STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the 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, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
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, 2015, 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 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 and its discretely presented component unit, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended June 30, 2015, East Carolina University adopted new accounting guidance, Governmental Accounting Standards Board Statement No *68 – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, 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 10, 2015 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 10, 2015

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, 2015. 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 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.

Two schedules are provided that are Required Supplemental Information. These are:

- Schedule of the Proportionate Net Pension Liability Teachers' and State Employees' Retirement System; and
- Schedule of University Contributions Teachers' and State Employees' Retirement System.

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, 2015, emphasizing current year data and significant changes between the prior and current fiscal year. Comparative information for the year ended June 30, 2014 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 of Revenues, Expenses and Changes in Net Position provides 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, 2015 and includes all assets, deferred outflows and inflows of resources 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 liabilities are classified as either current or noncurrent. The difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources is net position. Net position represents the residual interest in the University's assets and deferred outflows of resources net of its liabilities and deferred inflows of resources. It 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 these accounts at June 30, 2015 and 2014:

Condensed Statement of Net Position
(Dollars in Thousands)

	2015	2014 (Restated)	Increase/ (Decrease)	Percent Change
Assets				
Current Assets	$ 294,707	$ 284,556	$ 10,151	3.6 %
Capital Assets, Net	946,472	898,042	48,430	5.4 %
Other Noncurrent Assets	102,098	146,010	(43,912)	(30.1) %
Total Assets	1,343,277	1,328,608	14,669	1.1 %
Deferred Outflows of Resources				
Deferred Outflows Related to Pensions	20,200	16,597	3,603	21.7 %
Liabilities				
Current Liabilities	63,090	61,635	1,455	2.4 %
Noncurrent Liabilities:				
Long-Term Liabilities	230,832	298,128	(67,296)	(22.6) %
Other Noncurrent Liabilities	18,828	24,007	(5,179)	(21.6) %
Total Noncurrent Liabilities	249,660	322,135	(72,475)	(22.5) %
Total Liabilities	312,750	383,770	(71,020)	(18.5) %
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	58,118		58,118	
Net Position				
Net Investment in Capital Assets	757,004	737,359	19,645	2.7 %
Restricted	77,977	76,747	1,230	1.6 %
Unrestricted	157,628	147,329	10,299	7.0 %
Total Net Position	$ 992,609	$ 961,435	$ 31,174	3.2 %

The condensed statement above indicates a stronger financial position compared to last fiscal year with total assets and deferred outflows related to pensions increasing by $18.3 million. Total liabilities and deferred inflows related to pensions decreased by $12.9 million for a net growth of $31.2 million in the University's total net position.

Current assets at fiscal year-end increased $10.2 million, or 3.6 percent, and consists of cash and receivables from various sources including students, patients, and governmental agencies. The most notable increase is $6.2 million in patient receivables and is reflective of:

- a $4.5 million increase in receivables due from the Upper Payment Limit federal program which is reflective of receivables for two quarters in fiscal year 2015 but only one quarter in fiscal year 2014;
- a $1.4 million increase in pharmacy receivables; and
- a $0.3 million increase in dental patient receivables due to the addition of new service learning centers and continued growth of the school's clinical activity.

Capital assets (net of depreciation) increased $48.4 million and other noncurrent assets decreased $43.9 million from the previous fiscal year end. Capital assets will be discussed in detail in the capital assets section of this discussion and analysis. The decrease in noncurrent assets is reflective of lower restricted cash balances, $39.4 million, and a decline in value of the investment in the NewCo Cancer Center joint venture, $4.3 million, along with slight changes in receivables and investments. The University spent $33.7 million of construction monies on hand at June 30, 2014 for a new student housing facility in fiscal year 2015. The University also held less cash for other agencies and organizations. Cash held by the University for the ECU Medical and Health Sciences Foundation, Inc. and the ECU Educational Foundation, Inc. decreased $5.0 million from the previous fiscal year-end.

During the year ended June 30, 2015, the University adopted new accounting guidance, Governmental Accounting Standards Board (GASB) 68 - Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment to GASB Statement No. 68.

Implementation of these standards resulted in restatements to the beginning net pension liability of $80.4 million and the deferred outflows for pensions of $16.6 million, resulting in a net restatement to beginning net assets of $63.8 million. See Note 17 to the financial statements for additional information. The 2014 column in the condensed statement has been adjusted for these restatements for comparative purposes in this discussion.

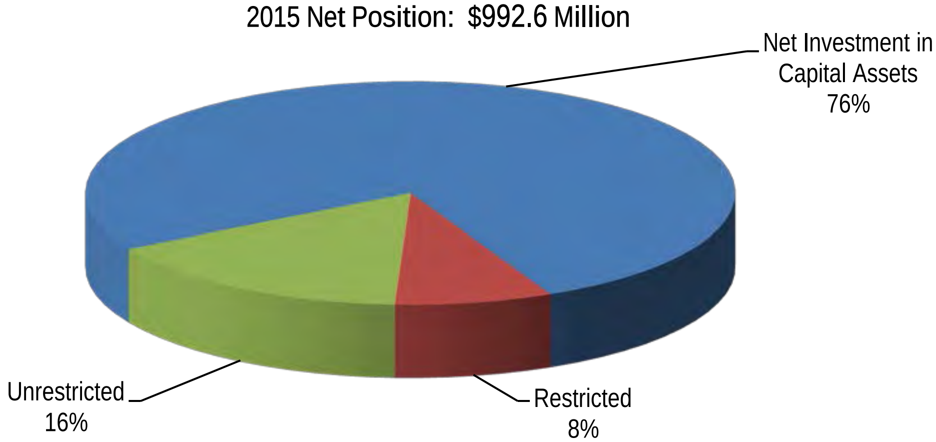
Noncurrent long-term liabilities decreased $67.3 million of which $64.3 million is a decrease in the net pension liability. The decrease is primarily due to investment earnings on pension plan funds exceeding projected earnings by $54.4 million. The $54.4 million is included in the $58.1 million deferred inflows related to pensions account in 2015.

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 $231.6 million at June 30, 2015 and represents an $8.7 million increase or a 3.9 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 of each classification increased $19.6, $1.2 and $10.3 million, respectively. The University's total net position at June 30, 2015 was $992.6 million, an increase of $31.2 million, or 3.2 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 increase in net investment in capital assets resulted from a net $48.4 million increase in capital assets, a net decrease of $4.5 million in capital debt and a $33.7 million net decrease in cash from unspent bond proceeds.

Restricted net position includes the University's permanent endowment fund and expendable funds subject to externally imposed restrictions governing their use. Restricted net position did not significantly change from the previous year.

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 2015, unrestricted net position increased $10.3 million, or 7.0%. Much of this increase is due to the increase in current receivables previously discussed. The following chart displays the contribution of each category to total net position for fiscal year 2015.



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 $21.2 million. Other revenues are neither operating nor nonoperating and include capital appropriations, capital grants and gifts and additions to endowments. The University shows a $31.2 million increase in net position as of June 30, 2015 when these other revenues are added. The following table presents a summarized comparison of the statements as of June 30, 2015 and June 30, 2014:

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

	2015	2014 *	Increase/ (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 172,673	$ 169,675	$ 2,998	1.8
Patient Services, Net	207,302	207,316	(14)	(0.0)
Grants and Contracts	39,036	37,173	1,863	5.0
Sales and Services, Net	89,430	85,430	4,000	4.7
Other	1,347	1,226	121	9.9
Total Operating Revenues	509,788	500,820	8,968	1.8
Operating Expenses				
Salaries and Benefits	535,965	540,914	(4,949)	(0.9)
Supplies and Materials	89,197	81,700	7,497	9.2
Services	106,296	111,891	(5,595)	(5.0)
Scholarships and Fellowships	40,394	39,879	515	1.3
Utilities	20,024	19,522	502	2.6
Depreciation/Amortization	25,833	25,939	(106)	(0.4)
Bond Issuance Costs		422	(422)	
Total Operating Expenses	817,709	820,267	(2,558)	(0.3)
Operating Loss	(307,921)	(319,447)	(11,526)	(3.6)
Nonoperating Revenues (Expenses)				
State Appropriations	273,345	275,658	(2,313)	(0.8)
Noncapital Grants and Gifts	67,551	61,066	6,485	10.6
Other Nonoperating Expenses	(11,730)	(5,723)	6,007	105.0
Net Nonoperating Revenues	329,166	331,001	(1,835)	(0.6)
Income Before Other Revenues	21,245	11,554	9,691	83.9
Capital Appropriations		6,260	(6,260)	
Capital Grants and Gifts	7,955	14,192	(6,237)	(43.9)
Additions to Endowments	1,974	1,899	75	3.9
Increase in Net Position	31,174	33,905	(2,731)	(8.1)
Net Position-July 1	961,435	991,349	(29,914)	(3.0)
Less: Restatement		63,819	(63,819)	
Net Position-June 30	$ 992,609	$ 961,435	$ 31,174	3.2

Fiscal year 2014-2015 total revenues are $863,342 and total expenses are $832,168.
Fiscal year 2013-2014 total revenues are $868,194 and total expenses are $834,289.

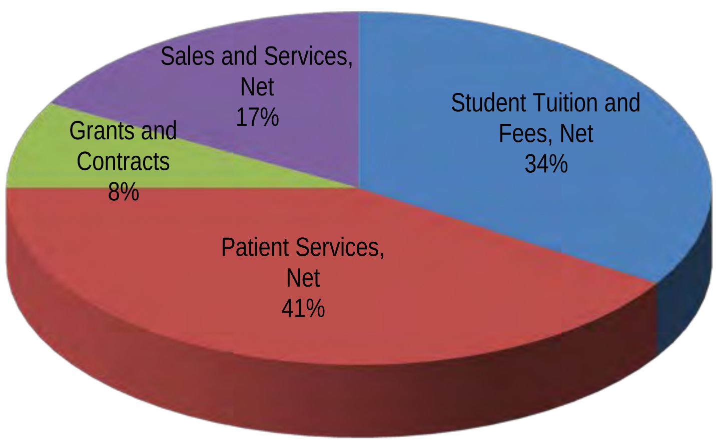
** Note: The year ended June 30, 2014 column is not presented "as restated"above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.*

Operating revenues are generated by providing goods and services related to instruction, research, and public service missions. Operating revenues remained flat compared to the previous year with only a $9.0 million, or 1.8% increase. The most significant increase in operating revenues is the $4.0 million increase in sales and services which includes a

$3.7 million increase in athletics revenues. Much of the increase is due to the University changing from Conference USA to the American Athletic Conference (AAC). The increase in revenues includes a $1.0 million increase in game guarantees, a $2.0 million increase in AAC sales distributions and growth in the athletics program. Although patient services revenue is consistent with the prior year, there are some significant fluctuations within different revenue components. These include increases in revenues from larger receivables at the end of fiscal year 2015 as previously discussed, growth in the pharmacy and dental operations, and growth in graduate medical education payments from Vidant hospital based on negotiated contracts. Much of the increase in pharmacy operations is in the 340B Drug Discount Programs (340B). The 340B is a U.S. federal government program that requires drug manufacturers to provide outpatient drugs to eligible health care organizations at significantly reduced prices. Those increases were offset by decreases in revenues due to the sale of the neurosurgery and gastroenterology medical practices and decreases in Medicaid cost settlements as a backlog of settlements were received in the 2014.

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

2015 Operating Revenues by Source:



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 decrease of $2.6 million, or 0.3 percent. The most notable change in operating expenses is the increase in supplies and materials of $7.5 million. Much of this increase, approximately $5.0 million, is due to growth in pharmacy operations and increases in associated drug purchases. Services decreased $5.6 million, or 5.0 percent, and is more in line with services costs in years prior to 2014. Costs were substantially higher in 2014 due to a payment for withdrawing from Conference USA and higher contractual services and information technology costs largely due to the implementation of an electronic health record system and patient portal. 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:

2015 OPERATING EXPENSES: $817.8 Million

	% to Total 2015	% to Total 2014
Salaries and Benefits	66%	66%
Supplies and Materials	11%	10%
Services	13%	14%
Scholarships and Fellowships	5%	5%
Utilities	2%	2%
Depreciation / Amortization	3%	3%
	100%	100%

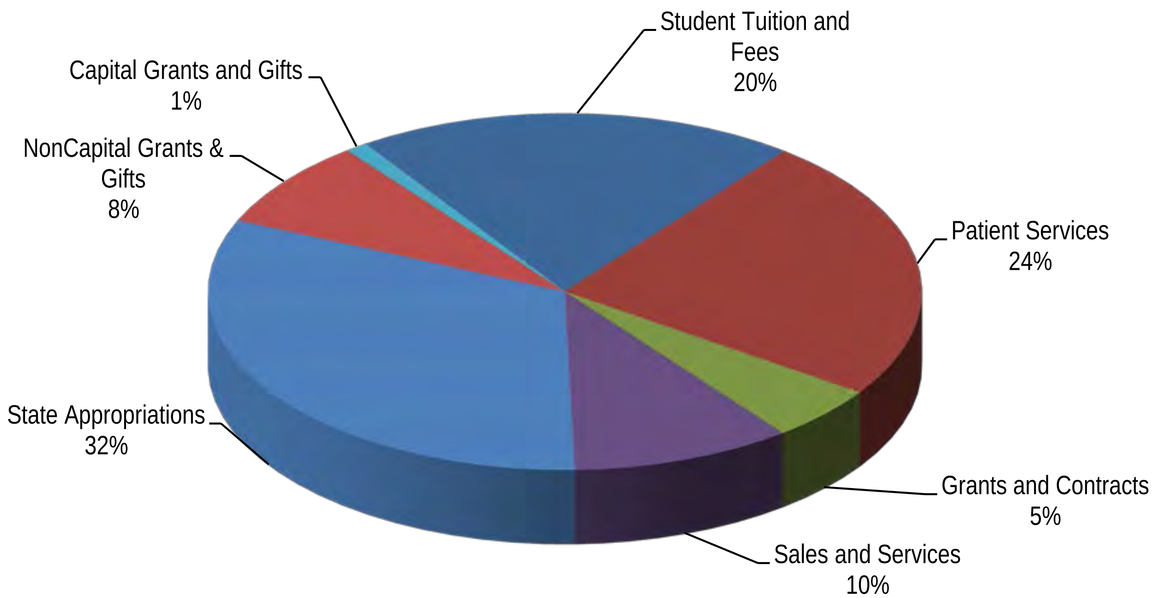
Nonoperating revenues and expenses are not generated by the principal operations of the University and are shown at a net amount. Total net nonoperating revenues decreased by $1.8 million or 0.6 percent from the prior year and is the net effect of changes in state appropriations, noncapital grants and gifts, and other nonoperating revenues and expenses such as investment income and interest and fees expenses. The most notable changes include:

- a $2.3 million decrease in state appropriations as a result of ongoing budget cuts;
- a significant increase in noncapital grants and gifts of $6.5 million, including a $3.8 million increase in gifts from the ECU Educational Foundation and a $2.2 million increase in Pell funds; and
- a $6.0 million net increase in other nonoperating expenses over revenues, is due to a $5.5 million decrease in investment income reflective of the volatility of the market at a given point in time. At June 30, 2014 the University had an unrealized gain of $4.4 million and at June 30, 2015 the University had an unrealized loss of $1.1 million.

Other revenues consist of capital appropriations, capital grants and gifts and additions to endowments. The University received $6.3 million in capital appropriations from the State in 2014 for various repair and renovation projects but received no capital appropriations in 2015. Capital grants and gifts decreased $6.2 million, or 43.9 percent from the prior year and is primarily due to the decrease in support from the State. This is attributed to the completion of various, large construction projects in 2014 including the School of Dental Medicine in Lillington and the School of Dental Medicine in Sylva and to a substantial amount of construction work in 2014 on projects completed in 2015. Additions to endowments are consistent with the prior year.

The following chart illustrates the University's total revenues by source (operating, nonoperating and other revenues) which total $863.3 million for fiscal year-end 2015:

2015 Total Revenues: $863.3 Million



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

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 comprise 93.8 percent of the University's capital assets, net of accumulated depreciation.

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, 2015 and June 30, 2014, are as follows:

Capital Assets
(Dollars in Thousands)

	2015	2014	Increase/ (Decrease)	Percent Change
Land	$ 46,960	$ 46,002	$ 958	2.1 %
Construction in Progress	79,272	31,130	48,142	154.6 %
Computer Software in Development	801	673	128	19.0 %
Buildings	887,914	872,965	14,949	1.7 %
General Infrastructure	102,048	101,162	886	0.9 %
Machinery and Equipment	135,465	131,693	3,772	2.9 %
Computer Software	13,757	13,893	(136)	(1.0) %
Total Capital Assets	1,266,217	1,197,518	68,699	5.7 %
Accumulated Depreciation	319,745	299,476	20,269	6.8 %
Capital Assets, Net	$ 946,472	$ 898,042	$ 48,430	5.4 %

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 $946.5 million in capital assets at fiscal year-end 2015 which is a net increase of $48.4 million from the prior year.

Several major construction projects were completed in fiscal year 2015 and the costs were removed from construction in progress and added to buildings. These include three additional community service learning centers for the Schools of Dental Medicine in Spruce Pine, Davidson, and Lumberton for a collective amount of $7.6 million. These dental clinics provide training for post-graduate dentists in residency programs and fourth-year dental students, comprehensive services in underserved areas and poor counties in North Carolina and economic development for rural areas of North Carolina.

The increase in buildings and equipment resulted in a corresponding increase in accumulated depreciation. Construction in progress increased $48.1 million and primarily consists of:

- $32.5 million for the Belk Residence hall demolition and replacement project which was later renamed Gateway East and Gateway West;
- $6.5 million for construction costs of two student unions; and
- $1.5 million for construction costs of the School of Dental Medicine in Brunswick County.

The Belk Residency Hall demolition and replacement project and construction of Gateway East and Gateway West is funded from housing receipts and has been approved at a project cost of $56 million. The Belk Residence Hall was demolished and has been replaced with two residential housing wings and community center for use by students. This building has modern campus living facilities and is approximately 205,000 square feet. The occupancy date for Gateway East and Gateway West was August 10, 2015.

The New Student Union and Parking Structure and the Health Sciences Campus Student Services Building projects were approved by the Legislature at a project cost of $156.3 million. The projects will be funded from an increase in student fees and from campus sources including dining, Dowdy Student Stores, Ledonia Wright Cultural Center, parking, student health, and student recreation.

The University sold bonds on July 23, 2015 to fund the Health Sciences Campus Student Services Building project. The proceeds from the bonds were $30.7 million. The University plans an equity contribution of $4 million. This bond issuance was reported as a subsequent event (see Note 18 for more information). The Health Sciences Campus Student Services Building will be a 68,000 square-foot building housing a recreation and wellness center, student health services, student organizations, multipurpose spaces, a career center, meeting rooms, a lounge, a convenience store and a food court. It will be located between the East Carolina Heart Institute and the Laupus Library.

The University plans to issue bonds for the New Student Union and Parking Structure on East Campus in fiscal year 2016. Plans call for the new student union on main campus to be 210,000 square feet. The facility will provide a new home for the Ledonia Wright Cultural Center, a 250-seat multi-purpose auditorium, office space for student government and student groups, multi-venue dining facilities, retail and service points, and a dividable ballroom. The project includes a 700-car parking deck.

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.

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

Debt

The University uses revenue bonds, notes payable and capital leases to finance construction projects and purchase equipment. As reflected in the following chart, total capital debt decreased by $4.5 million in 2015.

Debt Summary
Dollars in Thousands

	2015	2014	Increase/ (Decrease)
Revenue Bonds Payable	$ 180,200	$ 187,415	$ (7,215)
Bond Discounts/Premiums/Charges	6,970	7,392	(422)
Notes Payable	14,546	11,322	3,224
Capital Leases Payable	110	220	(110)
Total Debt	$ 201,826	$ 206,349	$ (4,523)

Notes 7 and 8 to the financial statements provide information on debt administration. The $7.2 million decrease in revenue bonds debt is the result of scheduled bond payments made by the University.

In April 2015, Standard & Poor's assigned a rating of AA- and Moody's assigned a rating of Aa2 to the Series 2015A and 2015B General Revenue Bonds. At the same time, Standard & Poor's affirmed the same rating (AA-) on general and pooled revenue debt for the University. Moody's also affirmed the same rating (Aa2) with the exception of affirming the Aa3 rating on the Series 2006A pool, factoring in the refunding of ECU's portion of the obligation.

Economic and Strategic Outlook

The University's financial position remains strong. Total net position grew by $31.2 million due to effective institutional planning and continued support from the State to meet educational needs. We are anticipating a small budget reduction for fiscal year 2016. The UNC System divides legislatively imposed budget cuts across the 16 universities in the System. The University is prepared for these budget cuts and recognizes that fiscal pressure, appropriations reductions, and reallocation actions are likely to continue for many years to come. Work groups continue to evaluate the recommendations that were proposed in the University Committee on Fiscal Sustainability report in Spring 2014. Over a few years, work groups will be formed to address each of the recommendations in the report. Five work groups have completed their work and seven others are in progress. New work groups will be added as old work groups complete their tasks. Information on the Committee and the work groups can be found at www.ecu.edu/ucfs. The University received a $230,024 increase in appropriations to fund enrollment growth. The UNC Board of Governors approved a tuition increase of 5% for resident students and 3% for non-residents for each of the next two academic years. The tuition increases will provide the University approximately $12.7 million dollars to invest in faculty and non-faculty merit increases, merit based aid and student support services.

The School of Dental Medicine continues to spread its reach across the state. Three service learning centers were opened in the past year to expand the total number of Service Learning Centers to seven. An additional service learning center is planned for opening in FY 2016 in Brunswick County.

ECU Physicians (ECUP) is the clinical practice plan of the University's Brody School of Medicine within the Health Sciences Division. In its 2013 Session, the North Carolina General Assembly enacted legislation that eliminated both state medical schools (ECU and UNC) from receiving payments through the Setoff Debt Collection Act (SODCA). The SODCA allows ECUP and other state agencies to garnish NC tax return refunds and lottery winnings on patients with delinquent accounts.

In August 2014, the General Assembly modified the 2013 legislation to allow ECUP to submit patients with some form of insurance (either private or public) and who have an outstanding balance due to ECUP, through the SODCA process. While this is a positive development, ECUP management estimates that the lost SODCA revenues (for those patients who do not have insurance) will be approximately $5.0 million each fiscal year.

The Upper Payment Limit (UPL) is a federally funded program which provides additional payments to public medical schools for services provided to Medicaid patients. The additional payments enable the public medical schools to receive payments for Medicaid services that are close to what would have been paid by commercial insurance carriers for the same services.

The North Carolina General Assembly enacted legislation in its 2013 and 2014 sessions which restricts future UPL payments to 418 eligible medical providers, a number slightly smaller than total eligible medical providers as of June 30, 2015. While this limitation will have only a small effect on UPL receipts in fiscal year 2016, the negative effect will increase over time as the ECUP practice grows.

The North Carolina Department of Health and Human Services (NCDHHS) launched NCTracks, a new multi-payer Medicaid Management Information System in July 2013. NCTracks is the system used to reimburse health care providers for services provided to North Carolina Medicaid beneficiaries. The implementation of NCTracks encountered multiple problems resulting in reimbursement delays from Medicaid to health care providers, including ECUP. The delays continue through June 30, 2015. The reimbursement delays impacts ECUP on two different levels. The first level is the payment from NC Medicaid for services rendered to Medicaid patients. The second level is the delay in payments from Medicaid created delays in submitting requests for reimbursement through the UPL mechanism. While the payment backlog improved during fiscal year 2015, estimated delayed reimbursements, including UPL, totaled $2.0 million. It is unknown how long the delays will continue.

The NC General Assembly, in its 2014 Session, directed that the UNC System provide a report on the two state-owned medical schools to include all sources of revenue and all operating expenses by October 1, 2014. Following the submission of the report and a presentation made to the Joint Legislative Oversight Committee on Health and Human Services and the Joint Legislative Education Oversight Committee, the UNC Board of Governors recommended $8 million of additional permanent appropriations be made to The Brody School of Medicine at East Carolina University. The recommended new appropriation is in response to the unique mission of The Brody School of Medicine (graduating primary care physicians, offering educational opportunities to minority and disadvantaged students, and improving the health of the residents in eastern North Carolina) and its unique status (does not own its hospital which can impede the transfer of mission support revenues and the high poverty rates in the region as well as the medically underserved nature of many of the counties in the region). The State budget provides for $8.0 million in non-recurring appropriations for each year of the current biennium.

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 East Carolina University's Financial Services at (252)737-1133.

FINANCIAL STATEMENTS

East Carolina University
Statement of Net Position
June 30, 2015

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 192,475,674.10
Restricted Cash and Cash Equivalents	24,151,383.96
Receivables, Net (Note 4)	65,142,202.08
Due from State of North Carolina Component Units	2,251,816.00
Due from University Component Units	496,313.61
Inventories	5,583,413.92
Notes Receivable, Net (Note 4)	953,194.31
Other Assets	3,653,169.72
Total Current Assets	294,707,167.70
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	37,161,646.69
Receivables, Net (Note 4)	3,335,584.99
Endowment Investments	46,494,120.89
Restricted Investments	2,573,921.87
Investment in Joint Venture	860,469.00
Prepaid Assets	1,634,295.34
Notes Receivable, Net (Note 4)	10,038,205.04
Capital Assets - Nondepreciable (Note 5)	127,033,186.12
Capital Assets - Depreciable, Net (Note 5)	819,438,520.42
Total Noncurrent Assets	1,048,569,950.36
Total Assets	1,343,277,118.06
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	20,200,673.00
Total Deferred Outflows of Resources	20,200,673.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	30,429,359.78
Due to Primary Government	33,243.05
Deposits Payable	1,492,740.84
Funds Held for Others	2,425.35
Unearned Revenue	17,821,731.18
Interest Payable	2,034,494.06
Long-Term Liabilities - Current Portion (Note 7)	11,275,522.12
Total Current Liabilities	63,089,516.38
Noncurrent Liabilities:	
Funds Held for Others	7,057,164.51
U. S. Government Grants Refundable	11,771,426.35
Long-Term Liabilities, Net (Note 7)	230,831,791.52
Total Noncurrent Liabilities	249,660,382.38
Total Liabilities	312,749,898.76
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	58,118,483.00
Total Deferred Inflows of Resources	58,118,483.00

NET POSITION		
Net Investment in Capital Assets		757,004,268.25
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		2,163,743.44
Endowed Professorships		27,716,340.63
Departmental Uses		341,027.27
Loans		1,451,870.55
Expendable:		
Scholarships and Fellowships		5,024,461.80
Endowed Professorships		11,398,410.34
Departmental Uses		781,544.32
Capital Projects		14,676,235.42
Debt Service		13,046,860.35
Other		1,376,573.42
Unrestricted		157,628,073.51
Total Net Position	$	992,609,409.30

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, 2015 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 172,673,774.31
Patient Services, Net (Note 9)	207,301,876.58
Federal Grants and Contracts	17,323,448.27
State and Local Grants and Contracts	10,890,694.16
Nongovernmental Grants and Contracts	10,821,848.48
Sales and Services, Net (Note 9)	89,430,040.94
Interest Earnings on Loans	42,462.21
Other Operating Revenues	1,304,266.50
Total Operating Revenues	509,788,411.45
EXPENSES	
Operating Expenses:	
Salaries and Benefits	535,964,661.38
Supplies and Materials	89,196,652.66
Services	106,296,522.73
Scholarships and Fellowships	40,393,958.96
Utilities	20,024,017.76
Depreciation/ Amortization	25,832,875.80
Total Operating Expenses	817,708,689.29
Operating Loss	(307,920,277.84)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	273,345,128.27
Noncapital Grants - Student Financial Aid	35,038,071.94
Noncapital Grants	15,849,973.00
Noncapital Gifts	16,663,197.85
Investment Income (Net of Investment Expense of $50,165.36)	2,281,622.63
Interest and Fees on Debt	(5,815,619.23)
Federal Interest Subsidy on Debt	447,165.80
Other Nonoperating Expenses	(8,643,576.21)
Net Nonoperating Revenues	329,165,964.05
Income Before Other Revenues	21,245,686.21
Capital Grants	6,461,653.44
Capital Gifts	1,492,852.69
Additions to Endowments	1,974,319.19
Increase in Net Position	31,174,511.53
NET POSITION	
Net Position - July 1, 2014, as Restated (Note 17)	961,434,897.77
Net Position - June 30, 2015	$ 992,609,409.30

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

East Carolina University
Statement of Cash Flows ***Exhibit A-3***
For the Fiscal Year Ended June 30, 2015 ***Page 1 of 2***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 503,944,662.22
Payments to Employees and Fringe Benefits	(543,568,713.84)
Payments to Vendors and Suppliers	(216,441,927.70)
Payments for Scholarships and Fellowships	(40,393,958.96)
Loans Issued	(2,297,487.00)
Collection of Loans	1,645,694.85
Interest Earned on Loans	197,562.90
Student Deposits Received	1,969,001.17
Student Deposits Returned	(2,080,226.90)
Net Cash Used by Operating Activities	(297,025,393.26)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	273,345,128.27
Noncapital Grants - Student Financial Aid	35,009,182.51
Noncapital Grants	15,847,887.45
Noncapital Gifts	16,663,197.85
Additions to Endowments	1,974,319.19
William D. Ford Direct Lending Receipts	147,604,268.70
William D. Ford Direct Lending Disbursements	(149,840,813.00)
Related Activity Agency Receipts	18,610,362.38
Related Activity Agency Disbursements	(23,265,542.41)
Net Cash Provided by Noncapital Financing Activities	335,947,990.94
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	8,944,938.09
Capital Grants	6,461,653.44
Capital Gifts	1,310,512.53
Proceeds from Sale of Capital Assets	55,500.00
Acquisition and Construction of Capital Assets	(72,677,030.76)
Principal Paid on Capital Debt and Leases	(13,046,151.64)
Interest and Fees Paid on Capital Debt and Leases	(8,691,652.36)
Federal Interest Subsidy on Debt Received	450,107.14
Net Cash Used by Capital Financing and Related Financing Activities	(77,192,123.56)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	10,698,675.53
Investment Income	3,432,231.67
Investment in Joint Ventures	(1,112,000.00)
Purchase of Investments and Related Fees	(14,225,331.69)
Net Cash Used by Investing Activities	(1,206,424.49)
Net Decrease in Cash and Cash Equivalents	(39,475,950.37)
Cash and Cash Equivalents - July 1, 2014	293,264,655.12
Cash and Cash Equivalents - June 30, 2015	$ 253,788,704.75

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(307,920,277.84)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		25,832,875.80
Allowances and Write-Offs		498,406.93
Pension Expense		7,619,274.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		(7,317,867.42)
Due from State of North Carolina Component Units		(821,816.00)
Due from University Component Units		(473,862.49)
Inventories		(281,397.01)
Prepaid Assets		(398,116.70)
Notes Receivable, Net		(651,792.15)
Accounts Payable and Accrued Liabilities		118,220.01
Due to Primary Government		(113,446.58)
Unearned Revenue		2,264,225.35
Deferred Outflows for Contributions Subsequent to the Measurement Date		(17,429,236.00)
Compensated Absences		2,160,642.57
Deposits Payable		(111,225.73)
Net Cash Used by Operating Activities	$	(297,025,393.26)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	192,475,674.10
Restricted Cash and Cash Equivalents		24,151,383.96
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		37,161,646.69
Total Cash and Cash Equivalents - June 30, 2015	$	253,788,704.75

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$	182,340.16
Change in Fair Value of Investments		(1,150,609.04)
Loss on Investment in Joint Ventures		(6,610,859.84)
Loss on Disposal of Capital Assets		(1,254,079.58)
Amortization of Bond Premiums/Discounts		421,745.53

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 Financial Position
For the Fiscal Year Ended June 30, 2015 — *Exhibit B-1*

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	5,456,703
Current Portion of Unconditional Promises to Give, Net		910,694
Prepaid Expenses		41,291
Other Receivables		26,389
Total Current Assets		6,435,077
INVESTMENTS		
Investments		102,657,101
Real Estate Held for Investment		1,899,503
Total Investments		104,556,604
CAPITAL ASSETS		
Capital Assets, Net		8,728,348
OTHER ASSETS		
Life Insurance Policy - Cash Surrender Value		208,694
Student Loans		14,063
Beneficial Interest in Charitable Remainder Trusts		2,888,682
Assets Held in Charitable Remainder Trusts and Annuities		1,359,354
Investment in Joint Venture		1,887,018
Unconditional Promises to Give, Less Current Portion, Net		2,936,399
Other Assets		53,182
Total Other Assets		9,347,392
TOTAL ASSETS	$	129,067,421
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$	114,217
Accrued Expenses		53,659
Current Portion of Note Payable		318,468
Current Portion of Charitable Gift Annuities Payable		113,299
Agency Payables		1,159,659
Total Current Liabilities		1,759,302
LONG-TERM LIABILITIES		
Refundable Advances		12,725
Lines of Credit, Non-Current		2,759,414
Note Payable, Less Current Portion		6,885,331
Interest Rate Swap Agreement		164,287
Charitable Gift Annuities Payable, Less Current Portion		486,614
Liabilities Under Charitable Remainder Trusts		373,831
Total Long-Term Liabilities		10,682,202
Total Liabilities		12,441,504

East Carolina University Foundation, Inc. and Consolidated Affiliates
Consolidated Statements of Financial Position
For the Fiscal Year Ended June 30, 2015 — *Exhibit B-1*

NET ASSETS		
Unrestricted		14,388,438
Temporarily Restricted		46,766,048
Permanently Restricted		55,471,431
Total Net Assets		116,625,917
TOTAL LIABILITIES AND NET ASSETS	$	129,067,421

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, 2015

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ (244,073)	$ 5,059,219	$ 2,524,922	$ 7,340,068
Gifts in Kind	6,379	79,901	50	86,330
Contributed Services and Facilities	2,998,701			2,998,701
Return on Investments				
Interest and Dividends	921,467	2,546,040	9,922	3,477,429
Net Unrealized and Realized Losses on Investments	(484,015)	(432,946)	(730)	(917,691)
Other Income	1,299,640	200,550	22,258	1,522,448
Net gain on sales or transfer of property	1,798	46,275		48,073
Revaluation of real estate	(71,590)			(71,590)
Change in Value of Split Interest Agreements		47,094	(346,758)	(299,664)
Net Assets Released from Restrictions	6,849,013	(6,849,013)		
Total Revenues, Gains and Other Support	11,277,320	697,120	2,209,664	14,184,104
EXPENSES AND LOSSES				
Program Services				
Program Development	4,838,037			4,838,037
Scholarships	2,698,321			2,698,321
Total Program Services	7,536,358			7,536,358
General and Administrative	1,483,714			1,483,714
Fund Raising	2,479,471			2,479,471
Total Operating Expenses	11,499,543			11,499,543
Bad Debt Losses		53,116	37,783	90,899
Total Expenses and Losses	11,499,543	53,116	37,783	11,590,442
Changes in Net Assets	(222,223)	644,004	2,171,881	2,593,662
NET ASSETS				
Net Assets at Beginning of Year	14,632,475	46,382,707	53,017,073	114,032,255
Reclassification of net assets, donor stipulations	(21,814)	(260,663)	282,477	
Net Assets at End of Year	$ 14,388,438	$ 46,766,048	$ 55,471,431	$ 116,625,917

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

NOTES TO THE FINANCIAL STATEMENTS

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. See below for further discussion of the University's component unit.

Discretely Presented Component Unit – East Carolina University Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the University. East Carolina University Real Estate Foundation, Inc. and Green Town Properties, Inc. are the consolidated affiliates of the Foundation.

The Foundation is a tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 59 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit 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, 2015, the Foundation distributed $7,536,358.00 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Financial Services Office, 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, 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 value provided by the respective investment fund managers or third party administrators. ECU management, through our 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. The fair value for investments in the UNC Investment Fund is based on amounts reported to the University by UNC Management Company, Inc.

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.

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 and amortization are computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	30-75 years
Machinery & Equipment	5-50 years
General Infrastructure	25-75 years
Computer Software	5-20 years

The University does not capitalize the 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, net pension liability, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are included as Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report.* This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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.

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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

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 that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. **Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $253,587,378.88 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. 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, 2015 was $111,325.87. The carrying amount of the University's deposits not with the State Treasurer was $90,000.00 and the bank balance was $95,364.14. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2015, the University's bank balance was not 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; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; 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, 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.

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, 2015, the University's investments include $976,667.81 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, does not have a credit rating, and is not subject to any regulatory oversight. 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 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 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 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, 2015, for the University's investments.

Investments

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 559,779.96	$ 483,328.61	$ 65,755.25	$ 10,696.10	$ 0.00
U.S. Agencies	66,670.78	15,045.90	46,562.53	5,062.35	
Debt Mutual Funds	7,508,300.21		1,752,859.10	1,788,190.92	3,967,250.19
Money Market Mutual Funds	2,186,120.79	2,186,120.79			
Total Debt Securities	10,320,871.74	$ 2,684,495.30	$ 1,865,176.88	$ 1,803,949.37	$ 3,967,250.19
Other Securities					
UNC Investment Fund	976,667.81				
International Mutual Funds	9,157,806.47				
Equity Mutual Funds	16,960,678.75				
Hedge Funds	8,394,240.17				
Private Equity Limited Partnerships	1,789,985.11				
Other Limited Partnerships	249,336.00				
Domestic Stocks	338,559.60				
Foreign Stocks	8,301.32				
Other	871,595.79				
Total Investments	$ 49,068,042.76				

At June 30, 2015, the University's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	A	BBB Baa
U.S. Agencies	$ 66,670.78	$ 66,670.78	$ 0.00	$ 0.00
Debt Mutual Funds	7,508,300.21		5,758,941.10	1,749,359.11
Money Market Mutual Funds	2,186,120.79	2,186,120.79		
Totals	$ 9,761,091.78	$ 2,252,791.57	$ 5,758,941.10	$ 1,749,359.11

Rating Agency: Moodys / Standard and Poors

At June 30, 2015, the University's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept or Agent not in University's Name
US Treasuries	$ 86,557.65	$ 473,222.31
US Agencies	66,670.78	
Domestic Stock	338,559.60	
Foreign Stock	8,301.32	
Total	$ 500,089.35	$ 473,222.31

Component Unit - Investments of the University's discretely presented component unit, 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	$ 50,000
Mutual Funds	75,255,536
Alternative Investments	27,351,565
Total	$ 102,657,101

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2015, is as follows:

Cash on Hand	$	111,325.87
Amount of Deposits with Private Financial Institutions		90,000.00
Deposits in the Short-Term Investment Fund		253,587,378.88
Investments		49,068,042.76
Total Deposits and Investments	$	302,856,747.51
Deposits		
Current:		
Cash and Cash Equivalents	$	192,475,674.10
Restricted Cash and Cash Equivalents		24,151,383.96
Noncurrent:		
Restricted Cash and Cash Equivalents		37,161,646.69
Total Deposits		253,788,704.75
Investments		
Noncurrent:		
Endowment Investments		46,494,120.89
Restricted Investments		2,573,921.87
Total Investments		49,068,042.76
Total Deposits and Investments	$	302,856,747.51

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which provides a distribution of 4.25% of its fiscal 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 position endowment balances to make up the difference. At June 30, 2015, endowment net position of $16,079,021.67 were available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,833,893.74	$ 713,790.32	$ 1,120,103.42
Student Sponsors	123,050.55		123,050.55
Patients	59,118,935.13	5,706,664.00	53,412,271.13
Accounts	2,690,727.21	9,454.80	2,681,272.41
Intergovernmental	5,113,614.25		5,113,614.25
Grant Sponsors	1,146,747.81		1,146,747.81
Investment Earnings	0.03		0.03
Interest on Loans	484,582.47		484,582.47
Federal Interest Subsidy on Debt	111,056.12		111,056.12
Other	957,980.36	8,476.47	949,503.89
Total Current Receivables	$ 71,580,587.67	$ 6,438,385.59	$ 65,142,202.08
Noncurrent Receivables:			
Patients	$ 3,335,584.99	$ 0.00	$ 3,335,584.99
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 2,270,449.36	$ 1,317,590.53	$ 952,858.83
Institutional Student Loan Programs	8,614.54	8,279.06	335.48
Total Notes Receivable - Current	$ 2,279,063.90	$ 1,325,869.59	$ 953,194.31
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 10,944,077.08	$ 905,872.04	$ 10,038,205.04

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 46,002,106.31	$ 957,851.55	$ 0.00	$ 46,959,957.86
Construction in Progress	31,129,885.61	66,014,144.13	17,872,289.86	79,271,739.88
Computer Software in Development	673,568.38	127,920.00		801,488.38
Total Capital Assets, Nondepreciable	77,805,560.30	67,099,915.68	17,872,289.86	127,033,186.12
Capital Assets, Depreciable:				
Buildings	872,965,174.56	14,948,815.31		887,913,989.87
Machinery and Equipment	131,692,885.38	10,508,981.85	6,737,435.04	135,464,432.19
General Infrastructure	101,161,658.10	886,623.00		102,048,281.10
Computer Software	13,893,130.54		136,000.00	13,757,130.54
Total Capital Assets, Depreciable	1,119,712,848.58	26,344,420.16	6,873,435.04	1,139,183,833.70
Less Accumulated Depreciation/Amortization for:				
Buildings	207,441,757.76	13,740,277.96		221,182,035.72
Machinery and Equipment	66,080,371.69	8,530,764.41	5,442,426.89	69,168,709.21
General Infrastructure	20,361,153.00	2,823,054.09		23,184,207.09
Computer Software	5,593,010.49	738,779.34	121,428.57	6,210,361.26
Total Accumulated Depreciation/Amortization	299,476,292.94	25,832,875.80	5,563,855.46	319,745,313.28
Total Capital Assets, Depreciable, Net	820,236,555.64	511,544.36	1,309,579.58	819,438,520.42
Capital Assets, Net	$ 898,042,115.94	$ 67,611,460.04	$ 19,181,869.44	$ 946,471,706.54

During the year ended June 30, 2015, the University incurred $8,237,003.04 in interest costs related to the acquisition and construction of capital assets. Of this total, $5,815,619.23 was charged in interest expense, and $2,421,383.81 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is $5,987,570.57 and is subject to security provisions in the agreement to ensure timely debt service payments. The value of the energy savings improvement assets includes $5,703,569.41 which has been completed as of June 30, 2015 and $284,001.16 which is remaining to be completed by the ESCO provider. Additional information regarding the UNC System Energy Savings Installment Financing Agreement can be found in Note 7.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 11,962,695.05
Accrued Payroll	15,246,861.85
Contract Retainage	2,623,274.76
Other	596,528.12
Total Current Accounts Payable and Accrued Liabilities	$ 30,429,359.78

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, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	$ 187,415,000.00	$ 0.00	$ 7,215,000.00	$ 180,200,000.00	$ 7,510,000.00
Plus: Unamortized Premium	7,906,187.45		437,908.40	7,468,279.05	
Less: Unamortized Discount	(514,554.47)		(16,162.87)	(498,391.60)	
Total Revenue Bonds, Net	194,806,632.98		7,636,745.53	187,169,887.45	7,510,000.00
Net Pension Liability	80,416,718.00		64,325,123.00	16,091,595.00	
Notes Payable	11,321,547.01	8,944,938.09	5,720,300.76	14,546,184.34	1,567,945.30
Capital Leases Payable	219,573.13		110,850.88	108,722.25	82,605.28
Compensated Absences	22,030,282.03	17,209,436.83	15,048,794.26	24,190,924.60	2,114,971.54
Total Long-Term Liabilities	$ 308,794,753.15	$ 26,154,374.92	$ 92,841,814.43	$ 242,107,313.64	$ 11,275,522.12

Additional information regarding capital lease obligations is included in Note 8.
Additional information regarding the net pension liability is included in Note 11.

B. Revenue Bonds Payable - The University was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015	See Table Below
Revenue Bonds Payable							
Housing and Dining Services							
Housing and Dining Revenue Refunding Bonds	2001B	5.75	11/01/2015	$ 11,985,000.00	$ 11,530,000.00	$ 455,000.00	(1)
General Revenue Bonds Payable							
Tyler Dorm Project (BAB)	2010B	3.191-5.825**	10/01/2030	10,045,000.00	465,000.00	9,580,000.00	
Wright Place Renovations (BAB)	2010B	3.191-4.581**	10/01/2020	1,990,000.00	265,000.00	1,725,000.00	
Olympic Sports Facility(BAB)	2010B	3.191-5.875**	10/01/2035	15,935,000.00	515,000.00	15,420,000.00	
Refunding of 2003A West End Dining Project	2012	2.984	04/01/2024	4,650,000.00	1,385,000.00	3,265,000.00	
Refunding of 2004C College Hill Dormitory Construction	2012	2.984	04/01/2027	5,770,000.00	140,000.00	5,630,000.00	
Refunding of 2004C College Hill Dormitory Construction	2013A	2.5-4.0	10/01/2033	10,905,000.00		10,905,000.00	
Gateway East and West Housing Project	2014A	2.0-5.0	10/01/2043	53,685,000.00		53,685,000.00	
Total General Revenue Bonds				102,980,000.00	2,770,000.00	100,210,000.00	
The University of North Carolina System Pool Revenue Bonds							
College Hill Dormitory Supplemental Funds	2006A	4.5-5.0	10/01/2033	3,805,000.00	680,000.00	3,125,000.00	
Refunding of Series 1999 (Student Health)	2006A	5.0	10/01/2018	2,110,000.00	1,160,000.00	950,000.00	
Refunding of Series 2001A (Jones and Galley)	2006A	4.5-5.0	10/01/2021	8,775,000.00	2,345,000.00	6,430,000.00	
Dining Project Croatan	2009A	3.75-5.25	10/01/2029	8,050,000.00	1,400,000.00	6,650,000.00	
Scott Residence Hall	2009A	3.75-5.25	10/01/2034	29,360,000.00	2,945,000.00	26,415,000.00	
Softball Field Project	2009A	3.75-5.25	10/01/2034	4,885,000.00	590,000.00	4,295,000.00	
Refunding of 1998 Housing and Dining Bonds	2009A	3.75-5.0	10/01/2018	2,820,000.00	1,420,000.00	1,400,000.00	
East End Zone Project	2010A	3.0-5.0	10/01/2029	17,400,000.00	2,145,000.00	15,255,000.00	
Refunding of 2004C College Hill Dormitory Construction	2010A	3.0-5.0	10/01/2021	4,370,000.00	745,000.00	3,625,000.00	
Refunding of 2001C Student Fee Revenue Refunding Bonds	2011A	4.0-5.0	05/01/2019	7,125,000.00	3,365,000.00	3,760,000.00	
Refunding of 2003A West End Dining Project	2011A	4.0-5.0	05/01/2021	5,215,000.00	120,000.00	5,095,000.00	
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				96,460,000.00	16,925,000.00	79,535,000.00	
Total Revenue Bonds Payable (principal only)				$ 211,425,000.00	$ 31,225,000.00	180,200,000.00	
Less: Unamortized Discount						(498,391.60)	
Plus: Unamortized Premium						7,468,279.05	
Total Revenue Bonds Payable, Net						$ 187,169,887.45	

** 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 32% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year: Revenues Net of Expenses	Current Year: Principal	Current Year: Interest	Estimate of % of Revenues Pledged
(1)	Housing & Dining Revenues	$ 468,081.25	$ 11,627,316.82	$ 435,000.00	$ 38,668.75	4.07%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2015, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2016	$ 7,510,000.00	$ 8,093,195.29	$ 1,567,945.30	$ 150,060.85
2017	8,280,000.00	7,787,576.38	4,099,714.42	198,622.42
2018	8,615,000.00	7,434,717.78	2,269,352.65	155,811.87
2019	9,100,000.00	7,037,177.12	2,344,835.62	111,623.60
2020	7,680,000.00	6,628,710.89	1,647,399.15	65,979.47
2021-2025	38,375,000.00	27,873,140.93	2,616,937.20	73,458.41
2026-2030	40,630,000.00	18,974,095.05		
2031-2035	33,675,000.00	9,966,962.52		
2036-2040	13,725,000.00	4,538,675.00		
2041-2044	12,610,000.00	1,148,725.00		
Total Requirements	$ 180,200,000.00	$ 99,482,975.96	$ 14,546,184.34	$ 755,556.62

D. 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, 2015	Principal Outstanding June 30, 2015
Auxiliary Gym	US Bank NA	1.98%	11/01/2019	$ 13,251,669.83	$ 6,748,079.73	$ 6,503,590.10
Energy Savings	Banc of America	1.84%	02/14/2023	4,797,969.10		4,797,969.10
Energy Savings	Banc of America	1.84%	02/14/2023	1,345,439.10		1,345,439.10
Network infrastructure	Key Goverrment Finance, Inc.	0.00%	12/15/2016	2,801,529.89	902,343.85	1,899,186.04
Total Notes Payable				$ 22,196,607.92	$ 7,650,423.58	$ 14,546,184.34

COMPONENT UNIT

In December 2008, East Carolina University Real Estate Foundation, Inc., which is an affiliate of East Carolina University Foundation, Inc., purchased real estate located at 2325 Stantonsburg Road in Greenville, North Carolina for $3,300,000.00. 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, 2015, the balance on the principal was $2,640,983.00. The note has a variable interest rate of LIBOR plus 1.05%. The Affiliate entered into an interest rate swap agreement that effectively converts the variable rate note to a fixed rate note at an annual interest rate of 3.85%.

In July 2013, Green Town Properties, Inc. and the East Carolina University Foundation, Inc. purchased real estate located at 401 Bowman Gray Drive in Greenville, North Carolina for $775,000.00. 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 July 31, 2023. As of June 30, 2015, the balance on the principal was $721,676.00. The note has a fixed interest rate of 3.64% and is collateralized by the purchased property.

In July 2013, Green Town Properties, Inc. and East Carolina University Foundation, Inc. purchased real estate located at 2280 Hemby Lane in Greenville, North Carolina for $4,125,000.00. 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 July 31, 2023. As of June 30, 2015, the balance on the principal was $3,841,140.00. The note has a fixed interest rate of 3.64% and is collateralized by the purchased property.

Maturities of the long-term portion of the notes payable as of June 30, 2015 were as follows:

Fiscal Year	Amount
2016	$ 318,468
2017	330,615
2018	343,382
2019	2,413,050
2020	218,994
Thereafter	3,579,290
Total	7,203,799
Less Current Portion	318,468
Noncurrent portion of long-term debt	$ 6,885,331

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, 2015:

Fiscal Year	Amount
2016	$ 86,297.84
2017	27,188.88
Total Minimum Lease Payments	113,486.72
Amount Representing Interest (0 - 6.510% Rate of Interest)	4,764.47
Present Value of Future Lease Payments	$ 108,722.25

Machinery and equipment acquired under capital lease amounted to $523,244.92 at June 30, 2015.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $278,429.06 at June 30, 2015.

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, 2015:

Fiscal Year	Amount
2016	$ 4,766,448.20
2017	3,889,049.98
2018	3,006,645.89
2019	2,551,888.54
2020	2,069,899.94
2021-2025	3,505,977.43
Total Minimum Lease Payments	$ 19,789,909.98

Rental expense for all operating leases during the year was $6,671,331.25.

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	$ 213,102,330.94	$ 0.00	$ 40,664,766.31	$ (236,209.68)	$ 0.00	$ 172,673,774.31
Patient Services	$ 456,784,148.18	$ 0.00	$ 0.00	$ 27,473,964.60	$ 222,008,307.00	$ 207,301,876.58
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	$ 28,318,580.86	$ 1,305,630.81	$ 5,088,832.57	$ 0.00	$ 0.00	$ 21,924,117.48
Dining	27,969,466.68	1,371,021.44	3,379,916.26			23,218,528.98
Student Union Services	35,227.78					35,227.78
Health, Physical Education, and Recreation Services	2,140,498.50	713,837.62				1,426,660.88
Bookstore	13,342,106.64	707.95	1,392,494.04			11,948,904.65
Parking	2,947,039.24	65,005.25		125.80		2,881,908.19
Athletic	19,719,914.93					19,719,914.93
Other	1,450,090.98	408,512.03		(30,690.35)		1,072,269.30
Sales and Services of Education and Related Activities	8,779,842.24	1,577,333.49				7,202,508.75
Total Sales and Services	$ 104,702,767.85	$ 5,442,048.59	$ 9,861,242.87	$ (30,564.55)	$ 0.00	$ 89,430,040.94

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	$ 228,520,842.36	$ 10,576,456.67	$ 17,701,807.19	$ 0.00	$ 66,220.89	$ 0.00	$ 256,865,327.11
Research	12,284,966.38	2,905,013.02	3,087,319.84				18,277,299.24
Public Service	16,636,358.59	748,824.08	3,825,640.34		1,767.74		21,212,590.75
Academic Support	18,826,263.34	10,621,557.42	3,293,185.70		14,087.37		32,755,093.83
Student Services	10,358,322.13	328,242.37	1,229,622.46				11,916,186.96
Institutional Support	37,961,729.67	5,078,093.16	9,766,966.45		49,403.28		52,856,192.56
Operations and Maintenance of Plant	23,384,147.28	17,468,293.87	5,048,051.96		19,212,507.81		65,113,000.92
Student Financial Aid				40,393,958.96			40,393,958.96
Auxiliary Enterprises	180,372,757.63	41,470,172.07	62,343,928.79		680,030.67		284,866,889.16
Depreciation/ Amortization						25,832,875.80	25,832,875.80
Pension Expense	7,619,274.00						7,619,274.00
Total Operating Expenses	$ 535,964,661.38	$ 89,196,652.66	$ 106,296,522.73	$ 40,393,958.96	$ 20,024,017.76	$ 25,832,875.80	$ 817,708,689.29

NOTE 11 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60.

Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were $17,429,236.63, and employee contributions were $11,429,007.63 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the University reported a liability of $16,091,595.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the University's proportion was 1.37251%, which was an increase of 0.047910% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate (dollars in thousands):

	Net Pension Liability (Asset)	
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
115,516,631.00	16,091,595.00	(67,858,362.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the University recognized pension expense of $7,619,274.00. At June 30, 2015, the

University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 3,750,864.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		54,367,619.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	2,771,437.00	
Contributions Subsequent to the Measurement Date	17,429,236.00	
Total	$ 20,200,673.00	$ 58,118,483.00

$17,429,236.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	$ (13,850,338.00)
2017	(13,850,338.00)
2018	(13,850,338.00)
2019	(13,796,032.00)
Total	$ (55,347,046.00)

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension 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, 2015, 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 \$426,191,727.70, of which \$187,819,374.56 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$12,846,845.22 and \$11,269,162.47, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS) or the Optional Retirement Program (ORP). 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 TSERS 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 General Assembly.

For the current fiscal year the University contributed 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $20,768,825.64, $20,270,786.82, and $19,231,505.19, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.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 benefits to eligible members of TSERS and ORP. 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, 2015, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, was .44% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $1,551,041.62, $1,651,693.74, and $1,596,577.78, 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.

A. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State’s General Fund. Other operations not supported by the State’s General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. University departments, as an individual business decision, may also purchase through the Fund for primary extended coverage for buildings and contents. Coverage may be purchased through the Fund for sprinkler leakage, theft, vandalism, or all-risk perils. Flood insurance may be purchased for qualifying assets. University departments also have the option to purchase all-risk coverage for computers and miscellaneous equipment on a scheduled basis.

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’s 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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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.

4. Statewide Workers' Compensation Program

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.

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.

5. Other Insurance Held by the University

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.

The University provides medical malpractice insurance for Brody School of Medicine faculty physicians and employed independently licensed allied health providers (Nurse Practitioners, Certified Registered Nurse Anesthetists, Certified Nurse Midwives, and Physician Assistants). Each faculty physician and allied health provider has coverage of $3,000,000 per occurrence with $5,000,000 annual aggregate. There is a shared blanket policy for all other employees of the ECU Physicians with coverage of $3,000,000 per occurrence and $5,000,000 annual aggregate. The primary layer of medical malpractice insurance is provided by a private professional liability insurance company. There is also a shared, excess policy in the amount of $10,000,000 per occurrence and in aggregate.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $17,465,844.85 and on other purchases were $14,651,325.28 at June 30, 2015.

B. Pending Litigation and Claims - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 15 - INVESTMENT IN JOINT VENTURES

A. **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 $663,284.00 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.

B. **Carolina Behavioral Health Alliance, LLC -** The University participates in a joint venture with The University of North Carolina at Chapel Hill and Wake Forest University to operate Carolina Behavioral Health Alliance, LLC. The University has an equity interest of $197,185.00 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.

NOTE 16 - RELATED PARTIES

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

These organizations serve as the primary fundraising arm of the University through which individuals, corporation, 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 $15,480,273.90 for the year ended June 30, 2015. Indirect support from the foundations that was not included in the University's financial statements was $1,105,033.84 for the year ended June 30, 2015.

NOTE 17 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

		Amount
July 1, 2014 Net Position as Previously Reported	$	1,025,254,264.77
Restatements:		
Record the University's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements.		(63,819,367.00)
July 1, 2014 Net Position as Restated	$	961,434,897.77

NOTE 18 - SUBSEQUENT EVENTS

East Carolina University sold $66,245,000.00 in General Revenue Bonds, Series 2015A and $5,420,000.00 in Taxable General Revenue Bonds, Series 2015B to fund the construction of the West Facility Student Union, to advance refund all or a portion of the Board's outstanding The University of North Carolina System Pool Revenue Bonds, Series 2006A and The University of North Carolina System Pool Revenue Bonds, Series 2009A, and to pay the costs of bond issuance. The Series 2006A and Series 2009A amounts refunded are $8,225,000.00 and $30,505,000.00, respectively. These bonds are dated July 23, 2015, and will bear interest from that date. Interest on the bonds will be payable semiannually on each October 1 and April 1, commencing October 1, 2015. The bonds will mature from October 1, 2015 to October 1, 2044 and were issued at coupon rates ranging from 3.0% to 5.0%.

The 2015A and 2015B bonds included $41,710,000.00 in refunding bonds with an average interest rate of 3.62%. The bonds were issued to advance refund $38,730,000.00 of outstanding Series 2006A and Series 2009A bonds with as average interest rate of 5.01%. The net proceeds of the refunding bonds along with $600,522.22 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 statement of net position. This advance refunding was undertaken to reduce total debt service payments by $3,215,808.54 over the next twenty years and resulted in as economic gain of $1,807,766.18.

REQUIRED SUPPLEMENTARY INFORMATION

East Carolina University
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years ***Exhibit C-1***

	2014	2013
(1) Proportionate Share Percentage of Collective Net Pension Liability	1.37251	1.32460
(2) Proportionate Share of TSERS Collective Net Pension Liability	$ 16,091,595.00	$ 80,416,718.00
(3) Covered-Employee Payroll	$ 191,033,860.52	$ 186,582,942.15
(4) Net Pension Liability as a Percentage of Covered-Employee Payroll	8.42%	43.10%
(5) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

East Carolina University
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years — *Exhibit C-2*

	2015	2014	2013	2012	2011
(1) Contractually Required Contribution	$ 17,429,236.63	$ 16,600,842.48	$ 15,542,359.08	$ 13,443,660.78	$ 8,949,290.99
(2) Contributions in Relation to the Contractually Determined Contribution	17,429,236.63	16,600,842.48	15,542,359.08	13,443,660.78	8,949,290.99
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered-Employee Payroll	$ 190,483,460.49	$ 191,033,860.52	$ 186,582,942.15	$ 180,694,365.32	$ 181,527,200.57
(5) Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
(1) Contractually Required Contribution	$ 6,302,923.69	$ 6,011,035.09	$ 5,032,096.29	$ 4,059,786.70	$ 3,225,529.47
(2) Contributions in Relation to the Contractually Determined Contribution	6,302,923.69	6,011,035.09	5,032,096.29	4,059,786.70	3,225,529.47
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered-Employee Payroll	$ 176,549,683.09	$ 178,899,853.69	$ 164,968,763.35	$ 152,623,559.84	$ 137,843,139.50
(5) Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

East Carolina University
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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, 2015, 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 10, 2015. Our report includes a reference to other auditors who audited the financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliates, 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 reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component unit.

<u>Internal Control Over Financial Reporting</u>

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 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 10, 2015

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For additional information contact:
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919-807-7513

This audit required 1,020 hours at an approximate cost $100,980.00.