	11/01/2019	13,000,000.00	251,669.83	13,251,669.83
Total Notes Payable				<u>\$ 13,350,970.84</u>	<u>\$ 251,669.83</u>	<u>\$ 13,602,640.67</u>

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, 2013, the balance on the principal was \$2,907,986. 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 balance is \$2,907,986, the current portion of which is \$126,983. The principal balance as of June 30, 2013 included an adjustment for a readvance of principal that was necessitated when the financial institution failed to modify the payment schedule in accordance with the defined swap amortization schedule when the swap transaction was executed. This resulted in the Foundation overpaying the principal of the loan. In order to correct this error, the financial institution readvanced the principal to the Foundation during September 2012.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Maturities of the long-term portion of notes payable as of June 30, 2013 were as follows:

Fiscal Year	Amount
2014	\$ 126,983.00
2015	132,459.00
2016	137,684.00
2017	143,157.00
2018	148,887.00
Thereafter	2,218,816.00
Total	\$ 2,907,986.00

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, 2013:

Fiscal Year	Amount
2014	\$ 149,479.62
2015	114,940.54
2016	86,297.84
2017	27,188.88
Total Minimum Lease Payments	377,906.88
Amount Representing Interest (0% -10.123% Rate of Interest)	27,907.39
Present Value of Future Lease Payments	\$ 349,999.49

Machinery and equipment acquired under capital lease amounted to \$1,010,096.02 at June 30, 2013. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$189,523.59 at June 30, 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013:

Fiscal Year	Amount
2014	\$ 4,833,158.77
2015	4,269,015.25
2016	3,744,177.52
2017	3,127,594.48
2018	2,285,452.12
2019-2023	6,084,667.63
Total Minimum Lease Payments	\$ 24,344,065.77

Rental expense for all operating leases during the year was \$4,446,451.21.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees	\$ 196,265,837.23	\$ 0.00	\$ 34,393,410.58	\$ (400,000.00)	\$ 0.00	\$ 162,272,426.65
Patient Services	\$ 428,111,239.11	\$ 0.00	\$ 0.00	\$ 28,439,639.98	\$ 221,081,762.61	\$ 178,589,836.52
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 25,868,434.41	\$ 230,668.53	\$ 4,474,823.68	\$ 0.00	\$ 0.00	\$ 21,162,942.20
Dining	25,423,125.92	942,240.79	3,747,804.01			20,733,081.12
Student Union Services	27,112.47					27,112.47
Health, Physical Education, and Recreation Services	2,192,225.55	288,874.12				1,903,351.43
Bookstore	12,130,263.26	191,134.12	1,171,460.54			10,767,668.60
Parking	3,071,561.48	31,947.50		163,691.49		2,875,922.49
Athletic	16,331,163.96					16,331,163.96
Other	1,846,204.80	955,598.23				890,606.57
Sales and Services of Education and Related Activities	7,321,426.57	1,059,565.51				6,261,861.06
Total Sales and Services	\$ 94,211,518.42	\$ 3,700,028.80	\$ 9,394,088.23	\$ 163,691.49	\$ 0.00	\$ 80,953,709.90

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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/ Amortization	Total
Instruction	\$ 232,805,996.17	\$ 12,878,426.66	\$ 16,533,541.62	\$ 0.00	\$ 59,722.88	\$ 0.00	\$ 262,277,687.33
Research	13,025,462.41	3,026,414.58	4,783,103.39		6,890.32		20,841,870.70
Public Service	15,692,618.49	1,292,237.63	3,795,141.81		9,965.78		20,789,963.71
Academic Support	19,395,441.73	7,297,709.89	2,910,859.15		14,673.40		29,618,684.17
Student Services	9,882,661.10	516,898.25	1,295,996.34				11,695,555.69
Institutional Support	36,664,842.23	3,431,021.46	7,859,683.33		27,113.36		47,982,660.38
Operations and Maintenance of Plant	23,421,422.39	21,350,734.39	4,948,805.12		18,218,385.13		67,939,347.03
Student Financial Aid				38,567,742.87			38,567,742.87
Auxiliary Enterprises	173,742,503.03	29,857,294.80	55,050,248.86		440,762.14		259,090,808.83
Depreciation/ Amortization						24,546,485.47	24,546,485.47
Total Operating Expenses	\$ 524,630,947.55	\$ 79,650,737.66	\$ 97,177,379.62	\$ 38,567,742.87	\$ 18,777,513.01	\$ 24,546,485.47	\$ 783,350,806.18

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 (TSERS) 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. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$412,612,233.79, of which \$186,582,942.15 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$15,542,359.08 and \$11,194,976.53, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$15,542,359.08, \$13,443,660.78, and \$8,949,290.99, 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) 707-0500.

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 TSERS. 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, 2013, 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 \$412,612,233.79, of which \$176,275,644.44 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$12,057,254.08 and \$10,576,538.67, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$2,281,762.55 for the year ended June 30, 2013.

Internal Revenue Code 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, 2013, were \$148,822.38. The voluntary contributions by employees amounted to \$1,770,673.25 for the year ended June 30, 2013.

Internal Revenue Code 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. The plan administrator is TIAA-CREF. No costs are incurred by the University. The voluntary contributions by employees amounted to \$6,142,458.31 for the year ended June 30, 2013.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Chapter 135, Article 3B, 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 established by the North Carolina General Assembly.

For the current fiscal year the University contributed 5.30% 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, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$19,231,505.09, \$17,761,628.38, and \$17,220,963.03, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the University made a statutory contribution of .44% 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, 2012, and 2011, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$1,596,577.78, \$1,836,809.35, and \$1,827,530.77, 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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

The types of optional coverage are: Sprinkler Leakage Coverage for buildings with fire sprinklers; Flood Coverage for buildings prone to flood; Extended Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion and smoke; Broad Form Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion, smoke, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, and water damage; All Risk Special Form Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion, smoke, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, water damage, theft, any other loss not specifically excluded. The coverage rates are determined by the Department of Insurance State Property Fire Insurance Fund. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible at the insured 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 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage. University departments, as an individual business decision may also purchase physical damage coverage for state-owned vehicles.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and The State's Agent of Record. The types of insurance policies purchased include: professional liability, medical malpractice, accident health, athletic accident, postal contract bond, surety bond, student internship liability, oceanographic equipment, leased equipment, boiler and machinery, inland marine property, watercraft, fine arts, musical instruments, modular units, international students, study abroad students, business travel and policies as the need for additional coverage arises.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 insurance 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.

Hurricane Irene struck East Carolina University on August 27, 2011. The resulting damage to the campus was significant at a reported \$2,063,357. Major and immediate repairs were needed and a detailed scope of work continued to evolve as the assessment continued. As of June 30, 2013, the University has received \$334,171 from the Department of Insurance for insurance covered damages and \$457,631 of FEMA funds from the NC Emergency Management. Claims are still pending in review with NC Emergency Management for FEMA reviewed damages. Closure to all claims is expected by December 31, 2013.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

purchases. Outstanding commitments on construction contracts were \$20,792,349 and on other purchases were \$14,379,383 at June 30, 2013.

- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Athletic Conference Withdrawal Fee** - The University has provided one year's notice to Conference USA ("CUSA") indicating that the University intends to exit the athletic conference effective June 30, 2013. Four institutions exited CUSA effective June 30, 2013 and two other institutions have announced they are leaving CUSA effective June 30, 2014. According to the CUSA bylaws, the University must pay a withdrawal fee of \$500,000 plus "the aggregate amount, if any, by which the television rights fees received by the remaining members of the Conference pursuant to any and all Conference-level television broadcast and licensing agreements are reduced, as a result of the University's withdrawal, during the five year period immediately subsequent to the effective date of the member's withdrawal." The University is actively negotiating the settlement amount and contends that the exit of the four institutions in 2013 reduced the value of television rights to such a degree that the University's own exit had no effect on CUSA income and the withdrawal fee should be no more than \$500,000. Based on the current status of the matter, University management estimates the final settlement will not exceed \$2,040,000 and continues to negotiate for the lowest amount possible.

NOTE 15 - INVESTMENT IN JOINT VENTURES

- A. Moye Medical Endoscopy Center, LLC** - The University participates in a joint venture with Vidant Medical Center, to operate Moye Medical Endoscopy Center, LLC, d/b/a East Carolina Endoscopy Center. The University has an equity interest of \$837,895.84 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 3800 East Tenth Street, Second Floor, 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Health Alliance, LLC. The University has an equity interest of \$220,934.00 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 3800 East Tenth Street, Second Floor, Greenville, NC 27858.

- C. **NewCo Cancer Services, LLC** - The University participates in a joint venture with Vidant Medical Center, to operate NewCo Cancer Services, LLC, d/b/a the Leo Jenkins Cancer Center. The University has an equity interest of \$5,014,195.00 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 3800 East Tenth Street, Second Floor, Greenville, NC 27858.

NOTE 16 - 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 position, or operational transactions of the foundations, except for support from each organization to the University. This support was \$7,244,096.39 for the year ended June 30, 2013. Indirect support from the foundations that was not included in the University's financial statements was \$880,851.22 for the year ended June 30, 2013.

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Office of the State Auditor

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State Auditor

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

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 12, 2013. Our report includes a reference to other auditors who audited the financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliates, the University's 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*, and accordingly, this report does not include a reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component unit.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

**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)**

possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 12, 2013

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For additional information contact:

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