



STATE OF NORTH CAROLINA

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

EAST CAROLINA UNIVERSITY

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, East Carolina University

We have completed a financial statement audit of East Carolina University for the year ended June 30, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the accompanying financial statements of East Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of East Carolina University Foundation Inc. and Consolidated Affiliate, the University's discretely presented component unit. Those financial statements were audited by other auditors whose report) thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.


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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Carolina University and its discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not 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 the audit of the basic financial statements. However, 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.



Beth A. Wood, CPA
State Auditor

November 26, 2012

EAST CAROLINA UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis of the financial report provides an overview of the financial position and activities of East Carolina University (the "University") for the fiscal year ended June 30, 2012 with comparative information for the fiscal year ended June 30, 2011. Management has prepared the discussion and analysis to be read in conjunction with the Notes to Financial Statements.

Financial Highlights

The University's net assets increased from \$861 million in 2011 to \$948 million in 2012. The increase of \$87 million represents the residual interest in the assets after the liabilities are deducted. This increase is mostly due to increases in the investment in capital assets, net of related debt and unrestricted net assets categories.

Operating revenues increased from \$420 million in 2011 to \$461 million in 2012. Revenues represent amounts received or accrued, and are classified as either operating or non-operating. The \$41 million increase is represented mostly by increases in student tuition and fees and patient services revenue.

Operating expenses decreased from \$754 million in 2011 to \$747 million in 2012. Operating expenses represent the amounts paid or accrued for operating purposes. The major contributing factor in the decrease occurred in supplies and materials where pharmaceutical cost of goods sold incurred a significant decrease.

Using the Financial Statements

The discussion and analysis is intended to serve as an introduction to the basic financial statements. There are three statements included in the University's financial report: the Statement of Net Assets which reveals the University's overall financial position; the Statement of Revenues, Expenses, and Changes in Net Assets which provides a summation of the results of operations; and the Statement of Cash Flows that identifies sources of cash and how cash was used during the fiscal year. These financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the University's financial position as of June 30, 2012 and includes all assets and liabilities of the University. Assets and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

liabilities are classified as either current or noncurrent. The difference between total assets and total liabilities is net assets. Net assets are an indicator of the current financial condition of the University. This data provides information on assets available to continue operations; amounts due to vendors, investors, and lending institutions; and the net assets available for expenditure by the University. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2012 and 2011 is as follows:

Assets, Liabilities, and Net Assets

(Dollars in Thousands)

	2012	2011	Variance	Percent Change
Assets				
Current Assets	\$ 280,611	\$ 255,046	\$ 25,565	10.0 %
Noncurrent Assets:				
Endowment Investments	32,712	30,491	2,221	7.3 %
Restricted Investments	1,592	3,688	(2,096)	(56.8) %
Capital Assets, Net	846,035	775,392	70,643	9.1 %
Other Noncurrent Assets	46,019	62,934	(16,915)	(26.9) %
Total Noncurrent Assets	<u>926,358</u>	<u>872,505</u>	<u>53,853</u>	6.2 %
Total Assets	<u>1,206,969</u>	<u>1,127,551</u>	<u>79,418</u>	7.0 %
Liabilities				
Current Liabilities	58,971	62,193	(3,222)	(5.2) %
Noncurrent Liabilities:				
Long-Term Liabilities	176,823	180,076	(3,253)	(1.8) %
Other Noncurrent Liabilities	22,730	23,783	(1,053)	(4.4) %
Total Noncurrent Liabilities	<u>199,553</u>	<u>203,859</u>	<u>(4,306)</u>	(2.1) %
Total Liabilities	<u>258,524</u>	<u>266,052</u>	<u>(7,528)</u>	(2.8) %
Net Assets				
Invested in Capital Assets, Net of Related Debt	697,295	623,093	74,202	11.9 %
Restricted for Nonexpendable	27,226	25,172	2,054	8.2 %
Restricted for Expendable	9,732	23,896	(14,164)	(59.3) %
Unrestricted	<u>214,193</u>	<u>189,338</u>	<u>24,855</u>	13.1 %
Total Net Assets	<u>\$ 948,446</u>	<u>\$ 861,499</u>	<u>\$ 86,947</u>	10.1 %

The Statement of Net Assets at June 30, 2012 indicates an improvement of financial position compared to last fiscal year with total assets increasing by \$79 million and total liabilities decreasing by \$7.5 million. Current assets increased by \$25.5 million with significant increases occurring in two areas. First, cash increased by \$18 million for the ECU School of Medicine due to the participation in the Upper Payment Limit program. This program allows State Medicaid Agencies to make supplemental payments to eligible state-affiliated physician practice plans up to a federal maximum, referred to as the Upper Payment Limit. The second area of note is the cash carry forward amount which increased by \$12.3 million in 2012 from the prior year. This increase resulted from the differences in the Office of State Budget and Management (OSBM) approvals in the two years. In 2011, the University requested \$21.3 million to carry forward; however, only \$9.3 million was approved due to budget constraints. In 2012, the entire carry forward amount of \$21.6 million requested was approved which explains the difference between the two years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncurrent assets increased by \$53.8 million in 2012. The most significant contributing factor occurred in capital assets (net of depreciation) which saw a \$70.6 million increase. Capital assets will be discussed in detail later. Partially offsetting the capital asset increase was a \$16 million decrease in noncurrent restricted cash. This decrease is mainly due to the spending of capital appropriations and bond proceeds for the following projects: Dental School \$7.7 million, East End Zone \$2.3 million, Tyler Dorm \$6.3 million, Olympic Sports \$4.3 million. The decrease was offset by 2012 note proceeds of \$12.9 million received for the Auxiliary Gym project. Endowment investments experienced a marginal increase of \$2 million in 2012.

Current liabilities decreased by \$3.2 million, which is a 5.2 percent change from the prior year. This decrease can be attributed mostly to accounts payable. The most significant factor was cash availability from the State improved in 2012 which enabled the University to pay vendor invoices in June of 2012 as compared to June of 2011.

Working capital was \$222 million at June 30, 2012, a \$29 million increase or a 15 percent change from the prior year. Working capital reflects the University's short-term financial health and overall operating efficiency. It is the difference between current assets and current liabilities. Increases in cash balances were partially offset by a decrease in accounts payable in the current year which attributed to the overall increase in working capital.

Net assets represent the value of the University's assets after all liabilities have been deducted. The University's net assets at June 30, 2012 were \$948 million, an increase of \$86.9 million, or 10 percent over the prior year. For reporting purposes, net assets are divided into four categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted net assets.

Invested in capital assets, net of related debt, encompasses the University's capital assets net of accumulated depreciation and the outstanding principal balances of debt resulting from the acquisition, construction or improvement of those assets. Invested in capital assets makes up \$697 million of the \$948 million in total net assets. The accumulated depreciation balance as of June 30, 2012, was \$257 million.

Restricted nonexpendable net assets primarily include the University's permanent endowment fund whose value remained steady from the prior year, accounting for \$27 million of net assets. Net assets classified as restricted for nonexpendable increased by 8.2 percent from the prior year.

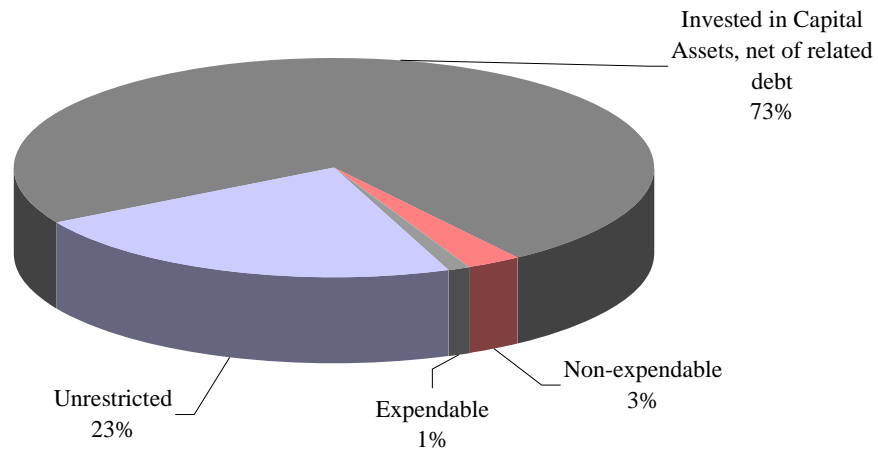
Restricted expendable net assets are subject to externally imposed restrictions governing their use. In 2012, the restricted expendable net asset total experienced a \$14 million decrease from the prior year mostly due to the spending of capital appropriations that were allotted in previous years for capital projects.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects. For fiscal year 2012, unrestricted net assets accounted for \$214 million of the \$948 million in net assets, a

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

13.1 percent increase from the prior year. The following chart displays the contribution of each category to total net assets for 2012.

2012 Net Assets: \$948,445,551



Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets portrays the University's results of operations and maintenance of financial strength. The Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2012, compared with that of 2011, are summarized as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

(Dollars in Thousands)

	2012	2011	Variance	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 154,636	\$ 138,250	\$ 16,386	11.9 %
Patient Services, Net	181,295	153,057	28,238	18.4 %
Grants and Contracts	41,161	43,779	(2,618)	(6.0) %
Sales and Services, Net	82,889	84,159	(1,270)	(1.5) %
Other	1,795	1,141	654	57.3 %
Total Operating Revenues	461,776	420,386	41,390	9.8 %
Operating Expenses				
Salaries and Benefits	500,811	494,212	6,599	1.3 %
Supplies and Materials	74,826	85,915	(11,089)	(12.9) %
Services	93,742	94,823	(1,081)	(1.1) %
Scholarships and Fellowships	36,397	39,624	(3,227)	(8.1) %
Utilities	19,064	19,099	(35)	(0.2) %
Depreciation	22,616	19,997	2,619	13.1 %
Total Operating Expenses	747,456	753,670	(6,214)	(0.8) %
Operating Loss	(285,680)	(333,284)	47,604	(14.3) %
Nonoperating Revenues (Expenses)				
State Appropriations	271,701	269,499	2,202	0.8 %
State Aid - Federal Recovery Funds	0	13,216	(13,216)	(100.0) %
Noncapital Grants	45,593	53,797	(8,204)	(15.2) %
Noncapital Gifts	13,676	12,682	994	7.8 %
Investment Income	756	7,448	(6,692)	(89.8) %
Other Nonoperating Expenses	(8,928)	(3,968)	4,960	125.0 %
Net Nonoperating Revenues	322,798	352,674	(29,876)	(8.5) %
Income Before Other Revenues	37,118	19,390	17,728	91.4 %
Capital Grants	46,483	18,847	27,636	146.6 %
Capital Gifts	1,086	2,214	(1,128)	(50.9) %
Additions to Endowments	2,259	3,687	(1,428)	(38.7) %
Special Items	0	8,165	(8,165)	(100.0) %
Increase in Net Assets	86,946	52,303	34,643	66.2 %
Net Assets-July 1	861,499	809,196	52,303	6.5 %
Net Assets-June 30	\$ 948,445	\$ 861,499	\$ 86,946	10.1 %

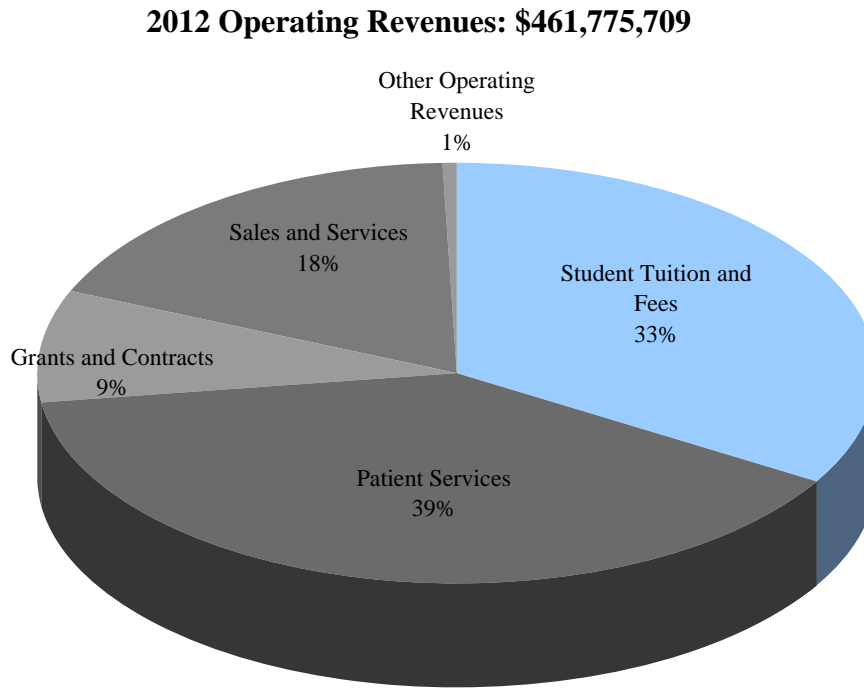
Operating revenues are generated by providing goods and services related to instruction, research, and public service. Total operating revenues increased by \$41 million, or 9.8 percent from the prior year. Student tuition and fees, net of the tuition discount, increased \$16 million, or 11.9 percent. The tuition discount is an offset to revenues for the scholarships

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

and fellowships that are applied to student accounts. Tuition rate increases were the main reason for the change as enrollment was down about 1% in 2012. Tuition rates increased \$467 for resident undergraduate students and \$427 for resident graduate students. For nonresident students, the tuition increases were \$972 for undergraduates and \$534 for graduate students while School of Medicine students saw a tuition increase of \$1,040. Mandatory student fees increased by \$100 or about 6 percent.

Patient services revenue increased in 2012 by \$28 million, an 18.4 percent change from 2011. This increase is mostly attributed to the participation in the Upper Payment Limit and an increase in the Medicaid cost settlement which collectively accounted for \$22 million.

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



Operating expenses are the day-to-day expenses incurred to carry out the mission of the University. Operating expenses for 2012 were \$747 million, down \$6 million from the prior year. The most significant change occurred in supplies and materials which saw an \$11 million decrease in 2012. This change is mostly attributed to a \$13.9 million decrease in chemotherapy drug purchases, also a byproduct of the NEWCO joint venture and divestiture of the chemotherapy practice. Marginal increases in salaries and benefits offset the supplies and materials increase with salaries rising \$2 million and benefits up \$4 million from the prior year. The rise in benefits was mainly due to a 2.51 percent increase in the retirement contribution rate to the Teacher's and State Employees' Retirement System. The following chart shows each component of operating expenses as it relates to total operating expenses as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2012 OPERATING EXPENSES: \$747,455,547

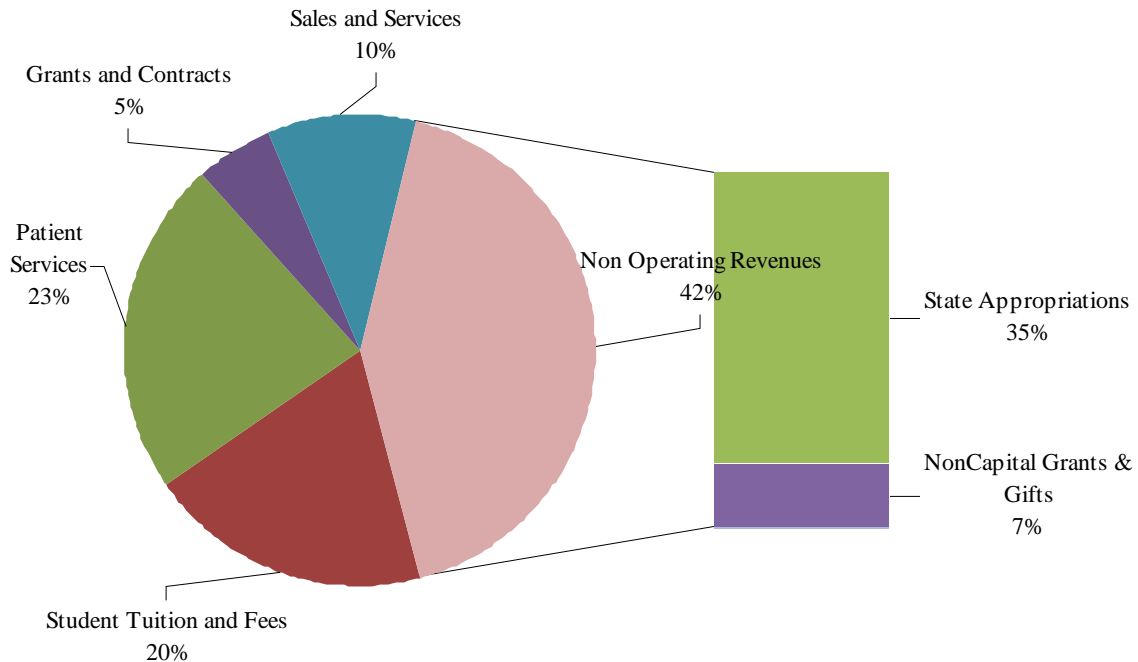
	% to Total 2011	% to Total 2012
	<u>2011</u>	<u>2012</u>
Salaries and Benefits	66%	67%
Supplies and Materials	11%	10%
Services	13%	13%
Scholarships and Fellowships	5%	5%
Utilities	3%	3%
Depreciation	3%	3%
	<u>100%</u>	<u>100%</u>

Nonoperating revenues and expenses are not generated by the principal operations of the University. Total net nonoperating revenues decreased by \$29.8 million or 8.5 percent from the prior year. Changes in three areas account for this decrease. First, investment income was down \$6.6 million from the prior year which is a result of a \$4.2 million unrealized gain in 2011 being offset by \$1.8 million unrealized loss in 2012 in endowment investments due to a stock market decline. The continual decline in the STIF interest rate also contributed to the drop in investment income. Next, in 2011, the University received \$13.2 million in economic stimulus funds from the federal government under the American Recovery and Reinvestment Act (ARRA). Since 2011 was the final year of the ARRA stimulus program, the University did not receive funds in 2012. Finally, in June 2011, the University agreed to sell 50 percent of the Leo Jenkins Cancer Center professional practice and 100 percent of the Chemotherapy Infusion professional practice to Pitt County Memorial Hospital (now Vidant Medical) which resulted in \$8.1 million of revenue in 2011. There were no such transactions in fiscal year 2012.

Overall, State appropriations were a significant component of total revenues for the University comprising 34 percent of total revenue and had a marginal increase of \$2 million in 2012. In 2011, the University's state appropriations were reduced by \$38 million. 2012 brought an additional reduction of \$11 million, but this was offset by allocations for enrollment growth, building reserves, benefit budget increases and operating budget for the School of Dental Medicine. The following chart illustrates the University's operating and nonoperating revenues which total \$794 million for fiscal year 2011-2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2012 Total Operating and Nonoperating Revenue: \$793,992,532



Another nonoperating revenue item worth noting is noncapital grants which were down by 15.3 percent in 2012. This change is mainly due to a decrease in noncapital state grants, specifically, University of North Carolina Incentive Grants (UNCIG) funded by the State which decreased by \$5.8 million from the prior year.

In other revenues and expenditures the most significant change occurred with capital grants which saw a \$27.6 million increase during the year. The increase is attributed largely to three capital projects. The School of Dental Medicine received \$26.8 million and the Coastal Studies Institute received \$11 million in capital grants during the year. These increases were offset by a \$10 million decrease in Family Medicine and Geriatric Center capital grants from the prior year. This was an expected decrease with the completion of the project in 2011.

Capital Assets

A vital aspect for enhancing and maintaining the quality of the University's academic, research, and service programs and its residential life is the acquisition, construction and improvement of its capital assets. The University continues to implement its long-range plan to modernize its complement of older teaching and research facilities, balanced with new construction.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The University had \$846 million invested in capital assets at fiscal year-end 2012 which resulted in a net increase from fiscal year end 2011 with \$775 million invested.

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. The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year except for intangible assets which are capitalized when the value or cost is \$100,000 or greater. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Buildings and general infrastructure are depreciated over their estimated useful lives, generally 30 to 75 years for buildings and 25 to 50 years for general infrastructure. Machinery and equipment are usually depreciated 5 to 50 years. Computer software is depreciated 5 to 20 years. Most of the University's capital assets are in the form of buildings which have been completed or that are construction in progress.

Capital assets at June 30, 2012 and June 30, 2011, were as follows:

Capital Assets

(Dollars in Thousands)

	2012	2011	Variance	Percent Change
Land	\$ 43,904	\$ 39,357	\$ 4,547	11.6 %
Construction in Progress	94,670	63,379	31,291	49.4 %
Computer Software in Development	349	319	30	9.4 %
Buildings	736,387	715,849	20,538	2.9 %
General Infrastructure	98,761	75,381	23,380	31.0 %
Machinery and Equipment	115,502	106,201	9,301	8.8 %
Computer Software	13,811	13,826	(15)	(0.1) %
Total Capital Assets	1,103,384	1,014,312	89,072	8.8 %
Accumulated Depreciation	257,349	238,920	18,429	7.7 %
Capital Assets, Net	\$ 846,035	\$ 775,392	\$ 70,643	9.1 %

Capital additions consist primarily of replacement, renovation and new construction of capital assets as well as significant investments in equipment, including information technology. Net capital additions totaled \$70.6 million in 2012.

Increases in General Infrastructure, Buildings and Construction in Progress were contributing factors in the increase in capital additions.

General Infrastructure increased with the completion of the East End Zone and Athletic field projects.

Several projects contributed to the addition to Buildings in 2012. Tyler Dorm, Family Medicine/Geriatric Center, School of Dental Medicine – Ahoskie, the Athletic Teams Building were all major additions during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Construction in Progress increased due to additions in the School of Dental Medicine, Coastal Studies Institute and Auxiliary Gym projects.

The Dental School project, currently in progress, consists of a new, approximately 112,500 square foot building with classrooms, offices, labs and clinical operations on the Health Sciences Campus and will include up to ten community based dental clinic sites located throughout the State. It will focus on preparing dental students to provide services in underserved areas and poor counties in North Carolina.

A Coastal Studies Institute is being constructed on 40 acres of land in Manteo, NC. This 90,000 square foot complex will have an academic/administrative area, laboratory area, research plots, and residential facilities.

The Auxiliary Gym project includes the construction of a 46,000 square foot practice facility that will adjoin the current Minges Coliseum. The facility will provide two practice courts, offices, video review rooms, lockers, equipment storage and training facilities. Additionally, the project includes renovations to current facilities such as new elevators and HVAC upgrades.

In order to continue to provide quality educational experiences, it is imperative the University maintains a constant level of growth in regards to capital assets. A plan of this nature will assist the University in avoiding obsolescence and will also provide a marketable tool for attracting more students to the school.

The University currently maintains a list of planned projects for the coming years. These projects are awaiting external review, approval and funding by the Legislature or the approval for the University to proceed by issuing debt to construct the projects. The projects consist of a mix of new construction, repairs and renovations and infrastructure upgrades. Some of the proposed projects include: Belk Residence Hall demolition and reconstruction, New East Campus Student Union and Health Sciences Student Services Building.

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

Debt

The University uses bonds, certificates of participation, notes payable and capital leases to finance construction projects and purchase equipment. As reflected in the following chart, total bonds, certificates of participation, and capital leases payable decreased by \$4 million in 2012. Contributing factors in the decrease were a redeemed variable rate bond and the issuance of a note related to the Auxiliary Gym project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt <i>(Dollars in Thousands)</i>	<u>2012</u>	<u>2011</u>	<u>Change</u>
Revenue Bonds Payable-Fixed Rate	\$ 147,430	\$ 154,650	\$ (7,220)
Revenue Bonds Payable-Variable Rate	0	9,515	(9,515)
Bond Discounts/Charges	2,938	2,483	455
Certificates of Participation	2,155	3,160	(1,005)
Capital Leases Payable	479	467	12
Notes Payable	13,351	351	13,000
	<u>\$ 166,353</u>	<u>\$ 170,626</u>	<u>\$ (4,273)</u>

Below is a summary of debt activity in fiscal year 2012:

On December 7, 2011 debt was issued in the form of UNC System Pool Bonds Series 2011A in the amount of \$14.8 million. This debt was a refunding of the Student Fee Revenue Refunding Bonds Series 2001C, a partial refunding of the ECU General Revenue Bonds 2003A, and a partial refunding of the UNC System Pool Bonds Series 2004C.

On April 2, 2012 the ECU Variable Rate General Revenue Bonds Series 2004 were redeemed in the outstanding principal amount of \$9.5 million plus accrued interest.

On May 1, 2012 debt was issued in the form of ECU General Revenue Bond Series 2012 in the amount of \$10.4 million. This debt was a partial refunding of the ECU General Revenue Bonds 2003A and a partial refunding of the UNC System Pool Bonds Series 2004C.

On May 15, 2012 debt was incurred in the form of a loan from US Bank NA in the amount of \$13 million. The proceeds will be used for construction of an Auxiliary Gym.

The most recent bond ratings as of June 30, 2012 were:

- In November 2011, Standard and Poor's assigned a rating of AA- to the Series 2011A Pool Revenue refunding bonds, with a stable outlook.
- In June 2012, Moody's Investors Services affirmed the Aa2 rating, with a stable outlook, on the University's general revenue and auxiliary system revenue bonds and the Series 2011A Pool Revenue Bonds in conjunction with the refinancing of the Series 2003A bonds and a portion of the 2004C bonds through a private placement.

Economic Forecast

As indicated in the University's financial statements, the University continues to demonstrate solid financial performance, highlighted by an \$87 million increase in net assets during the year ended June 30, 2012. This is quite an accomplishment in a year of severe budget reductions and represents the wisdom and foresight of senior leadership in planning over the last several years to be able to address these cuts with the least possible impact on faculty, staff and students. The Program Prioritization Committee appointed by the Chancellor in 2011 has submitted suggestions about helpful combinations of programs that could increase

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

efficiency and/or increase collaborative opportunities. Over time, existing resources can be methodically reallocated in a way that best meets the needs of East Carolina University going forward.

For the year ending June 30, 2013, ECU has received an additional \$14.3 million in State appropriations to support pay increases for employees for the first time in 4 years, building reserves, the last installment in operating funding for the School of Dental Medicine, and enrollment growth. This represents a continuation of significant State support in challenging economic times that was an important factor in East Carolina University's Aa2 and AA-ratings by Moody's and Standard and Poors respectively. The rating agencies also referenced ECU's program strength within the State in education, health sciences, and medicine with unique focus to serve underserved communities. The School of Dental Medicine is the most recent initiative in this area and its operations have been funded at the level of \$16.5 million plus a capital investment by the State in the amount of \$51.8 million.

Planning is currently underway for the FY 2013-2015 biennium. In general, economic signs are encouraging, although the rate of growth is expected to be slow. Forecasts for jobs, unemployment, inflation and the housing market in North Carolina are positive. Growth is expected to slowly gain momentum throughout this FY 2013-2015 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 the Financial Director for East Carolina University, at (252)737-1140.

East Carolina University
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 207,598,554.76
Restricted Cash and Cash Equivalents	26,031,902.80
Receivables, Net (Note 4)	39,841,161.62
Due from State of North Carolina Component Units	254,695.00
Due from University Component Units	34,341.33
Inventories	5,439,591.66
Notes Receivable, Net (Note 4)	426,074.37
Other Assets	984,323.30
	<hr/>
Total Current Assets	280,610,644.84
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	26,908,907.07
Endowment Investments	32,712,710.16
Restricted Investments	1,592,042.46
Investment in Joint Ventures	6,849,773.84
Bond Issuance Cost	781,361.29
Notes Receivable (Note 4)	11,479,051.77
Capital Assets - Nondepreciable (Note 5)	138,923,177.95
Capital Assets - Depreciable, Net (Note 5)	707,111,590.02
	<hr/>
Total Noncurrent Assets	926,358,614.56
	<hr/>
Total Assets	1,206,969,259.40

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	31,705,320.42
Due to Primary Government	73,374.20
Deposits Payable	1,958,797.56
Funds Held for Others	36,366.00
Unearned Revenue	13,619,389.39
Interest Payable	1,687,819.01
Long-Term Liabilities - Current Portion (Note 7)	9,889,638.41
	<hr/>
Total Current Liabilities	58,970,704.99
Noncurrent Liabilities:	
Funds Held for Others	10,292,485.56
U. S. Government Grants Refundable	12,437,171.72
Long-Term Liabilities (Note 7)	176,823,345.93
	<hr/>
Total Noncurrent Liabilities	199,553,003.21
	<hr/>
Total Liabilities	258,523,708.20

East Carolina University
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 2 of 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	697,295,490.32
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,837,993.92
Endowed Professorships	22,420,562.02
Departmental Uses	336,852.27
Loans	2,629,730.25
Expendable:	
Scholarships and Fellowships	3,502,266.10
Endowed Professorships	4,312,275.08
Departmental Uses	865,615.74
Debt Service	122,550.22
Other	928,848.27
Unrestricted	<u>214,193,367.01</u>
Total Net Assets	<u><u>\$ 948,445,551.20</u></u>

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

East Carolina University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 154,635,803.72
Patient Services, Net (Note 9)	181,294,596.52
Federal Grants and Contracts	19,897,571.17
State and Local Grants and Contracts	10,785,943.95
Nongovernmental Grants and Contracts	10,477,790.64
Sales and Services, Net (Note 9)	82,888,754.43
Interest Earnings on Loans	26,708.76
Other Operating Revenues	1,768,539.71
	<hr/>
Total Operating Revenues	461,775,708.90

EXPENSES

Operating Expenses:

Salaries and Benefits	500,810,902.09
Supplies and Materials	74,826,062.73
Services	93,742,468.45
Scholarships and Fellowships	36,396,822.03
Utilities	19,063,773.21
Depreciation/ Amortization	22,615,518.51
	<hr/>
Total Operating Expenses	747,455,547.02

Operating Loss (285,679,838.12)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	271,701,092.18
Noncapital Grants - Federal Student Financial Aid	31,443,813.34
Other Noncapital Grants	14,149,206.16
Noncapital Gifts	13,675,494.17
Investment Income (Net of Investment Expense of \$30,683.99)	755,849.24
Interest and Fees on Debt	(6,405,314.38)
Federal Interest Subsidy on Debt	491,368.43
Other Nonoperating Expenses	(3,013,707.31)
	<hr/>

Net Nonoperating Revenues 322,797,801.83

Income Before Other Revenues 37,117,963.71

Capital Grants	46,482,680.69
Capital Gifts	1,086,379.21
Additions to Endowments	2,259,275.87
	<hr/>

Increase in Net Assets 86,946,299.48

NET ASSETS

Net Assets - July 1, 2011	<u>861,499,251.72</u>
Net Assets - June 30, 2012	<u><u>\$ 948,445,551.20</u></u>

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

East Carolina University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 463,888,134.34
Payments to Employees and Fringe Benefits	(501,474,713.05)
Payments to Vendors and Suppliers	(187,981,420.53)
Payments for Scholarships and Fellowships	(36,676,363.48)
Loans Issued	(972,513.00)
Collection of Loans	1,649,088.56
Interest Earned on Loans	48,155.89
Student Deposits Received	2,943,769.74
Student Deposits Returned	(2,860,165.52)
	<hr/>
Net Cash Used by Operating Activities	(261,436,027.05)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	271,701,092.18
Noncapital Grants - Federal Student Financial Aid	31,326,895.31
Noncapital Grants	14,224,206.16
Noncapital Gifts	13,675,494.17
Additions to Endowments	2,259,275.87
William D. Ford Direct Lending Receipts	140,580,119.00
William D. Ford Direct Lending Disbursements	(140,495,477.00)
Related Activity Agency Receipts	17,831,608.64
Related Activity Agency Disbursements	(18,580,971.27)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	332,522,243.06

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	20,785,307.35
Capital Grants	46,482,680.69
Acquisition and Construction of Capital Assets	(91,667,676.91)
Principal Paid on Capital Debt and Leases	(25,567,943.77)
Interest and Fees Paid on Capital Debt and Leases	(7,194,944.92)
Federal Interest Subsidy on Debt Received	491,368.43
Proceeds from Insurance Recovery	795,470.97
Other Payments	(439,781.22)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(56,315,519.38)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,134,439.72
Investment Income	2,609,336.58
Investment in Joint Venture	(1,513,000.00)
Purchase of Investments and Related Fees	(4,113,218.79)
	<hr/>
Net Cash Used by Investing Activities	(882,442.49)
	<hr/>
Net Increase in Cash and Cash Equivalents	13,888,254.14
Cash and Cash Equivalents - July 1, 2011	246,651,110.49
	<hr/>
Cash and Cash Equivalents - June 30, 2012	\$ 260,539,364.63

East Carolina University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3

Page 2 of 2

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

Operating Loss	\$ (285,679,838.12)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation / Amortization Expense	22,615,518.51
Allowances and Write-Offs	345,802.17
Changes in Assets and Liabilities:	
Receivables (Net)	1,661,973.38
Due from University Component Units	(25,552.50)
Inventories	(75,886.53)
Notes Receivable (Net)	676,575.56
Other Assets	2,725,131.26
Accounts Payable and Accrued Liabilities	(3,841,666.52)
Due to Primary Government	16,256.92
Unearned Revenue	219,066.50
Compensated Absences	(157,011.90)
Deposits Payable	83,604.22
	<u>83,604.22</u>
Net Cash Provided Used by Operating Activities	<u>\$ (261,436,027.05)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 207,598,554.76
Restricted Cash and Cash Equivalents	26,031,902.80
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>26,908,907.07</u>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 260,539,364.63</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 1,762,360.68
Assets Acquired through a Gift	1,086,379.21
Change in Fair Value of Investments	(1,853,487.24)
Loss on Investment in Joint Ventures	(1,313,867.00)
Loss on Disposal of Capital Assets	(2,144,502.05)
Amortization of Bond Premiums/Discounts/Refunding Charge	(222,043.95)
Bond Issuance Cost Withheld	(38,456.42)
Funds Escrowed to Defease Debt	17,715,000.00

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

East Carolina University Foundation, Inc. and Consolidated Affiliate
Statement of Financial Position
June 30, 2012

Exhibit B-1

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 3,361,897
Current Portion of Pledges Receivable	1,361,925
Prepaid Expenses	14,814
Other Receivables	283,796
Total Current Assets	<u>5,022,432</u>

INVESTMENTS

Investments	75,490,243
Real Estate Held for Investment	873,375
Total Investments	<u>76,363,618</u>

CAPITAL ASSETS

Capital Assets, Net of Accumulated Depreciation of \$315,176	<u>4,521,819</u>
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OTHER ASSETS

Life Insurance Policy - Cash Surrender Value	187,811
Student Loans	49,594
Beneficial Interest in Charitable Remainder Trusts	3,541,120
Assets Held in Charitable Remainder Trusts and Annuities	1,176,741
Investment in Joint Venture	2,099,550
Pledges Receivable, Less Current Portion	681,779
Other Assets	111,807
Total Other Assets	<u>7,848,402</u>

TOTAL ASSETS

\$ 93,756,271

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 52,407
Line of Credit	1,330,497
Accrued Expenses	30,020
Current Portion of Note Payable	122,061
Current Portion of Charitable Gift Annuities Payable	99,679
Agency Payables	552,144
Total Current Liabilities	<u>2,186,808</u>

LONG-TERM LIABILITIES

Refundable Advances	61,292
Note Payable, Less Current Portion	2,901,246
Interest Rate Swap Agreement	293,096
Charitable Gift Annuities Payable, Less Current Portion	677,821
Liabilities Under Charitable Remainder Trusts	55,801
Total Long-Term Liabilities	<u>3,989,256</u>
Total Liabilities	<u>6,176,064</u>

NET ASSETS

Unrestricted	9,248,911
Temporarily Restricted	28,902,451
Permanently Restricted	49,428,845
Total Net Assets	<u>87,580,207</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 93,756,271

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

***East Carolina University Foundation, Inc. and Consolidated Affiliate
Statement of Activities
For the Fiscal Year Ended June 30, 2012***

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 809,636	\$ 2,974,881	\$ 1,936,224	\$ 5,720,741
Gifts in Kind	4,690	156,001		160,691
Contributed Services and Facilities	2,229,258			2,229,258
Interest and Dividends	482,322	2,041,199	2,741	2,526,262
Net Unrealized and Realized Gains on Investments	(744,010)	(3,268,155)	(58)	(4,012,223)
Other Income	271,560	203,068	7,400	482,028
Gain on Sales or Transfer of Property	196,630			196,630
Change in Value of Split Interest Agreements		(50,968)	(331,643)	(382,611)
Net Assets Released from Restrictions	4,810,534	(4,810,534)		0
Total Revenues, Gains and Other Support	<u>8,060,620</u>	<u>(2,754,508)</u>	<u>1,614,664</u>	<u>6,920,776</u>
EXPENSES AND LOSSES				
Program Services	4,732,781			4,732,781
General and Administrative	896,943			896,943
Fund Raising	2,310,684			2,310,684
Total Expenses	<u>7,940,408</u>			<u>7,940,408</u>
Bad Debt Losses	2,710	181,223	23,600	207,533
Total Expenses and Losses	<u>7,943,118</u>	<u>181,223</u>	<u>23,600</u>	<u>8,147,941</u>
Increase in Net Assets	117,502	(2,935,731)	1,591,064	(1,227,165)
NET ASSETS				
Net Assets at Beginning of Year as Restated	<u>9,131,409</u>	<u>31,838,182</u>	<u>47,837,781</u>	<u>88,807,372</u>
Net Assets at End of Year	<u>\$ 9,248,911</u>	<u>\$ 28,902,451</u>	<u>\$ 49,428,845</u>	<u>\$ 87,580,207</u>

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

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EAST CAROLINA UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. East Carolina University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

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

The Foundation is a tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 66 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2012, the Foundation distributed \$4,732,781 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Financial Services Office, 120 Reade Street, Greenville, NC 27959, or by calling (252) 737-1133.

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

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

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

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value. The fair values of all debt and equity securities with readily determinable fair market values are based on quoted market prices. Investments for which a readily determinable fair value does not exist include limited partnerships. These investments are carried at estimated fair value determined by management. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds not held by a governmental investment pool are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- F. Receivables** - Receivables consist of tuition and fees charged to students, charges for services rendered to patients, and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for general infrastructure, 30 to 75 years for buildings, 5 to 50 years for equipment, and 5 to 20 years for computer software.

The University does not capitalize library and art collections. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$260,314,723.22 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2012 was \$94,142.03. The carrying amount of the University's deposits not with the State Treasurer was \$130,499.38 and the bank balance was \$280,818.55. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$3,033.38 of the University's bank balance was exposed to custodial credit risk.

B. Investments

University - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of the University's component unit, the East Carolina University Foundation, Inc. and Consolidated Affiliate, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income.

UNC Investment Fund, LLC - At June 30, 2012, the University's investments include \$695,662.35 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University's Endowment Board has a formal investment policy that addresses interest rate risk. The policy states that fixed income investments should have a duration that is not greater than +/- 40% that of the Barclays Capital Aggregate Bond Index in order to minimize interest rate risk. The University has no formal investment policy that addresses interest rate risk for investments other than those under the control of the Endowment Board.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Endowment Board has a formal investment policy that addresses credit risk. Each fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies. Each fixed income portfolio must have an overall weighted average credit rating of "A" or better by Moody's and Standard & Poor's rating services, except where dedicated positions to less than investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012, for the University’s Investments:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
U.S. Treasuries	\$ 482,717.67	\$ 406,750.62	\$ 39,194.78	\$ 36,772.27
U.S. Agencies	40,065.83	8,182.56	31,883.27	
Debt Mutual Funds	5,855,801.17		1,530,026.03	4,325,775.14
Money Market Mutual Funds	1,630,221.39	1,630,221.39		
		<u>\$ 2,045,154.57</u>	<u>\$ 1,601,104.08</u>	<u>\$ 4,362,547.41</u>
Other Securities				
UNC Investment Fund	695,662.35			
International Mutual Funds	5,646,740.56			
Equity Mutual Funds	11,509,585.70			
Hedge Funds	3,940,007.76			
Private Equity Limited Partnerships	264,908.29			
Domestic Stocks	234,874.80			
Foreign Stocks	14,250.23			
Commodity Mutual Fund	848,528.20			
Limited Partnership Commingled Fund	2,678,300.67			
Private Distressed Debt Limited Partnership	463,088.00			
Total Investments	<u>\$ 34,304,752.62</u>			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2012, the University's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Agencies	\$ 40,065.83	\$ 40,065.83	\$ 0.00	\$ 0.00	\$ 0.00
Debt Mutual Funds	5,855,801.17	21,345.61		4,874,298.05	960,157.51
Money Market Mutual Funds	1,630,221.39	1,630,221.39			

Rating Agency: Moodys/Standard and Poors

At June 30, 2012, the University's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept or Agent not in University's Name
U.S. Treasuries	\$ 88,967.05	\$ 393,750.62
U.S. Agencies	40,065.83	
Domestic Stocks	234,874.80	
Foreign Stocks	14,250.23	
Total	\$ 378,157.91	\$ 393,750.62

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

Investment Type	Fair Value
Common Stock	\$ 120,292.25
Mutual Funds	50,943,220.23
Alternative Investments	24,426,730.74
Total	\$ 75,490,243.22

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investment - A reconciliation of deposits and investments for the University of June 30, 2012, is as follows:

	Amount
Cash on Hand	\$ 94,142.03
Amount of Deposits with Private Financial Institutions	130,499.38
Deposits in the Short-Term Investment Fund	260,314,723.22
Investments	34,304,752.62
Total Deposits and Investments	\$ 294,844,117.25
Deposits	
Current:	
Cash and Cash Equivalents	\$ 207,598,554.76
Restricted Cash and Cash Equivalents	26,031,902.80
Noncurrent:	
Restricted Cash and Cash Equivalents	26,908,907.07
Total Deposits	\$ 260,539,364.63
Investments	
Noncurrent:	
Endowment Investments	\$ 32,712,710.16
Restricted Investments	1,592,042.46
Total Investments	\$ 34,304,752.62

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which provides a distribution of four (4%) of its year end endowment fund's twelve month weighted average balance prior to the addition of the current year investment return. To the extent that the total return for the current year

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

exceeds the payout and a one percent administrative fee, the excess is added to accumulated earnings unless donor restrictions require that it be added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2012, endowment net assets of \$6,402,295.81 were available to be spent, all of which was restricted to specific purposes.

In prior years, the university incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2012 the amount of investment losses reported against the nonexpendable endowment balances were \$75,081.62.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 2,556,931.06	\$ 1,500,000.00	\$ 1,056,931.06
Student Sponsors	764,051.17		764,051.17
Patients	33,828,473.33	4,494,731.92	29,333,741.41
Accounts	3,486,346.32		3,486,346.32
Intergovernmental	3,568,872.48		3,568,872.48
Investment Earnings	0.04		0.04
Interest on Loans	310,961.82		310,961.82
Federal Interest Subsidy on Debt	122,842.09		122,842.09
Other	1,197,415.23		1,197,415.23
	<u>\$ 45,835,893.54</u>	<u>\$ 5,994,731.92</u>	<u>\$ 39,841,161.62</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,487,792.22	\$ 1,063,375.33	\$ 424,416.89
Institutional Student Loan Programs	8,886.54	7,229.06	1,657.48
	<u>\$ 1,496,678.76</u>	<u>\$ 1,070,604.39</u>	<u>\$ 426,074.37</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 11,479,051.77</u>	<u>\$ 0.00</u>	<u>\$ 11,479,051.77</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 39,357,100.64	\$ 4,547,243.72	\$ 0.00	\$ 43,904,344.36
Construction in Progress	63,379,594.15	78,201,801.80	46,911,769.36	94,669,626.59
Computer Software in Development	318,557.35	349,207.00	318,557.35	349,207.00
Total Capital Assets, Nondepreciable	103,055,252.14	83,098,252.52	47,230,326.71	138,923,177.95
Capital Assets, Depreciable:				
Buildings	715,848,725.17	20,738,449.81	200,561.71	736,386,613.27
Machinery and Equipment	106,201,019.41	14,017,869.97	4,717,201.03	115,501,688.35
General Infrastructure	75,381,390.34	23,379,719.35		98,761,109.69
Computer Software	13,826,424.10	1,398,467.44	1,413,984.00	13,810,907.54
Total Capital Assets, Depreciable	911,257,559.02	59,534,506.57	6,331,746.74	964,460,318.85
Less Accumulated Depreciation/Amortization for:				
Buildings	171,715,809.15	11,919,118.30	65,406.02	183,569,521.43
Machinery and Equipment	50,623,992.86	7,462,761.13	3,344,147.47	54,742,606.52
General Infrastructure	12,572,995.31	2,380,976.43		14,953,971.74
Computer Software	4,007,657.69	852,662.65	777,691.20	4,082,629.14
Total Accumulated Depreciation	238,920,455.01	22,615,518.51	4,187,244.69	257,348,728.83
Total Capital Assets, Depreciable, Net	672,337,104.01	36,918,988.06	2,144,502.05	707,111,590.02
Capital Assets, Net	\$ 775,392,356.15	\$ 120,017,240.58	\$ 49,374,828.76	\$ 846,034,767.97

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 12,529,724.17
Accrued Payroll	15,223,890.22
Contract Retainage	3,682,368.48
Other	269,337.55
Total Accounts Payable and Accrued Liabilities	\$ 31,705,320.42

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 164,165,000.00	\$ 25,305,000.00	\$ 42,040,000.00	\$ 147,430,000.00	\$ 7,030,000.00
Certificates of Participation	3,160,000.00		1,005,000.00	2,155,000.00	1,060,000.00
Add/Deduct Premium/Discount	2,909,230.38	1,656,345.90	344,727.12	4,220,849.16	
Deduct Deferred Charge on Refunding	(426,586.87)	(1,422,582.13)	(566,771.07)	(1,282,397.93)	
Total Revenue Bonds and Certificates of Participation Payable	169,807,643.51	25,538,763.77	42,822,956.05	152,523,451.23	8,090,000.00
Notes Payable	350,970.84	13,000,000.00		13,350,970.84	350,970.84
Capital Leases Payable	466,582.78	249,905.63	237,943.77	478,544.64	189,565.32
Compensated Absences	20,517,029.53	11,022,776.14	11,179,788.04	20,360,017.63	1,259,102.25
Total Long-Term Liabilities	\$ 191,142,226.66	\$ 49,811,445.54	\$ 54,240,687.86	\$ 186,712,984.34	\$ 9,889,638.41

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012	See Table Below
<u>Revenue Bonds</u>							
<u>Housing and Dining Services</u>							
Housing and Dining Revenue Refunding Bonds	2001B	5.75	11/01/2015	11,985,000.00	10,295,000.00	1,690,000.00	(1)
<u>General Revenue Bonds Payable</u>							
West End Dining Project	2003A	3.1	05/01/2013	14,960,000.00	14,270,000.00	690,000.00	
Tyler Dorm Project	2010A	4.0	10/01/2013	1,305,000.00	420,000.00	885,000.00	
Wright Place Renovations	2010A	4.0	10/01/2013	735,000.00	235,000.00	500,000.00	
Olympic Sports Facility	2010A	4.0	10/01/2013	1,450,000.00	465,000.00	985,000.00	
Tyler Dorm Project (BAB)	2010B	2.791-5.825**	10/01/2030	10,045,000.00		10,045,000.00	
Wright Place Renovations (BAB)	2010B	2.791-4.581**	10/01/2020	1,990,000.00		1,990,000.00	
Olympic Sports Facility(BAB)	2010B	2.791-5.875**	10/01/2035	15,935,000.00		15,935,000.00	
Refunding of 2003A West End Dining Project	2012	2.984	04/01/2024	4,650,000.00		4,650,000.00	
Refunding of 2004C College Hill Dormitory Construction	2012	2.984	04/01/2027	5,770,000.00		5,770,000.00	
Total General Revenue Bonds				<u>56,840,000.00</u>	<u>15,390,000.00</u>	<u>41,450,000.00</u>	
<u>The University of North Carolina System Pool Revenue Bonds</u>							
College Hill Dormitory Construction	2004C	4.6-5.0	04/01/2034	27,530,000.00	15,910,000.00	11,620,000.00	
Dowdy-Ficklen Stadium Expansion Refunding	2004C	5.0	04/01/2014	2,530,000.00	1,900,000.00	630,000.00	
College Hill Dormitory Supplemental Funds	2006A	4.0-5.0	10/01/2033	3,805,000.00	400,000.00	3,405,000.00	
Refunding of Series 1999 (Student Health)	2006A	4.0-5.0	10/01/2018	2,110,000.00	550,000.00	1,560,000.00	
Refunding of Series 2001A (Jones and Galley)	2006A	4.0-5.0	10/01/2021	8,775,000.00	160,000.00	8,615,000.00	
Dining Project Croatan	2009A	3.0-5.25	10/01/2029	8,050,000.00	530,000.00	7,520,000.00	
Scott Residence Hall	2009A	3.0-5.25	10/01/2034	29,360,000.00	695,000.00	28,665,000.00	
Softball Field Project	2009A	3.0-5.25	10/01/2034	4,885,000.00	225,000.00	4,660,000.00	
Refunding of 1998 Housing and Dining Bonds	2009A	3.0-5.0	10/01/2018	2,820,000.00	535,000.00	2,285,000.00	
East End Zone Project	2010A	2.0-5.0	10/01/2029	17,400,000.00	455,000.00	16,945,000.00	
Refunding of 2004C College Hill Dormitory Construction	2010A	2.0-5.0	10/01/2021	4,370,000.00	10,000.00	4,360,000.00	
Refunding of 2001C Student Fee Revenue Refunding Bonds	2011A	2.0-5.0	05/01/2019	7,125,000.00	845,000.00	6,280,000.00	
Refunding of 2003A West End Dining Project	2011A	3.0-5.0	05/01/2021	5,215,000.00	5,000.00	5,210,000.00	
Refunding of 2004C College Hill Dormitory Construction	2011A	4.0-5.0	05/01/2023	2,545,000.00	10,000.00	2,535,000.00	
Total The University of North Carolina System Pool Revenue Bonds				<u>126,520,000.00</u>	<u>22,230,000.00</u>	<u>104,290,000.00</u>	
<u>Certificates of Participation</u>							
Banner System Certificates of Participation	2004	4.0	06/01/2014	8,875,000.00	6,720,000.00	2,155,000.00	
Total Revenue Bonds Payable and Certificates of Participation (principal only)				<u>\$ 204,220,000.00</u>	<u>\$ 54,635,000.00</u>	149,585,000.00	
Less: Unamortized Deferred Charge on Refunding						(1,282,397.93)	
Less: Unamortized Discount						(241,574.19)	
Plus: Unamortized Premium						4,462,423.35	
Total Revenue Bonds Payable and Certificates of Participation						<u>\$ 152,523,451.23</u>	

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing & Dining Revenues	2,030,112.50	13,141,689.39	1,510,000.00	131,950.00	13%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2012, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 7,030,000.00	\$ 6,587,528.46	\$ 1,060,000.00	\$ 83,237.50	\$ 350,970.84	\$ 251,669.83
2014	7,235,000.00	6,363,087.36	1,095,000.00	43,775.00	1,930,122.82	252,365.06
2015	7,215,000.00	6,092,815.43			1,968,450.46	214,037.42
2016	7,510,000.00	5,808,721.52			2,007,539.19	174,948.69
2017	7,310,000.00	5,477,296.38			2,047,404.13	135,083.75
2018-2022	36,215,000.00	22,319,742.48			5,046,483.40	158,066.49
2023-2027	30,210,000.00	14,917,748.63				
2028-2032	30,265,000.00	7,424,774.42				
2033-2037	14,440,000.00	1,240,823.76				
Total Requirements	\$ 147,430,000.00	\$ 76,232,538.44	\$ 2,155,000.00	\$ 127,012.50	\$ 13,350,970.84	\$ 1,186,171.24

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

Current Refunding - On December 7, 2011 the University issued \$14,885,000 in UNC System Pool Bonds Series 2011A. A portion of these bonds, in the amount of \$7,125,000 were current refunding bonds with an average interest rate of 4.47%. The bonds were issued for a current refunding of \$7,620,000 of outstanding Student Fee Revenue Refunding Bonds, Series 2001C with an average interest rate of 4.51%. The refunding was undertaken to reduce total debt service payments by \$649,486.25 over the next seven years and resulted in an economic gain of \$595,954.80.

Advance Refundings - On December 7, 2011 the University issued \$14,885,000 in UNC System Pool Bonds Series 2011A. A portion of these bonds, in the amount of \$5,215,000 were refunding bonds with an average interest rate of 4.45%. The bonds were issued to advance refund \$5,450,000 of outstanding General Revenue Bonds Series 2003A with an

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

average interest rate of 4.56%. The net proceeds of the refunding bonds 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 assets. This advance refunding was undertaken to reduce total debt service payments by \$371,205.00 over the next nine years and resulted in an economic gain of \$329,830.42.

On May 1, 2012 the University issued \$10,420,000 in a Revenue Refunding Bond, Series 2012. A portion of this bond, in the amount of \$4,650,000 was a refunding bond with an average interest rate of 2.98%. The bond was issued to advance refund \$4,465,000 of outstanding General Revenue Bonds Series 2003A with an average interest rate of 3.96%. The net proceeds of the refunding bond 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 assets. This advance refunding was undertaken to reduce total debt service payments by \$169,035.50 over the next eleven years and resulted in an economic gain of \$132,713.52. At June 30, 2012, the outstanding balance was \$9,915,000 for the defeased General Revenue Bonds Series 2003A.

On December 7, 2011 the University issued \$14,885,000 in UNC System Pool Bonds Series 2011A. A portion of these bonds, in the amount of \$2,545,000 were refunding bonds with an average interest rate of 4.44%. The bonds were issued to advance refund \$2,545,000 of outstanding UNC System Pool Bonds Series 2004C with an average interest rate of 4.75%. The net proceeds of the refunding bonds 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 assets. This advance refunding was undertaken to reduce total debt service payments by \$77,966.93 over the next eleven years and resulted in an economic gain of \$69,976.76.

On May 1, 2012 the University issued \$10,420,000 in a Revenue Refunding Bond, Series 2012. A portion of this bond, in the amount of \$5,770,000 was a refunding bond with an average interest rate of 2.98%. The bond was issued to advance refund \$5,255,000 of outstanding UNC System Pool Bonds Series 2004C with an average interest rate of 4.97%. The net proceeds of the refunding bond 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$685,894.90 over the next fourteen years and resulted in an economic gain of \$552,393.29. At June 30, 2012, the outstanding balance was \$12,045,000 for the defeased UNC System Pool Bonds Series 2004C.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2012, the outstanding balance of prior year defeased bonds was \$4,245,000.00.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012
Facilitate Purchase of Medical Practice	Vidant Medical Center	5.5	11/01/2011	\$ 350,970.84	\$ 0.00	\$ 350,970.84
Auxiliary Gym	US Bank NA	1.976	11/01/2019	13,000,000.00		13,000,000.00
				<u>\$ 13,350,970.84</u>	<u>\$ 0.00</u>	<u>\$ 13,350,970.84</u>

COMPONENT UNIT

In December 2008, the East Carolina University Real Estate Foundation Inc., which is an affiliate of the East Carolina University Foundation, Inc., purchased real estate located at 2325 Stantonsburg Road in Greenville, North Carolina for \$3,300,000. This acquisition was financed for 100% of the purchase price, less associated costs, based on a twenty-year amortization with a final payment of all remaining principal and accrued interest due on January 5, 2019. As of June 30, 2012, the balance on the principal was \$3,023,307. The note has a variable interest rate of LIBOR plus 1.05%. The Affiliate entered into an interest rate swap agreement which effectively converts the variable rate note to a fixed rate note at an annual interest rate of 3.85%. The total note payable is \$3,023,307, the current portion of which is \$122,061. The principal balance as of June 30, 2012 included an adjustment for a readvance of principal that was necessitated when the financial institution failed to modify the payment schedule in accordance with the defined swap amortization schedule when the swap transaction was executed. This resulted in the Foundation overpaying the principal of the loan. In order to correct this error, the financial institution will readvance the principal to the Foundation during September 2012.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Maturities of the long-term portion of notes payable as of June 30, 2012 were as follows:

Fiscal Year	Amount
2013	\$ 122,061.00
2014	126,983.00
2015	132,029.00
2016	137,243.00
2017	142,686.00
Thereafter	2,362,305.00
	\$ 3,023,307.00

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to medical equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2012:

Fiscal Year	Amount
2013	\$ 209,380.80
2014	138,431.10
2015	95,072.85
2016	66,430.15
2017	7,321.19
Total Minimum Lease Payments	516,636.09
Amount Representing Interest (0% - 10.123% Rate of Interest)	38,091.45
Present Value of Future Lease Payments	\$ 478,544.64

Machinery and equipment acquired under capital lease amounted to \$1,076,878.47 at June 30, 2012. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

B. Operating Lease Obligations - The University entered into operating leases for equipment and buildings. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year	Amount
2013	\$ 3,862,687.45
2014	3,207,778.79
2015	2,642,244.29
2016	2,417,302.42
2017	2,102,477.84
2018-2022	3,249,813.36
Total Minimum Lease Payments	\$ 17,482,304.15

Rental expense for all operating leases during the year was \$4,267,833.58.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees	\$ 182,885,674.62	\$ 0.00	\$ 27,828,583.90	\$ 421,287.00	\$ 0.00	\$ 154,635,803.72
Patient Services	\$ 432,968,231.52	\$ 0.00	\$ 0.00	\$ 12,116,476.67	\$ 239,557,158.33	\$ 181,294,596.52
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 25,014,453.27	\$ 1,653,789.93	\$ 3,443,437.83	\$ 0.00	\$ 0.00	\$ 19,917,225.51
Dining	23,119,424.73	637,868.58	2,916,929.34			19,564,626.81
Student Union Services	15,925.44					15,925.44
Health, Physical Education, and Recreation Services	1,748,379.63	5,027.24				1,743,352.39
Bookstore	12,123,197.67		1,083,461.08			11,039,736.59
Parking	2,925,927.35					2,925,927.35
Athletic	17,320,574.67					17,320,574.67
Other	2,819,100.40	2,384.35				2,816,716.05
Sales and Services of Education and Related Activities	7,544,669.62					7,544,669.62
Total Sales and Services	\$ 92,631,652.78	\$ 2,299,070.10	\$ 7,443,828.25	\$ 0.00	\$ 0.00	\$ 82,888,754.43

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The University's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 224,976,309.87	\$ 14,945,176.35	\$ 14,169,409.71	\$ 0.00	\$ 69,601.28	\$ 0.00	\$ 254,160,497.21
Research	14,220,728.17	3,391,211.45	4,695,816.60		9,799.06		22,317,555.28
Public Service	16,578,359.27	452,549.48	5,029,323.84		1,121.74		22,061,354.33
Academic Support	17,193,005.63	9,799,514.94	1,349,363.77		4,241.68		28,346,126.02
Student Services	9,382,103.27	559,626.05	1,186,358.22		2,700.70		11,130,788.24
Institutional Support	32,002,487.50	1,157,222.01	6,883,586.73		48,575.66		40,091,871.90
Operations and Maintenance of Plant	22,681,542.70	14,860,541.88	3,304,840.70		12,476,171.86		53,323,097.14
Student Financial Aid	1,167,025.00	1,365,392.67	168,331.83	36,396,822.03			39,097,571.53
Auxiliary Enterprises	162,609,340.68	28,294,827.90	56,955,437.05		6,451,561.23		254,311,166.86
Depreciation						22,615,518.51	22,615,518.51
Total Operating Expenses	<u>\$ 500,810,902.09</u>	<u>\$ 74,826,062.73</u>	<u>\$ 93,742,468.45</u>	<u>\$ 36,396,822.03</u>	<u>\$ 19,063,773.21</u>	<u>\$ 22,615,518.51</u>	<u>\$ 747,455,547.02</u>

NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$396,737,176.95, of which \$180,694,365.32 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$13,443,660.78 and \$10,841,661.92, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$13,443,660.78, \$8,949,290.99, and \$6,302,923.69, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2012, 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 \$396,737,176.95, of which \$172,538,201.90 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$11,801,613.01 and \$10,352,292.11, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans – Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$2,275,864.40 for the year ended June 30, 2012.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2012, were \$137,122.88. The voluntary contributions by employees amounted to \$1,806,726.09 for the year ended June 30, 2012.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrator is TIAA-CREF. No costs are incurred by the University. The voluntary contributions by employees amounted to \$6,275,771.90 for the year ended June 30, 2012.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the University contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$17,661,628.38, \$17,220,963.03, and \$15,418,663.12, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 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 the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2011, and 2010, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$1,836,809.35, \$1,827,530.77, and \$1,781,712.19, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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

The types of optional coverage are: Sprinkler Leakage Coverage for buildings with fire sprinklers; Flood Coverage for buildings prone to flood; Extended Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion and smoke; Broad Form Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion, smoke, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, and water damage; All Risk Special Form Coverage for windstorm, hail, explosion, aircraft or vehicles, riot or civil commotion, smoke, vandalism, sprinkler leakage, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, water damage, theft, any other loss not specifically excluded. The coverage rates are determined by the Department of Insurance State Property Fire Insurance Fund. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible at the insured replacement value of the building at the time of the loss.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage. University departments, as an individual business decision may also purchase physical damage coverage for state-owned vehicles.

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

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and The State's Agent of Record. The types of insurance policies purchased include:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 independently licensed allied health providers (Nurse Practitioners, Certified Registered Nurse Anesthetists, Certified Nurse Midwives, and Physician Assistants). There is a shared blanket policy for all other employees of the ECU Physicians. The medical malpractice is with a private insurance company with coverage of \$3,000,000 per occurrence, \$5,000,000 annual aggregate, and a \$200,000 deductible; as well as an excess policy in the amount of \$ 10,000,000.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Hurricane Irene struck East Carolina University on August 27, 2011. The resulting damage to the campus was significant at a reported \$2,063,357. Major and immediate repairs were needed to repair roof damage, to repair and/or replace equipment damaged by wind or flooding, to remove trees down or causing a hazard to the campus, to restore parking and roadways and to otherwise restore the campus to a safe and effective operating condition. The University administration addressed the emergency situation and then a detailed scope of work continued to evolve as the assessment continued.

As of June 30, 2012, The University has received \$334,171 from the Department of Insurance for insurance covered damages and \$389,855.03 of FEMA funds from the NC Emergency Management to date. Claims are still

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

pending in review with NC Emergency Management for FEMA reviewed damages.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$28,068,259.25 and on other purchases were \$16,942,356.13 at June 30, 2012.
- 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

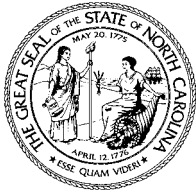
- A. **Moye Medical Endoscopy Center, LLC** - The University participates in a joint venture with Vidant Medical Center, to operate Moye Medical Endoscopy Center, LLC, d/b/a East Carolina Endoscopy Center. The University has an equity interest of \$870,009.84 which has been reflected in the financial statements. The University has an ongoing financial responsibility for the joint venture because of its 50% ownership stake in the company. Complete financial statements for Moye Medical Endoscopy Center, LLC can be obtained from 120 Reade Street, Greenville, NC 27858.
- B. **Carolina Behavioral Health Alliance, LLC** - The University participates in a joint venture with The University of North Carolina at Chapel Hill and Wake Forest University to operate Carolina Behavioral Health Alliance, LLC. The University has an equity interest of \$250,483.00 which has been reflected in the financial statements. The University has an ongoing financial responsibility for the joint venture because of its 33.33% ownership stake in the company. Complete financial statements for Carolina Behavioral Health Alliance, LLC can be obtained from 120 Reade Street, Greenville, NC 27858.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

- C. NewCo Cancer Services, LLC - The University participates in a joint venture with Vidant Medical Center, to operate NewCo Cancer Services, LLC, d/b/a the Leo Jenkins Cancer Center. The University has an equity interest of \$5,729,281.00 which has been reflected in the financial statements. The University has an ongoing financial responsibility for the joint venture because of its 50% ownership stake in the company. Complete financial statements for NewCo Cancer Services, LLC can be obtained from 120 Reade Street, Greenville, NC 27858.

NOTE 16 - RELATED PARTIES

Foundations - There are three separately incorporated nonprofit foundations associated with the University that are not included as component units. These foundations are the East Carolina University Educational Foundation, Inc., the East Carolina University Medical and Health Sciences Foundation, Inc., and the East Carolina University Alumni Association, Inc. These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support was \$11,855,363.36 for the year ended June 30, 2012. Indirect support from the foundations that was not included in the University's financial statements was \$905,235.17 for the year ended June 30, 2012.



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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 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, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 26, 2012. Our report includes a reference to other auditors.

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

Internal Control Over Financial Reporting

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

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

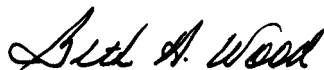
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

November 26, 2012

ORDERING INFORMATION

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

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20601 Mail Service Center
Raleigh, North Carolina 27699-0601

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Facsimile: 919/807-7647

This audit required 1338 audit hours at an approximate cost of \$96,336. The cost represents 0.0049% of the University's total assets and total expenses subjected to audit.