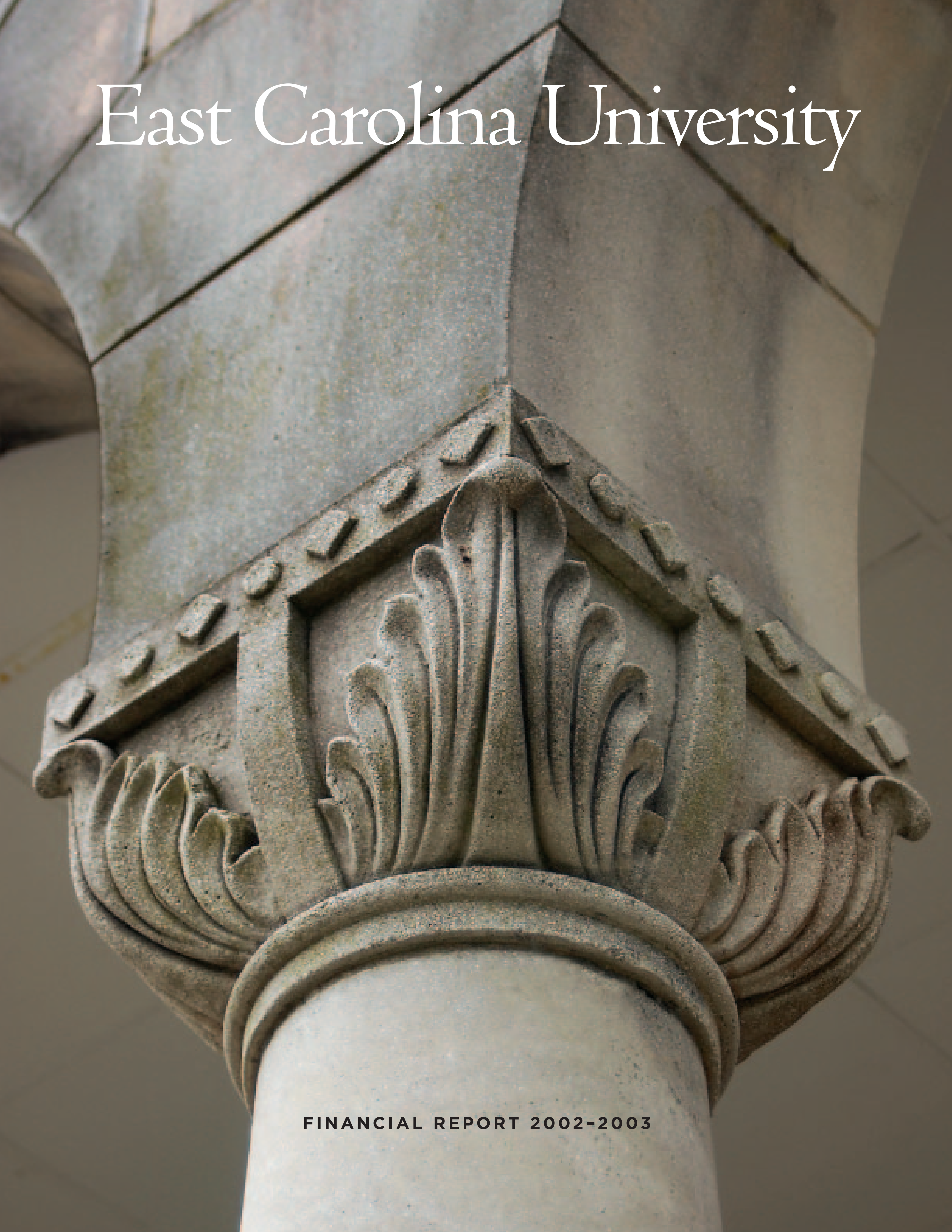
East Carolina University



FINANCIAL REPORT 2002–2003

THE UNIVERSITY OPENED ITS NEW $70 million Science and Technology Building, the first project completed using East Carolina's share of the $3.1 billion higher-education bond issue approved in 2000. This state-of-the-industry center is advancing the training of our graduates, increasing our ability to work with business and industry, and stimulating economic growth in the East. The 270,000-square-foot building houses the College of Technology and Computer Science and the Department of Chemistry and has additional lab space for the Department of Biology.

East Carolina University Financial Report

2002–2003

IN 2002 THE STATE BOARD OF EDUCATION rated North Carolina's teacher preparation programs, and none ranked higher than East Carolina's. The East Carolina University College of Education prepares more professionals for North Carolina schools than any other university and is recognized nationwide for its excellence and innovation.

Contents

Financial Statement Report of East Carolina University

Greenville, North Carolina

Year Ended June 30, 2003

EAST CAROLINA'S DEPARTMENT OF BIOLOGY is looking for a Christmas tree that likes it hot. Biologists hope to introduce a tree—either a new species or a modified version of the popular Fraser fir—that will tolerate the heat and dry conditions common during eastern North Carolina summers. The state is the country's second largest producer of live Christmas trees, but the industry is currently limited almost exclusively to the mountain counties.

The close of the 2002–2003 fiscal year

brings East Carolina closer to the end of its first century

of work. From modest beginnings as a teacher training school, ECU

has emerged as a national research university with an enrollment that tops 21,000.

The university can certainly be proud of its accomplishments. The College of Education, one of the best in the country, trains more teachers than any other program in the state. The Schools of Nursing and Allied Health Sciences and the Brody School of Medicine, a nationally recognized leader in primary care and rural health, offer unrivaled variety and quality in training for health-care professionals. The university's offerings in the fine and performing arts are some of the best on the East Coast and are the largest in North Carolina, and our programs in business, science, and technology are growing rapidly thanks to their quality, the demand for their graduates, and their real contributions to the economy of the state.

East Carolina is a technological innovator, an engine of economic development, and a hotbed of discovery. A nationwide study by *The Chronicle of Higher Education* measuring the practical application of university research placed East Carolina in the top ten in three categories. No other university in North Carolina achieved a top ten ranking in any of the seven categories.

The Brody School of Medicine continues its groundbreaking work in telemedicine and robot-assisted surgery. Planning for the North Carolina Cardiovascular Diseases Institute, a regional heart center, is under way. The brand-new Science and Technology Building with its state-of-the-industry science, computer networking, construction, and manufacturing labs is now up and running. And East Carolina is leading the state in Internet-based education with the largest on-line enrollment (approximately two thousand) of any school in the University of North Carolina system.

East Carolina's value to the state and nation continues to grow as we follow our motto To Serve. We still live by the words of Robert H. Wright, the first president of East Carolina, who laid out the school's mission, saying, "We will give to the rising generation the purest inheritance of the nation and better preparation than has ever been given to a preceding generation. This school is an expression of that determination; it was built by the people, for the people, and may it ever remain with the people, as a servant of the people."

East Carolina University. *Tomorrow starts here.*

JOHN THOMPSON, one of the most highly regarded defensive coaches in the country, was selected East Carolina's new head football coach in December. Thompson came to ECU from the University of Florida where he served as the Gators' defensive coordinator. His twenty-one-year collegiate coaching career includes nineteen seasons as a defensive coordinator with stops at four schools in the Southeastern Conference—Florida, Alabama, Arkansas, and LSU. He also held assistant coaching positions at Conference USA members Memphis and Southern Miss, along with appointments at Louisiana Tech and Northwestern (La.) State.

2002–2003 Board of Trustees

2002–2003 Officers of Administration

William E. Shelton, Chancellor
Richard Brown, CPA, Executive Vice Chancellor
Thomas Feldbush, Vice Chancellor for Research, Economic Development, and Community Engagement
George Harrell, Senior Associate Vice Chancellor for Campus Operations
Charles M. Hawkins, CPA, Senior Associate Vice Chancellor for Financial Services
Jeff Huskamp, Chief Information Officer
Michael Lewis, Vice Chancellor for Health Sciences
Garrie Moore, Vice Chancellor for Student Life
James Smith, Interim Vice Chancellor for Academic Affairs

2002–2003 Business and Financial Staff

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Anne Jenkins, Budget Director
Sherrilyn Johnson, CPA, Financial Director of Foundations, Grants & Contracts, and Institutional Trust Funds
Harvey Lineberry, Associate Vice Chancellor for Human Resources
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William Robinson, CPA, Assistant Vice Chancellor for Administration & Finance
Stacie Tronto, CIA, CISA, Interim Director of Internal Audit
Gary Vanderpool, Executive Associate Vice Chancellor for Administration and Finance-Health Science
John Worth, Chief Financial Officer-SOM

THE SMITHSONIAN AMERICAN ART MUSEUM announced that it would feature a major retrospective of the work of Bob Ebendorf, the Carol Grotnes Belk Chair in Metals in East Carolina's School of Art. "The Jewelry of Bob Ebendorf" will travel to various museums throughout the country and will appear at the Renwick Gallery in the Smithsonian's art museum this fall.

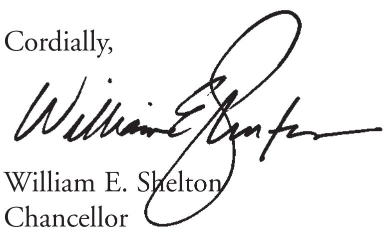
To the Members of the Board of Trustees:

I am pleased to submit for your review and consideration the Financial Report of East Carolina University for the fiscal year that ended June 30, 2003. The results of the audit report indicate no major or minor findings of concern.

This past year saw record-breaking enrollment accompanied by the highest-ever average SAT scores of entering freshmen. In an effort to meet the demands of increased enrollment, construction and renovation of facilities are evident throughout campus – most notably the $70 million Science and Technology Building, which will open for fall semester 2003 and a major renovation of the Rivers Building underway. This past year also saw significant strides in the movement toward national recognition in the four areas of emphasis that are a part of the forward momentum of East Carolina University: teacher preparation, human health, the arts, and economic development. A great example is the major national media attention received by SpeechEasy, the anti-stuttering device developed by ECU faculty.

The financial well being as reflected in this report is attributable to the good stewardship and dedicated work of our administrative offices, to the continuing support of the North Carolina General Assembly, and to the diligence of the Board of Trustees.

Cordially,



William E. Shelton
Chancellor

THE RIVERS BUILDING, home of East Carolina's School of Nursing and the College of Human Ecology, is undergoing a $12 million expansion and renovation. The project will add offices, laboratories, and classrooms in a three-story, 35,000-square-foot addition and will overhaul 4,000 square feet of existing space. Work is scheduled for completion in early 2004. The building is financed largely by East Carolina's $190 million share of North Carolina's voter-approved construction bonds for higher education.

Letter from the Senior Associate Vice Chancellor for Financial Services

To Chancellor William E. Shelton and Members of the
Board of Trustees, East Carolina University:

The financial position of the university remains strong as described in the accompanying Financial Report. The report is prepared from the accounting records of East Carolina University and represents the financial condition of the university at June 30, 2003. The report is organized into three sections:

The **Introductory Section** includes a message from the Chancellor and a listing of the University Board of Trustees and Officers of Administration. This section is intended to broadly acquaint the reader with the mission, organization and structure of the University.

The **Financial Section** presents the management's discussion and analysis, basic financial statements and the auditor's report from the Office of the State Auditor. The management's discussion and analysis provides an objective review of the University's financial activities. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The **Statistical Section** contains selected financial, statistical, and demographic information. This information is intended to present to readers a broad overview of trends in the financial affairs of the University.

The financial statements in the Financial Section incorporate all of the funds of the University that are under the direct control of campus management and are audited annually by the state auditor of North Carolina. All University-related foundations are separately incorporated and are controlled by an outside board of directors and have separately audited financial statements available upon request at each organization.

The financial statements have received an unqualified opinion from the State of North Carolina auditors, whose report appears on page 12.

Sincerely,

Charles M. Hawkins
Senior Associate Vice Chancellor for Financial Services

CARDIAC SURGEONS AT THE BRODY SCHOOL of Medicine at East Carolina University continued their groundbreaking work in robotic surgery by leading a successful national clinical trial to study the use of the da Vinci Surgical System for mitral valve repairs. Dr. W. Randolph Chitwood Jr., chair of the Department of Surgery at East Carolina University, was the first to use this robotic device to correct problem with this valve between the left-side chambers of the heart. Traditionally, this procedure calls for open-heart surgery, but the da Vinci unit needs only three small incisions (the largest is smaller than two inches) to insert its remotely operated camera and surgical tools, resulting in less pain and a quicker recovery for the patient.

Financial Section

2002–2003

STATE OF NORTH CAROLINA
Office of the State Auditor

RALPH CAMPBELL, JR.
STATE AUDITOR

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20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet http://www.osa.state.nc.us

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the accompanying basic financial statements of East Carolina University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Carolina University as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2003 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report will be issued under separate cover in the Financial Statement Audit Report of East Carolina University published by this Office.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections, identified in the table of contents, were not audited by us, and accordingly, we do not express an opinion thereon.

Ralph Campbell, Jr.
State Auditor

October 31, 2003

Management's Discussion and Analysis

Introduction

The discussion and analysis that follows provides an indication of the financial position and activities of East Carolina University for the fiscal year ended June 30, 2003. The preceding transmittal letter and the following financial statements and footnotes comprise our complete set of financial information. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current and past year will be presented, with an emphasis on the current year.

Using the Financial Statements

There are three statements included in the University's financial report: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which emphasize the University as a whole and not by fund groups. During fiscal year 2003, the University continued to follow the guidelines established by GASB statements 35, 37 and 38. These were first adopted for the year ended 2002 and provided for the division of revenues and expenses into operating and non-operating, the separation of the Statement of Net Assets into current and non-current and the recording of depreciation expense for the first time, among other changes. Since there have been very few changes in accounting policies between this year and last year, it is possible to present comparative data for the first time.

The only significant change in this year's statements is the decision by the Office of the President to include all tuition and fee revenues in the tuition and fees line on the Statement of Revenues, Expenses and Changes in Net Assets. Before, some of the fees relating to the auxiliaries were classified as sales and services. This does not change the statement as a whole since the increase in tuition and fees offsets the decrease in sales and services.

Financial Highlights

- At June 30, 2003, the University had assets of $666 million and liabilities of $134 million. These resulted in net assets of $532 million, which represent the residual interest in the assets after liabilities are deducted. The increase from last year's $466 million in net assets indicates an improvement of financial position.

- Along with other State Agencies, East Carolina University was subject to a one-time reversion in state appropriations of $7.6 million during the fiscal year due to the weak economy and its impact on the State of North Carolina. The University's carry-forward was also reduced by $492 thousand to assist the State with the budget shortfall. University administrators handled these losses of funds through managed hiring and various operating reductions in order to minimize negative consequences for the University's teaching and research mission.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the University as of June 30, 2003 and includes all assets and liabilities of the University. Net assets, as described above, is an indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. 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. Generally, assets and liabilities are measured using current values. One noteworthy exception is capital assets, which are presented at historical cost less accumulated depreciation. A summarized comparison of the University's assests, liabilities and net assets at June 30, 2003 and 2002 is as follows:

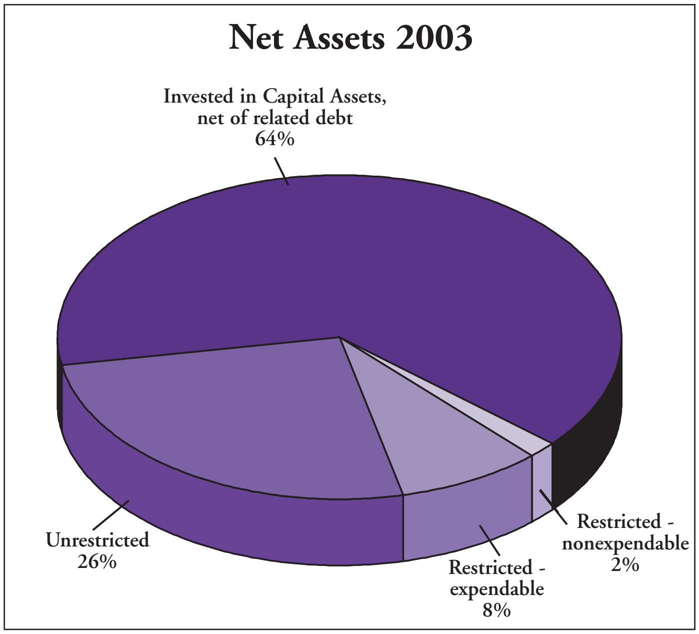
Assets	2003	*Dollars in thousands* 2002	Variance
Current Assets	$ 183,331	$ 187,582	$ (4,251)
Noncurrent Assets:			
Capital assets, net	419,115	351,729	67,386
Other	63,940	45,790	18,150
Total Noncurrent Assets	$ 483,055	397,519	85,536
Total Assets	$ 666,386	585,101	81,285
Liabilities			
Current Liabilities	$ 35,451	36,042	(591)
Noncurrent Liabilities	98,467	82,700	15,767
Total Liabilities	$ 133,918	118,742	15,176
Net Assets			
Invested in Capital Assets, net of related debt	$ 341,622	281,842	59,780
Restricted - nonexpendable	8,998	8,792	206
Restricted - expendable	44,138	36,995	7,143
Unrestricted	137,710	138,730	(1,020)
Total Net Assets	$ 532,468	466,359	66,109

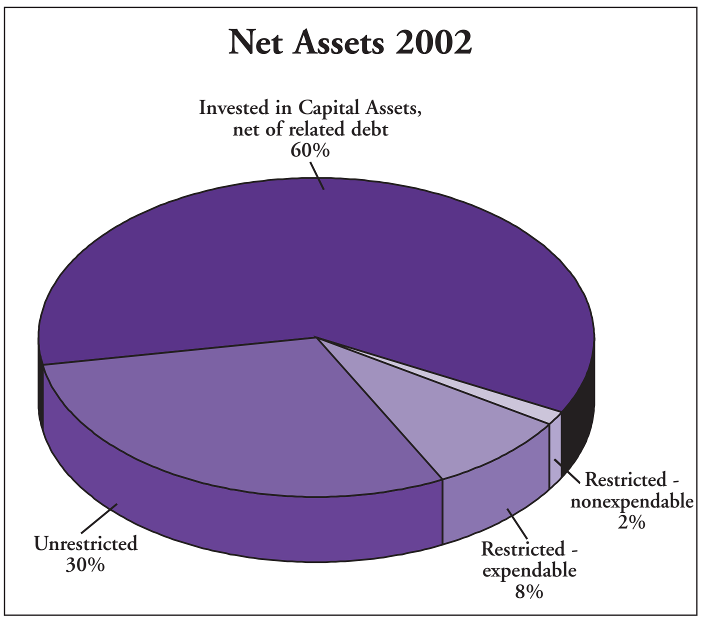
A review of the Statement of Net Assets at June 30, 2003 shows that the University continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost control, management of its endowment, conservative utilization of debt and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash and receivables expected to be collected within the next accounting cycle. Current assets for the year ended June 30, 2003 were $183 million, whereas in 2002, current assets were almost $188 million. Although there was an increase in Patient Receivables of about $7 million, there was a decrease in current cash and cash equivalents of $13 million. The rise in patient receivables was primarily associated with an increase in days in accounts receivable, along with an increase in patient volume. Current cash was affected by these receivables and was also decreased by $5 million spent for land by the Medical Faculty Practice Plan. The decrease in current cash and cash equivalents is more than offset by an increase in non-current cash and equivalents, resulting in an overall increase in cash, as demonstrated on the Statement of Cash Flows. Total non-current assets also increased, largely because of the $29.8 million spent on the new science and technology building during the year.

Current liabilities are comprised mostly of accounts payable, accrued compensation, and current portions of long-term liabilities. Current liabilities for the year were $35.5 million, comprised largely of accounts payable and accrued payroll, which together made up almost $18.8 million. Current liabilities as a whole decreased because of the efforts of management to be conservative in light of the current budget situation. Non-current liabilities increased by $15 million due to the issuance of about $15 million in new bonds for the construction of the West End Dining project.

Net assets represent residual interest in the University's assets after all liabilities are deducted. For reporting purposes, they are divided into four categories: invested in capital assets, net of related debt; restricted non-expendable, restricted expendable, and unrestricted net assets. The following charts display the contribution of each category to the total in both 2003 and 2002:





As the charts indicate, there was little change in the makeup of Net Assets. The largest portion continued to be assets invested in capital assets, net of related debt. This category encompasses the University's capital assets net of accumulated depreciation and outstanding principal balances of debt resulting from the acquisition, construction or improvement of those assets. Of the $532 million in net assets this year, $342 million was attributable to East Carolina's investment in capital assets. At June 30, 2003, the accumulated depreciation balance was $143 million.

Restricted nonexpendable net assets primarily include the University's permanent endowment funds. This year they accounted for $9 million of total net assets. Restricted expendable net assets are subject to externally imposed restrictions governing their use. This category of net assets made up $44 million of the $532 million net assets total.

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. This year, unrestricted net assets amounting to $138 million represent twenty-six percent of the total net assets.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by the institution, both operating and non-operating, and any other revenues, expenses, gains or losses received or incurred by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Non-operating revenues are revenues received for which goods and services are not provided, i.e., state appropriations and investment income. Non-operating expenses include interest expense, extraordinary items, and results of accounting changes, i.e. expenses not involved in the normal operation of the University. Operating income is the residual amount after operating expenses are deducted from operating revenues. The following is a condensed Statement of Revenues, Expenses and Changes in Net Assets for East Carolina University as of June 30, 2003, compared with that of 2002.

Dollars in thousands

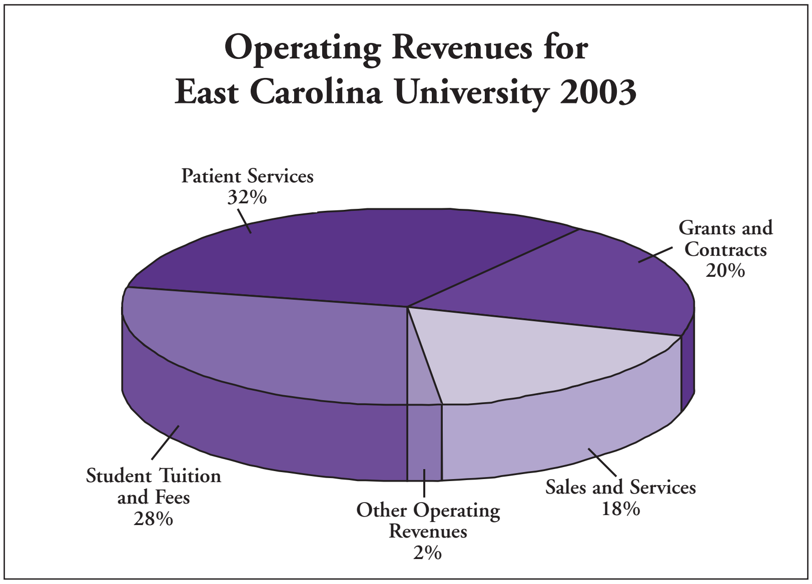
Operating Income (Loss)	**2003**	**2002**	**Variance**
Operating Revenues	$ 277,563	247,379	30,184
Operating Expenses	(424,276)	(407,472)	(16,804)
Total Operating Income (Loss)	**$ (146,713)**	**(160,093)**	**13,380**
Nonoperating Revenues (Expenses)	**$ 167,427**	**159,826**	**7,601**
Income (Loss) before other revenues, expenses, gains and losses	**$ 20,714**	**(267)**	**20,981**
Other revenues, expenses gains and losses	**$ 45,395**	**27,524**	**17,871**
Change in Net Assets	**$ 66,109**	**27,257**	**38,852**
Net Assets - July 1	**$ 466,359**	**439,102**	**27,257**
Change in Net Assets (above)	$ 66,109	27,257	38,852
Net Assets - June 30	**$ 532,468**	**466,359**	**66,109**

One of the University's greatest strengths is the diversity in the streams of revenue that supplement its student tuition and fees and state appropriations. These include voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, and investment income. The University has in the past and will continue to seek funding from all possible sources consistent with its mission and to prudently manage the financial resources realized from these efforts to fund its operating activities.

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets at year-end of $66 million, a substantial rise from last year's increase of $27 million.

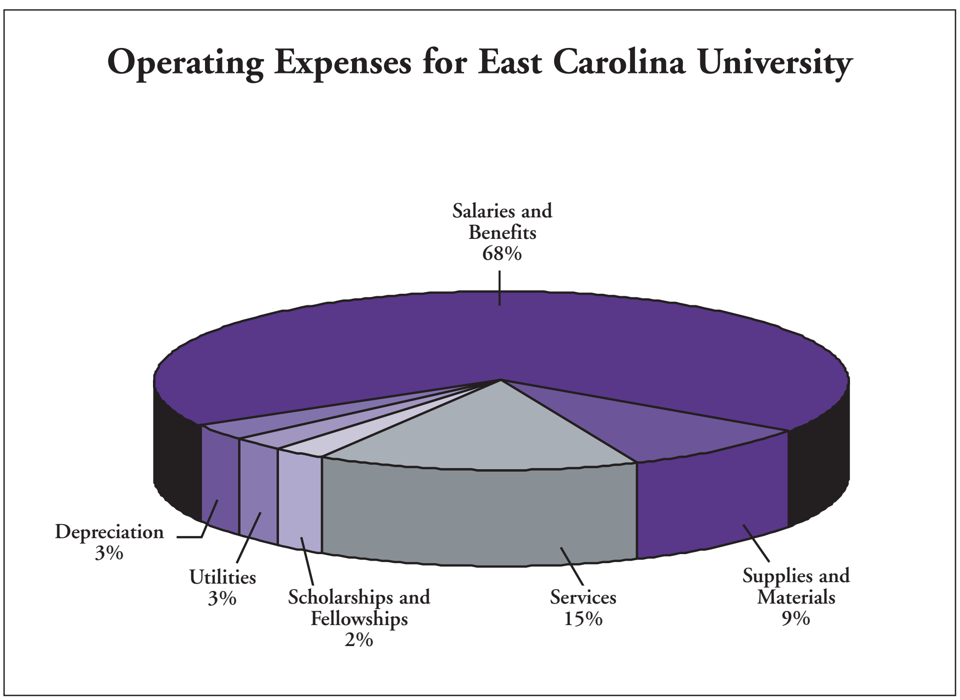
Operating revenues totaled $278 million and consisted of five areas: student tuition and fees, net; patient services, net; grants and contracts; sales and services, net; and other operating revenues. The following chart shows each component of operating revenue as it relates to total operating revenues as a whole.

As is evident by the graph, patient services make up almost one-third of all operating revenues. Student tuition and fees are the second largest and are presented net of the tuition discount. The tuition discount is an offset to revenues for the scholarships and fellowships that are applied to student accounts.

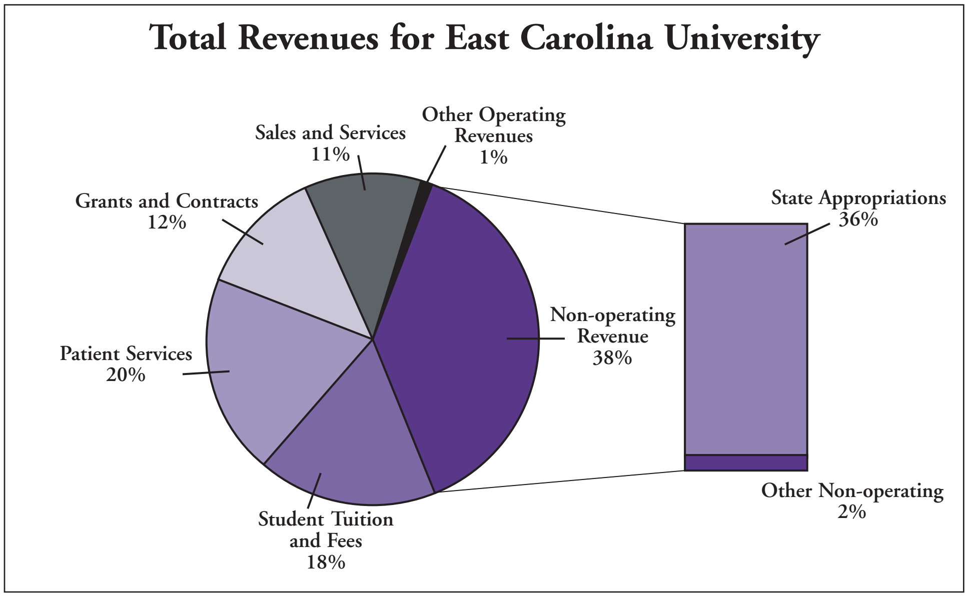


Patient services, grants and contracts and other revenues changed very little as far as their contribution to operating revenues. Tuition and fees rose by eight percent from twenty percent and sales and services fell by eight percent from twenty-six percent. This inverse relationship is a result of the decision mentioned earlier in the analysis to include all tuition and fee revenues in the tuition and fees line on the Statement of Revenues, Expenses, and Changes in Net Assets. In previous years, some of the fees relating to the auxiliaries were classified as sales and services.

As depicted in the chart below, operating expenses are mainly attributable to salaries and benefits for the faculty and staff of the University. Of the $424 million in operating expenses, $288 million were used for this purpose. Other elements included in operating expenses are supplies and materials, services, scholarships and fellowships, utilities and depreciation. Almost all areas were identical to last year in terms of their percent of contribution. Supplies and materials went down by two percent and utilities and services went up by one percent each.



As mentioned before, non-operating revenue consists primarily of state appropriations and investment income. Of the $170 million recognized as non-operating revenue, disregarding non-operating expenses, $161 million reflect appropriated funds from the state. As expected, these appropriations contribute greatly to the overall revenues of the University. The following graph examines the effect of these non-operating revenues in conjunction with all revenues for the institution.



As depicted by the above graph, state appropriations represent a very significant component of total revenues for the University. They account for thirty-six percent of total revenue and ninety-five percent of non-operating revenue. There are no major changes from last year except between student tuition and fees and sales and services. This is because of the accounting change discussed earlier. Unfortunately, due to a weak economy, North Carolina State Agencies were required to provide a one-time reversion to the State. This amount totaled approximately $8 million for East Carolina University.

Non-operating expenses for the University were mostly comprised of interest and fees on capital asset-related debt, which totaled $2.4 million. This is significantly lower than the $4 million in interest and fees paid last year. This decrease can be explained by lower interest rates made possible through refinancing of existing debt and the current economy. The amount for interest and fees represents less than one percent of all University expenses for the year.

Statement of Cash Flows

The Statement of Cash Flows provides detail on the cash activity for the year. Cash provided or used is categorized based on the type of activity, i.e., operating, non-capital financing, capital financing or investing. Net cash used is reconciled to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets. The following is a condensed version of the Statement of Cash Flows for the year ended June 30, 2003.

Cash Provided (Used) by:	
Operating activities	$ (138,021)
Non-capital financing activities	164,572
Capital financing activities	(25,294)
Investing activities	4,360
Net change in cash	**$ 5,617**
Cash, beginning of year	**$ 154,959**
Cash, end of year	**$ 160,576**

Operating activities are those activities that result from providing goods and services and include the cash effects of transactions that enter into the determination of operating income. This is also the residual category, meaning that it covers transactions that do not fit into any of the other categories. The most significant source of operating cash is cash that has been received from customers, which amounted to $274 million. This includes tuition and fees, grants and contracts, patient services, and sales and services of educational and auxiliary nature. The increase from last year's $247 million can be explained by higher fees for students and patients along with a greater volume of both. The most notable use of operating cash was for compensation and benefits for University employees, which totaled $284 million.

Non-capital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets. These activities also include repaying those amounts borrowed, including interest, along with certain other interfund or intergovernmental receipts and payments. Almost all of this activity results from state appropriations.

Capital financing activities include borrowing money for the acquisition, construction, improvement and disposal of capital assets used in providing services or producing goods. This also includes repayments as well as interest. Sources in this area incorporate $38 million in capital grants and $20 million in proceeds from capital debt. Acquisition and construction of capital assets in the amount of $74 million was the most significant capital use.

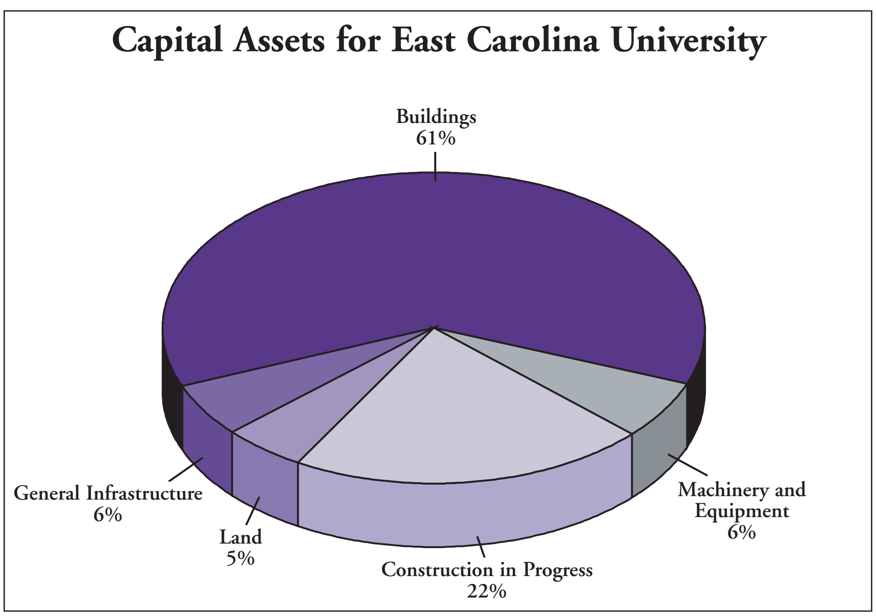
The final group on the Statement of Cash Flows is investing. Investing activities include making and collecting loans and acquiring or disposing of debt or equity instruments. Proceeds from sales and maturities of investments, along with interest on investments, make up the $27 million in investing sources. The major related use of these funds was $23 million for the purchase of investments and related fees.

Capital Assets

A critical factor in continuing the quality of the University's academic and research programs and 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. This goal has been significantly enhanced by the 2000 Higher Education Bond issue that has provided East Carolina University with $190 million of funding to construct new academic buildings, renovate older facilities and update or replace campus infrastructure.

The University had $419 million invested in capital assets at year-end. There was a net increase from $352 million from last year, which is mostly attributable to the construction of the new Science and Technology Building.

Capital assets for the University were comprised of non-depreciable and depreciable assets. Non-depreciable assets were land and construction in progress. Depreciable assets were buildings, machinery and equipment, and general infrastructure. The following chart displays the relationship of each category to total capital assets as a whole.



As is evident from the capital asset chart, most of the University's capital assets are in the form of buildings which have been completed or that are construction in progress. Construction in progress gained two percentage points, mainly due to the new Science and Technology Building that was not occupied until August 2003. Land also increased from two percent last year. This is a result of significant acquisitions from the Medical Foundation.

Capital additions consist primarily of replacement, renovation and new construction of capital assets as well as significant investments in equipment, including information technology. Capital additions totaled $111 million. As noted above, a major component of this was funded from the $2.5 billion Higher Education Bond issue allocated to the University system that was approved by the voters in North Carolina in 2000.

In order to continue to provide quality educational experiences, it is imperative that the University maintains a constant level of growth in regards to capital assets. A plan of this nature will assist the University in avoiding obsolescence and will also provide a marketable tool for attracting more students to the school. Significant capital additions already committed for next fiscal year are depicted below.

Description	Funding Source	Amount in thousands
West End Dining Hall	Self-Liquidating	$ 11,725
College Hill - Phase I	Bond Proceeds	1,090
Third Floor Nursing Building	Appropriated	7,015
Classroom Improvements	Appropriated	1,443
Clement, White, Greene A/C	Self-Liquidating	104
Renovate SOM Facilities	Self-Liquidating	1,288

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

Debt

The University had $71.4 million in outstanding bonds and notes on June 30, 2003. Of this, $70.9 million was for bonds and $500 thousand was for notes payable. New debt, issued June 19, 2003 included $4.6 million in Student Fee Revenue Refunding Bonds for Athletics Facilities. The refunding component of this bond issue was used to advance refund (defease) $4.5 million of outstanding Athletic Facilities Revenue System Bonds, Series 1994. Also issued on the same date were $15 million in bonds to fund the planned construction on the West End Dining Hall. All of the net proceeds were used to purchase U.S. government securities.

More detailed information on the University's long-term obligations is presented in note 7 to the financial statements.

Economic Forecast

Management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, the community, and governmental agencies. The University's strong financial position, as evidenced by its continued growth in enrollment, the overwhelming support by the citizens of North Carolina for the issuance of the $2.5 billion bond issue for which East Carolina University received $190 million for key capital projects and an A1 rating from Moody's on the latest bond issuance will provide a high degree of flexibility in supporting expected growth in the future. This flexibility, along with the University's ongoing efforts toward revenue enhancement and cost containment, will enable the University to provide the necessary resources to support this level of excellence.

The North Carolina economy continues to lag due to the weak financial markets and a large economic dependency on textiles and tobacco. This provides a challenge to the North Carolina General Assembly to identify other revenue streams. This also provides an opportunity for East Carolina University to expand its partnership with local and state governments to establish an environment that will bring new businesses to North Carolina and provide additional revenues to the State.

A crucial element of the University's future will continue to be our relationship with the State of North Carolina. Education continues to be recognized as an investment in North Carolina's future and is well supported by the State of North Carolina General Assembly, Board of Governors and the North Carolina citizens. The State continues to fully fund enrollment increases, providing substantial additional resources to East Carolina University based on significant growth in our student population through the end of the decade.

The University continues to execute its long-range plan to modernize and expand its complement of teaching and research facilities with a balance of new construction. The majority of the funding for these projects was provided by the $2.5 billion Higher Education Bond issue overwhelmingly passed by the voters in 2000. This strategy addresses the University's need for infrastructure growth and the continuing effects of technology on teaching and research methodologies.

Private gifts are an important supplement to the fundamental support from the State and student tuition, and a significant factor in the growth of academic units. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

For endowments, the University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather any economic uncertainties.

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 of all funds received. If you have any questions or need additional financial information, please contact David Price, Financial Director for East Carolina University, at (252) 328-6252.

Statement of Net Assets — *Exhibit A*
June 30, 2003 *(in thousands)*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 119,116
Restricted Cash and Cash Equivalents	14,558
Receivables, Net (Note 4)	40,778
Due from Primary Government	3,083
Due from State of North Carolina Component Units	68
Inventories	2,611
Notes Receivable, Net (Note 4)	1,800
Other Assets	1,317
Total Current Assets	183,331
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	26,902
Restricted Due from Primary Government	11,395
Endowment Investments	9,560
Other Long-Term Investments	6,414
Notes Receivable, Net (Note 4)	9,669
Capital Assets - Nondepreciable (Note 5)	111,599
Capital Assets - Depreciable, Net (Note 5)	307,516
Total Noncurrent Assets	483,055
Total Assets	666,386
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities (Note 6)	21,883
Deferred Revenue	7,810
Interest Payable	403
Long-Term Liabilities - Current Portion (Note 7)	5,355
Total Current Liabilities	35,451
Noncurrent Liabilities	
Deposits Payable	2,075
Funds Held for Others	7,398
U. S. Government Grants Refundable	11,781
Long-Term Liabilities (Note 7)	77,213
Total Noncurrent Liabilities	98,467
Total Liabilities	133,918
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	341,622
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	789
Endowed Professorships	5,015
Departmental Uses	315
Loans	2,879
Expendable:	
Scholarships and Fellowships	2,206
Research	936
Departmental Uses	713
Capital Projects	34,088
Debt Service	5,914
Other	281
Unrestricted	137,710
Total Net Assets	$ 532,468

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

Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2003 *(in thousands)*

Exhibit B

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 78,745
Patient Services, Net (Note 9)	88,397
Federal Grants and Contracts	23,634
State and Local Grants and Contracts	9,318
Nongovernmental Grants and Contracts	21,410
Sales and Services, Net (Note 9)	50,917
Interest Earnings on Loans	142
Other Operating Revenues	5,000
Total Operating Revenues	277,563
EXPENSES	
Operating Expenses:	
Salaries and Benefits	287,602
Supplies and Materials	38,744
Services	64,134
Scholarships and Fellowships	9,731
Utilities	11,506
Depreciation	12,559
Total Operating Expenses	424,276
Operating Loss	(146,713)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	161,174
Noncapital Gifts, Net	3,398
Investment Income	5,306
Interest and Fees on Capital Asset-Related Debt	(2,411)
Other Nonoperating Revenues (Expenses)	(40)
Net Nonoperating Revenues	167,427
Income Before Other Revenues, Expenses, Gains, or Losses	20,714
Capital Grants	35,782
Capital Gifts, Net	9,613
Increase in Net Assets	66,109
NET ASSETS	
Net Assets - July 1, 2002	466,359
Net Assets - June 30, 2003	$ 532,468

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

Statement of Cash Flows *Exhibit C*
for the Fiscal Year Ended June 30, 2003 *(in thousands)*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 273,610
Payments to Employees and Fringe Benefits	(283,629)
Payments to Vendors and Suppliers	(118,189)
Payments for Scholarships and Fellowships	(9,731)
Loans Issued	(3,179)
Collection of Loans	2,123
Interest Earned on Loans	129
Student Deposits Received	2,779
Student Deposits Returned	(1,934)
Net Cash Used by Operating Activities	(138,021)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	161,174
Noncapital Gifts	3,398
Net Cash Provided by Noncapital Financing Activities	164,572
CASH FLOWS FROM CAPITAL FINANCING AND RLATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	20,191
Capital Grants	37,860
Capital Gifts	2,243
Proceeds from Sale of Capital Assets	53
Acquisition and Construction of Capital Assets	(74,356)
Principal Paid on Capital Debt and Leases	(8,828)
Interest and Fees Paid on Capital Debt and Leases	(2,457)
Net Cash Used by Capital Financing and Related Financing Activities	(25,294)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	22,106
Interest on Investments	5,431
Purchase of Investments and Related Fees	(23,177)
Net Cash Provided by Investing Activities	4,360
Net Increase in Cash and Cash Equivalents	5,617
Cash and Cash Equivalents - July 1, 2002	154,959
Cash and Cash Equivalents - June 30, 2003	$ 160,576

for the Fiscal Year Ended June 30, 2003 (in thousands)

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

Operating Loss	$ (146,713)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	12,559
Changes in Assets and Liabilities:	
Receivables (Net)	(8,552)
Due from Primary Government	780
Due from State of North Carolina Component Units	(68)
Inventories	228
Prepaid Items	341
Accounts Payable and Accrued Liabilities	(5,023)
Funds Held for Others	602
U.S. Government Grants Refundable	357
Deferred Revenue	4,015
Compensated Absences	3,664
Deposits Payable	845
Note Principal Repayments	2,123
Notes Issued	(3,179)
Net Cash Used by Operating Activities	$ (138,021)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 119,116
Restricted Cash and Cash Equivalents	14,558
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	26,902
Total Cash and Cash Equivalents - June 30, 2003	$ 160,576

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$ 1,282

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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 sixteen-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 units. 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. Although legally separate, the ECU International Human Performance Center, Inc. (Corporation), is reported as if it were part of the University.

The Corporation is governed by a fifteen-member board of which the majority is appointed by the Chancellor of East Carolina University. The Corporation's purpose is to provide support for the educational programs at East Carolina University. Because a majority of the board members are appointed by the Chancellor of East Carolina University and the Corporation's sole purpose is to benefit East Carolina University, its financial statements have been blended with those of the University.

Separate financial statements for the Corporation may be obtained from the University at 120 Reade Street, Greenville, NC 27858 , or by calling (252) 328-6757. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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 (BTA) 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.

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

D. Cash and Cash Equivalents – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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 - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, limited partnerships, and other asset holdings by the University. Except for money market funds and limited partnerships, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds and limited partnerships are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. Receivables – Receivables consist of tuition and fees charges to students 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 and merchandise for resale, are valued at lower of cost or market value using the first-in, first-out method, except for the University Bookstore which uses the retail inventory method.

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

The University capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment. The University does not capitalize the library and art collections. These collections adhere to the University's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and requires 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 – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on 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 expensed.

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 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method.

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 in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

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

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

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

NOTE 2: DEPOSITS AND INVESTMENTS

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

Deposits include cash and cash equivalents totaling $157,960,000. At year-end, cash on hand was $2,616,000. The University's portion of the State Treasurer's Investment Pool was $157,340,000. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was $619,000 and the bank balance was $1,577,000. Of the bank balance, $281,000 was covered by federal depository insurance, $763,000 was collateralized, and $533,000 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c), applicable to the State's General Fund, and 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, General Statute 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. General Statute 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.

The financial statements and disclosures for the State Treasurer's Investment Pool 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.state.nc.us/** and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 and Chapter VI of the Administrative 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 previously discussed.

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

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

Credit Risk Categories - The University's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 2003 (in thousands) is as follows:

Investments

	Fair Value			
	Risk Category			
	1	2	3	Total
Categorized Investments:				
U. S. Government Securities	$ 0	$ 6,431	$ 0	$ 6,431
Corporate Bonds		6		6
Corporate Stocks		169		169
Total Categorized Investments	$ 0	$ 6,606	$ 0	$ 6,606
Investments Not Categorized:				
Money Market Funds				35
Mutual Funds				7,702
Limited Partnerships				1,530
Other Investments				101
Total Investments Not Categorized				9,368
Total Investments				$ 15,974

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.

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 limits spending to 5% of the endowment principal's market value. To the extent that the total return for the current year exceeds the payout and a 1% administrative fee, the excess is 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. Due to the decline in the stock market over the past three years, the endowment funds have experienced a net depreciation of approximately $280,000. The Endowment Board has taken action to stop the spending of those endowments that are currently "underwater" by 106% of the original endowment amount. The spending accounts for those endowments have been transferred to quasi-endowment accounts. The total amount of restricted funds that were transferred to the endowment fund during the year was approximately $333,000.

NOTE 4: RECEIVABLES

Receivables at June 30, 2003 (in thousands) were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,663	$ 98	$ 3,565
Accounts	51,748	19,469	32,279
Intergovernmental	480		480
Investment Earnings	386		386
Interest on Loans	155		155
Other	3,913		3,913
Total Current Receivables	$ 60,345	$ 19,567	$ 40,778
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 2,008	$ 219	$ 1,789
Institutional Student Loan Programs	12	1	11
Total Notes Receivable - Current	$ 2,020	$ 220	$ 1,800
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 9,669	$ 0	$ 9,669
Total Notes Receivable - Noncurrent	$ 9,669	$ 0	$ 9,669

NOTE 5: Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2003 (in thousands), is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	$ 6,251	$ 111	$ 15,035	$ 0	$ 21,397
Construction in Progress	70,041	(29,434)	49,595		90,202
Total Capital Assets, Nondepreciable	76,292	(29,323)	64,630		111,599
Capital Assets, Depreciable:					
Buildings	315,122	27,587	10,061	733	352,037
Machinery and Equipment	68,776		6,969	3,098	72,647
General Infrastructure	25,313	1,736		888	26,161
Total Capital Assets, Depreciable	409,211	29,323	17,030	4,719	450,845
Less Accumulated Depreciation/Amortization for:					
Buildings	86,157		6,394		92,551
Machinery and Equipment	45,286		5,641	3,005	47,922
General Infrastructure	2,332		524		2,856
Total Accumulated Depreciation	133,775		12,559	3,005	143,329
Total Capital Assets, Depreciable, Net	275,436	29,323	4,471	1,714	307,516
Capital Assets, Net	$ 351,728	$ 0	$ 69,101	$ 1,714	$ 419,115

NOTE 6: Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2003 (in thousands) were as follows:

Accounts Payable	$ 8,775
Accrued Payroll	10,026
Contract Retainage	3,018
Other	64
Total Accounts Payable and Accrued Liabilities	$ 21,883

NOTE 7: Long-Term Liabilities

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2003 (in thousands) is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Notes Payable	$ 755	$ 0	$ 193	$ 562	$ 203
Bonds Payable	59,905	19,590	8,635	70,860	4,270
Total Notes and Bonds Payable	60,660	19,590	8,828	71,422	4,473
Compensated Absences	7,481	10,370	6,705	11,146	882
Total Long-Term Liabilities	$ 68,141	$ 29,960	$ 15,533	$ 82,568	$ 5,355

B. Notes Payable - The University was indebted for notes payable for the purposes shown in the following table (in thousands):

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2003	Principal Outstanding 6/30/2003
Finance Computer Equipment for Dormitories	Carlyle Capital Markets	5.05	3/1/06	$ 950	$ 414	$ 536
Athletic Vehicles	Wachovia	8.13	11/1/05	$ 35	$ 9	$ 26
Total Notes Payable				$ 985	$ 423	$ 562

C. Bonds Payable - The University was indebted for bonds payable for the purposes shown in the following table (in thousands):

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/03	Principal Outstanding 6/30/03
Housing and Dining Services						
Residence Hall Renovation						
—Jarvis	1998	4.00-4.75	11-1-18	5,095	690	4,405
Jones Hall and Galley						
Dining Facility Renovations	2001A	4.25–5.75	11-1-21	12,570	0	12,570
Housing & Dining Revenue						
Refunding Bonds	2001B	4.25–5.75	11-1-15	11,985	1,075	10,910
West End Dining Hall	2003A	2.60-5.00	5-1-24	14,960		14,960
Total Housing and Dining Services				44,610	1,765	42,845
Student Services System						
Student Health Center	1999	4.75-5.25	5-1-19	3,500	490	3,010
Student Recreation Center						
Refunding Bonds	2001C	3.0-4.75	5-1-19	14,555	1,185	13,370
Total Student Services System				18,055	1,675	16,380
Athletic Facilities Revenue System						
Athletic Facilities Student Fee						
Refunding Bonds	2003A	2.00-4.00	5-1-09	4,630	0	4,630
Dowdy-Ficklen Stadium						
Expansion	1996	1.1, variable	5-1-17	7,000	1,600	5,400
Total Athletic Facilities Revenue System				11,630	1,600	10,030
The University of North Carolina System Pool Revenue Bonds						
Repairs to Dowdy-Ficklen						
Stadium Expansion	(A)	1.1, variable	10-1-03	1,020	915	105
Blount Intramural Field	(A)	1.1, variable	10-1-08	1,050	450	600
Reade Street Parking Lot	(A)	1.1, variable	10-1-08	1,575	675	900
Total University of North Carolina System Pool Revenue Bonds				3,645	2,040	1,605
Total Bonds Payable (principal only)				$ 77,940	$ 7,080	$ 70,860

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998A

D. Demand Bonds - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University's remarketing or paying agents.

With regards to the following demand bonds, the University has not entered into legal agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

East Carolina University Athletic Department Variable Rate Demand Revenue Bonds, Series 1996: On December 1,1996 the University issued tax-exempt adjustable mode demand bonds in the amount of $7,000,000 that have a final maturity date of May 1, 2017. The bonds are subject to mandatory sinking fund redemption that began on May 1, 1998. The proceeds of this issuance are to pay the cost of renovating and expanding Dowdy-Ficklen Stadium on the campus of East Carolina University and to pay the cost incurred in connection with the issuance of the 1996 bonds. The bonds are subject to purchase on demand with seven days' notice and delivery to the University's remarketing agent, Alex Brown & Sons, Inc.

Under an irrevocable direct-pay letter of credit issued by Wachovia Bank of North Carolina, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The University is required to pay an annual commitment fee for the letter of credit of .30% of the amount of bonds then currently outstanding plus an amount for accrued interest.

The University has entered into a reimbursement agreement with Wachovia Bank of North Carolina, N.A., in which it has agreed that upon termination of the letter of credit to repay amounts that are drawn under the letter of credit. Interest is at the rate of prime. At June 30, 2003, no purchase drawings had been made under the letter of credit.

The letter of credit automatically extends every month so that termination will not occur until 13 months after notice is received from Wachovia Bank of North Carolina, N.A., that the letter of credit will not be extended. As of June 30, 2003, the earliest such termination date is July 31, 2004.

The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A: In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system-wide financing arrangement for the benefit of its constituent universities. Through this system-wide financing, the University issued debt in the amount of $3,645,000 with a final maturity date of October 1, 2008. These bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The University's proceeds from this issuance were used to refinance notes payable for repairs to Dowdy-Ficklen Stadium, construction of the Blount Intramural Field, and construction of the Reade Street Parking Lot. While bearing interest at a weekly rate, these bonds are subject to purchase on demand with seven days' notice and delivery to the bond paying agent, The Bank of New York. Upon notice from the bond paying agent, the remarketing agent, Salomon Smith Barney, Inc. has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and NationsBank, N.A. (now part of Bank of America, N.A.), a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a standby fee equal to .13% of the available commitment, payable semiannually in advance, beginning on November 3, 1998, and on each May 1 and November 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (LIBOR plus one percent (1%).) LIBOR is the average of rates per annum for deposits to major money center banks in the London interbank market. Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2003, there were no Liquidity Provider Bonds held by the Liquidity Facility.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in sixty equal monthly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the Liquidity Provider Rate. The expiration date of the Agreement is November 3, 2004 and may be extended for an additional period of up to three years at the discretion of the Liquidity Provider and acceptance by the Board of Governors of the University of North Carolina.

Amounts due under this Standby Bond Purchase Agreement are allocated by the Trustee directly to and paid by the constituent universities participating in the system-wide bond issuance.

E. **Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2003 (in thousands) are as follows:

	Annual Requirements			
	Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2004	$ 4,270	$ 2,904	$ 203	$ 24
2005	4,305	2,831	214	14
2006	4,090	2,684	145	3
2007	4,195	2,526		
2008	4,315	2,369		
2009-2013	18,145	9,424		
2014-2018	17,980	5,589		
2019-2023	12,465	1,865		
2024-2028	1,095	44		
Total Requirements	**$ 70,860**	**$ 30,236**	**$ 562**	**$ 41**

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

Athletics Facilities Revenue System: On June 19, 2003 the University defeased $4,490,000 of outstanding Athletic Facilities Revenue System Revenue Bonds, Series 1994 (original issue amount $8,900,000). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result, the University reduced its debt service requirements by more than $220,000 over the next 6 years and obtained an economic gain of nearly $209,000. At June 30, 2003 the outstanding balance of the defeased Athletic Facilities Revenue System bonds was $4,630,000.

Student Services System: In December 2001, the University defeased $14,765,000 of outstanding Student Recreation Center Revenue Bonds. An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. At June 30, 2003, the outstanding balance of the defeased Student Recreation Center Revenue Bonds was $0.

Housing and Dining Facilities System: In May 2001 the University defeased $11,655,000 of outstanding Housing and Dining Revenue Bonds. An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. At June 30, 2003, the outstanding balance of the defeased Housing and Dining Revenue Bonds was $4,510,000.

NOTE 8: LEASE OBLIGATIONS

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, 2003 (in thousands):

Fiscal Year	Amount
2004	$ 1,971
2005	1,644
2006	784
2007	411
2008	81
2009-2014	85
Total Minimum Lease Payments	**$ 4,976**

Rental expense for all operating leases during the year was $2,405,000.

NOTE 9: REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows (in thousands):

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Less Indigent Care and Contractual Adjustments	Net Revenues	
Operating Revenues:							
Student Tuition and Fees	**$ 93,356**	**$ 0**	**$ 14,512**	**$ 99**	**$ 0**	**$ 78,745**	**(B), (C)**
Patient Services	**$ 196,391**	**$ 0**	**$ 0**	**$ 19,469**	**$ 88,525**	**$ 88,397**	
Sales and Services:							
Sales and Services of Auxiliary Enterprises:							
Residential Life	$ 14,409	$ 0	$ 0	$ 0	$ 0	$ 14,409	(A)
Dining	14,080	846				13,234	(A)
Student Union Services	81					81	
Health, Physical Education, and Recreation Services	1,557					1,557	
Bookstore	10,359					10,359	(C)
Parking	1,403					1,403	
Athletic	5,816					5,816	
Other	435					435	(C)
Sales and Services of Education and Related Activities	3,623					3,623	
Total Sales and Services	**$ 51,763**	**$ 846**	**$ 0**	**$ 0**	**$ 0**	**$ 50,917**	

Revenue Bonds Secured by Pledged Revenues:
(A) Housing and Dining System
(B) Student Services System
(C) University of North Carolina System

NOTE 10: OPERATING EXPENSES BY FUNCTION

The University's operating expenses by functional classification are presented as follows (in thousands):

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 139,506	$ 7,855	$ 9,443	$ 0	$ 60	$ 0	$ 156,864
Research	6,505	2,031	1,883	4	4		10,427
Public Service	77,044	4,186	19,297	1	6		100,534
Academic Support	10,785	6,927	1,354	1			19,067
Student Services	4,421	339	1,447	141			6,348
Institutional Support	15,532	3,013	4,838				23,383
Operations and Maintenance of Plant	14,021		2,269		7,477		23,767
Student Financial Aid	22		103	9,468			9,593
Auxiliary Enterprises	19,766	14,393	23,500	116	3,959		61,734
Depreciation						12,559	12,559
Total Operating Expenses	$ 287,602	$ 38,744	$ 64,134	$ 9,731	$ 11,506	$ 12,559	$ 424,276

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, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the University had a total payroll of $242,575,000 of which $108,253,000 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were $6,495,000. No Employer contributions were required. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, and 2001, which were $6,342,000 and $5,344,000, 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.state.nc.us/** and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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, 2003, 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 year ended June 30, 2003, the University had a total payroll of $242,575,000 of which $102,060,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were $6,124,000 and $6,981,000, respectively.

B. **Deferred Compensation and Supplemental Retirement Income Plans**

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the North Carolina Public Employee Deferred Compensation Trust Fund. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $669,000 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2003 were $85,000. The voluntary contributions by employees amounted to $1,201,000 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $4,074,000 for the year ended June 30, 2003.

NOTE 12: OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees** - The University participates in State-administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2003, the University's total contribution to the Plan was $4,942,000. 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*.

B. **Long-Term Disability** - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2003, the University's total contribution to the DIPNC was $1,094,000. 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 selfretention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $11,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to 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 $500 per occurrence deductible.

The University also purchased through the Fund extended coverage on fifty-seven buildings, sprinkler leakage coverage on twelve buildings, vandalism on three buildings, and "all risk" coverage on two buildings through the Fund. Losses covered by the Fund are subject to a $500 per occurrence deductible. Extended coverage against losses caused by windstorm or hail, explosion, smoke, aircraft or vehicles, riot or civil commotion is provided on University buildings by the Fund and its reinsurer with a deductible of $100,000 per building with a maximum of $500,000 per occurrence at no cost to the University.

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 occurring in-State are $500,000 per claim and $5,000,000 per occurrence and out-of-State are $1,000,000 per claim and $5,000,000 per occurrence. The University pays premiums to the Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence with a $50,000 deductible and a 10% participation in each loss above the deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These coverages provide insurance for on-loan collections of art, medical malpractice (except for the Brody School of Medicine), liability coverage, accident coverage for students participating in University athletic events, and liability and physical damage insurance on University boats. These coverages were affected and placed by the North Carolina Department of Insurance through the State's agent of record.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

The University provides medical malpractice insurance for faculty physicians. The medical malpractice is with a private insurance company with coverage of $3,000,000 per occurrence, $5,000,000 aggregate, and a $200,000 deductible; as well as an excess policy in the amount of $25,000,000.

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

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

NOTE 14: COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $30,581,000 and on other purchases were $4,930,000 at June 30, 2003.

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

C. University Improvement General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization $113,507,000 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15: RELATED PARTIES

Foundations - There are five separately incorporated nonprofit foundations associated with the University. These foundations are the East Carolina University Educational Foundation, Inc., East Carolina University Foundation, Inc., East Carolina University Real Estate Foundation, Inc., East Carolina University Alumni Association, Inc., and the Medical Foundation of East Carolina University, Inc.

The East Carolina Educational Foundation, Inc. provided $2,721,000 for the Dowdy-Ficklen Stadium Expansion Project, the Strength and Conditioning Center Project, and the Harrington Field Expansion and $2,723,000 to the Department of Athletics in primary support of student/athlete scholarships. The other Foundations provided indirect support to the University by disbursing funds directly to recipients.The activities of the above Foundations are not included in the accompanying financial statements except for the direct support provided by the East Carolina University Educational Foundation, Inc.

Schedule of General Obligation Bond Project Authorizations, Budgets and Expenditures for Project-to-Date as of June 30, 2003 *(in thousands)*

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Started							
Science Laboratories and Technology Building	Nov 2000	$ 59,535	$ 0	$ 59,535	$ 49,477	83.11%	Oct 2003
Flanagan Building - Renovation and Conversion	Feb 2001	13,884		13,884	599	4.31%	Apr 2005
Nursing, Allied Health, DEC	Nov 2000	54,936		54,936	1,630	2.97%	Jul 2006
Expansion & Renovation - Old Nursing Building	Aug 2002	14,616		14,616	2,002	13.70%	May 2007
Classroom Improvements - Technology Upgrades	Mar 2001	3,305		3,305	643	19.46%	Sep 2006
Academic Space Requirements	Apr 2003	4,899		4,899	37	0.76%	Jan 2007
Infrastructure - Repairs and Expansions	Nov 2000	14,457	1,000	15,457	1,327	8.59%	Oct 2004
Campus Computing Center	Nov 2000	1,785	1,760	3,545	3,316	93.54%	Jan 2004
Land Acquisition	Nov 2000	7,675	8	7,683	7,676	99.91%	Apr 2004
Technology Infrastructure Expansion	Dec 2001	808		808	607	75.12%	Aug 2003
Reserve for Effective Project Management	Jan 2002	2,794		2,794	161	5.76%	Aug 2007
Projects Not Started - To Be Funded in Future Years							
Belk Building - Comprehensive Renovation	Dec 2003	7,589		7,589			Aug 2007
Old Cafeteria Office Building	Oct 2003	4,327		4,327			Apr 2006
Total All Projects		$ 190,610	$ 2,768	$ 193,378	$ 67,475		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bondsof the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

Intercollegiate Athletics Program
Statement of Current Funds Revenues and Expenditures
Year Ended June 30, 2003 *(in thousands)*

Schedule 2

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues						
Operating Revenues:						
Student Fees, Net (Note 2)	$ 0	$ 0	$ 0	$ 0	$ 5,099	$ 5,099
Ticket Sales	2,178	682	10	128		2,998
Program Sales	12	2		1		15
Novelty Sales					166	166
Radio and T.V. Rights	288	72				360
Contest Guarantees	860		5			865
Advertising Income	375	91	19	53	2	540
Institutional Sports Camps and Clinics	132	105	10	144		391
Concessions	152	60	1	18	17	248
NCAA/Conference USA					1,251	1,251
Other Sources				5	840	845
Total Operating Revenues	3,997	1,012	45	349	7,375	12,778
Expenses						
Operating Expenses:						
Coaches' Salaries	1,235	309	218	751	1,425	3,938
Accrued Salaries					105	105
Other Salaries	101	55	36	124	912	1,228
Fringe Benefits	237	63	54	163	335	852
Travel:						
Team	457	173	74	550	463	1,717
Recruiting	136	85	56	77		354
Financial Aid, Net	1,014	198	197	1,167	213	2,789
Supplies and Uniforms	360	62	33	345	722	1,522
Insurance	3	3		12	134	152
Telephone	23	10	5	16	58	112
Entertainment	6	2	1	4	58	71
Contest Guarantees	750	20	10			780
Radio and TV					230	230

Intercollegiate Athletics Program
Statement of Current Funds Revenues and Expenditures
Year Ended June 30, 2003 *(in thousands)*

Schedule 2
(continued)

Printing and Binding	29	5	7	8	179	228
Repairs and Maintenance	63	10	1	16	123	213
Advertising				3	37	40
Equipment Rentals	33			22	49	104
Ticket Price Adjustments	80	10	2	10		102
Other Fixed Charges	1		1	3	317	322
Other Contractual Services	179	78	10	78	333	678
Depreciation Expense					1,283	1,283
Miscellaneous	374	162	78	172	906	1,692
Total Operating Expenses	5,081	1,245	783	3,521	7,882	18,512
Operating Loss	(1,084)	(233)	(738)	(3,172)	(507)	(5,734)
Nonoperating Revenues						
State Appropriations					116	116
Gifts:						
Non-capital					2,845	2,845
Capital					2,721	2,721
Investment Income					72	72
Net Nonoperating Revenues	0	0	0	0	5,754	5,754
Excess (Deficiency) of Revenues over Expenses	$ (1,084)	$ (233)	$ (738)	$ (3,172)	$ 5,247	$ 20

The accompanying notes are an integral part of this statement.

Notes to the Statement of Revenues and Expenditures
June 30, 2003

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. **Organization and Purpose** - East Carolina University is a constituent institution of The 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*. East Carolina University is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).

B. **Basis of Presentation** - The preceding statement of revenues and expenses presents the University's intercollegiate athletic program's activity in accordance with the National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenses by major program. This statement has been updated for Governmental Accounting Standards Board 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* and Statement No. 38, *Certain Financial Statement Note Disclosures*. This presentation is not intended to provide a complete presentation of the program's financial position or its changes in net assets and cash flows.

C. **Basis of Accounting** - The preceding statement of revenues and expenses was 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.

D. **Non-Monetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at their fair value at the date of receipt.

During the year, uniforms were provided to the University at no charge. The uniforms were provided in exchange for the University's agreement not to use other manufacturers' clothing. This amount is recorded as advertising income in the preceding statement of revenues and expenses.

During the year, leased vehicles and coaching services were provided at no charge to the University. The values of these donations have been recorded as gifts in the preceding statement of revenues and expenses.

NOTE 2: 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 and expenses. 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 either operating or non-operating revenues in the accompanying statement of revenues and expenses. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount. The amount of tuition discounting applicable to Athletics was $745,000.

NOTE 3: EAST CAROLINA UNIVERSITY EDUCATIONAL FOUNDATION, INC.

The East Carolina University Educational Foundation, Inc. (Foundation) is a separate and legal entity established to promote and support the University's intercollegiate athletic program. During the fiscal year, the University received approximately $2,534,000 in direct support from the Foundation and approximately $190,000 in indirect support through payments made on behalf of the University by the Foundation. The capital gifts on the statement of revenues and expenses were provided by the Foundation and used to fund capital related expenses: $380,000 to fund debt service payments for the 1996 Dowdy-Ficklen Stadium Bond, $49,000 for costs associated with debt service, $1,444,000 to fund the Dowdy-Ficklen Stadium Expansion Project, $709,000 to fund the Strength and Conditioning Center Project and $139,000 to fund the Harrington Field Expansion.

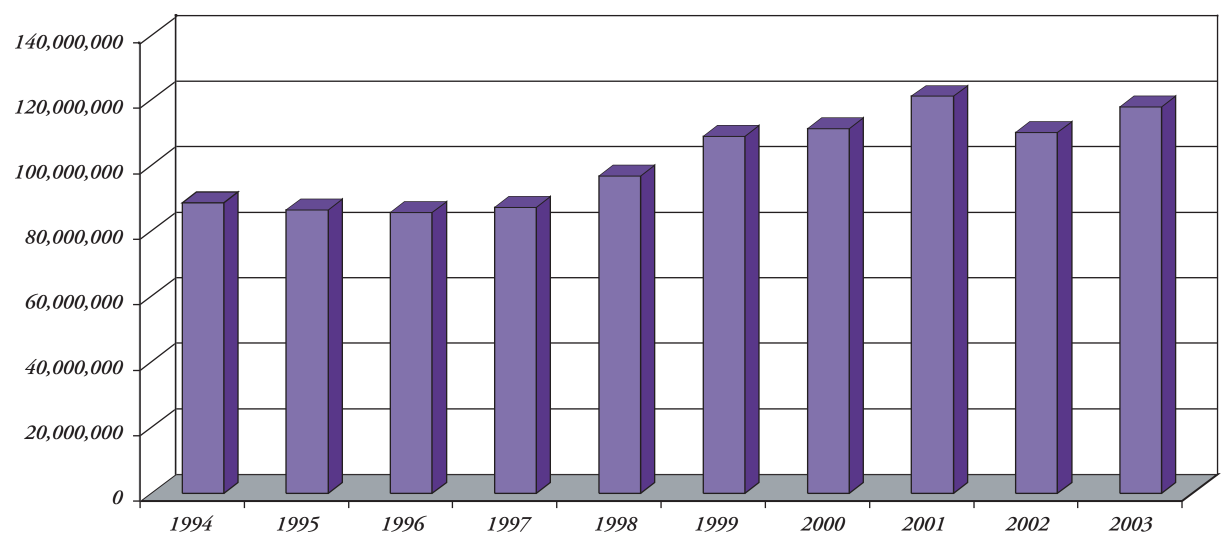
Statistical Section

2002–2003

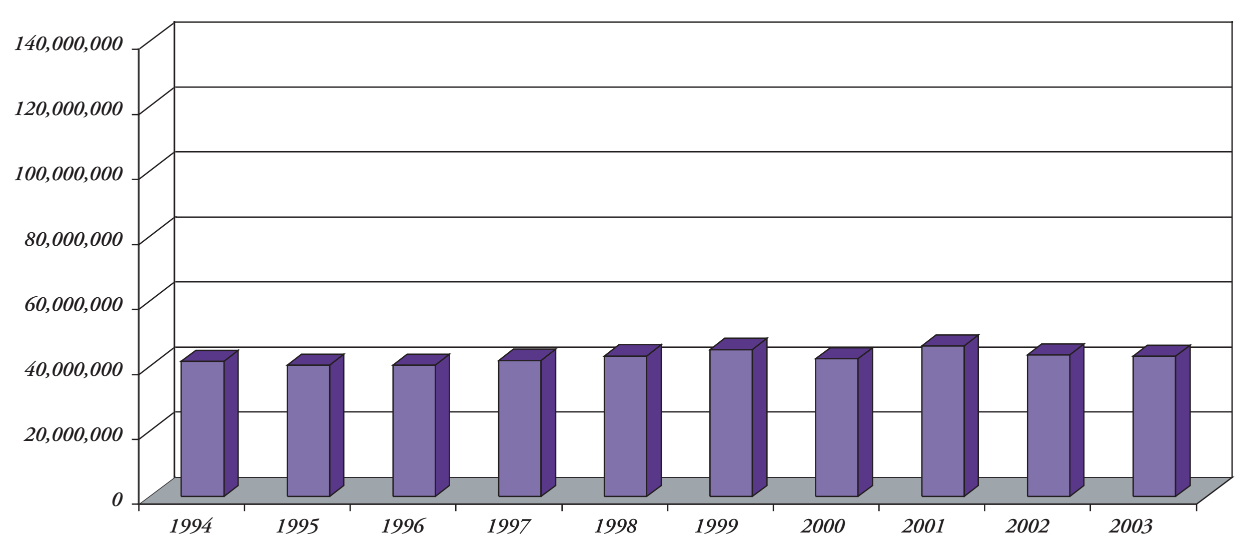
State Appropriations: Ten Year History

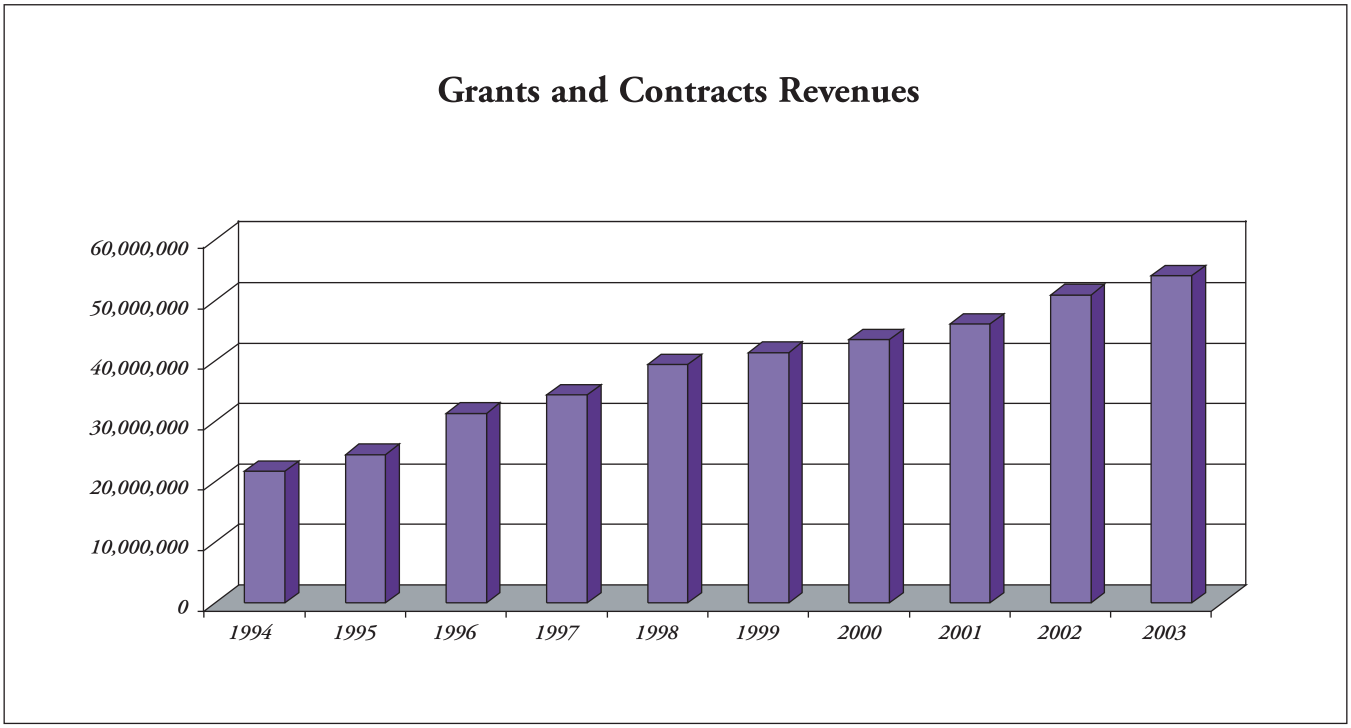
For the Fiscal Year Ended June 30, 2003

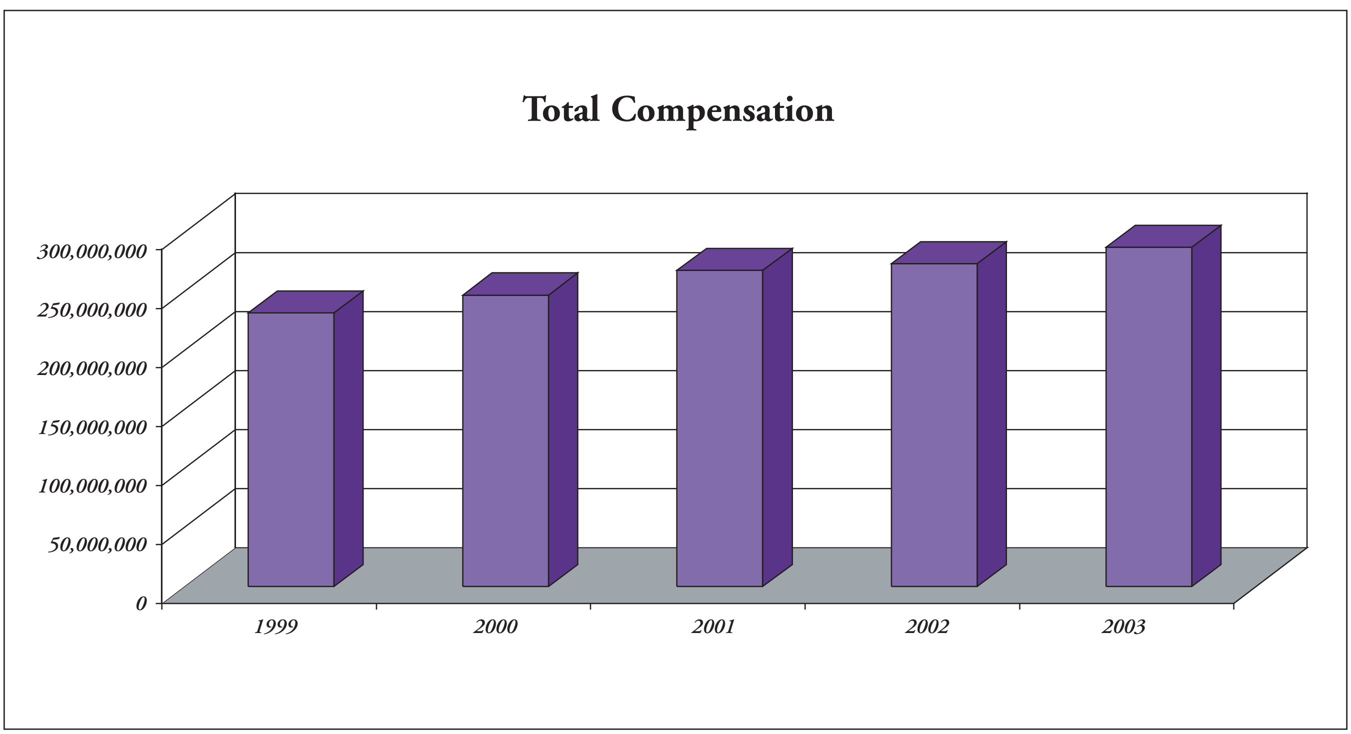
Academic Affairs



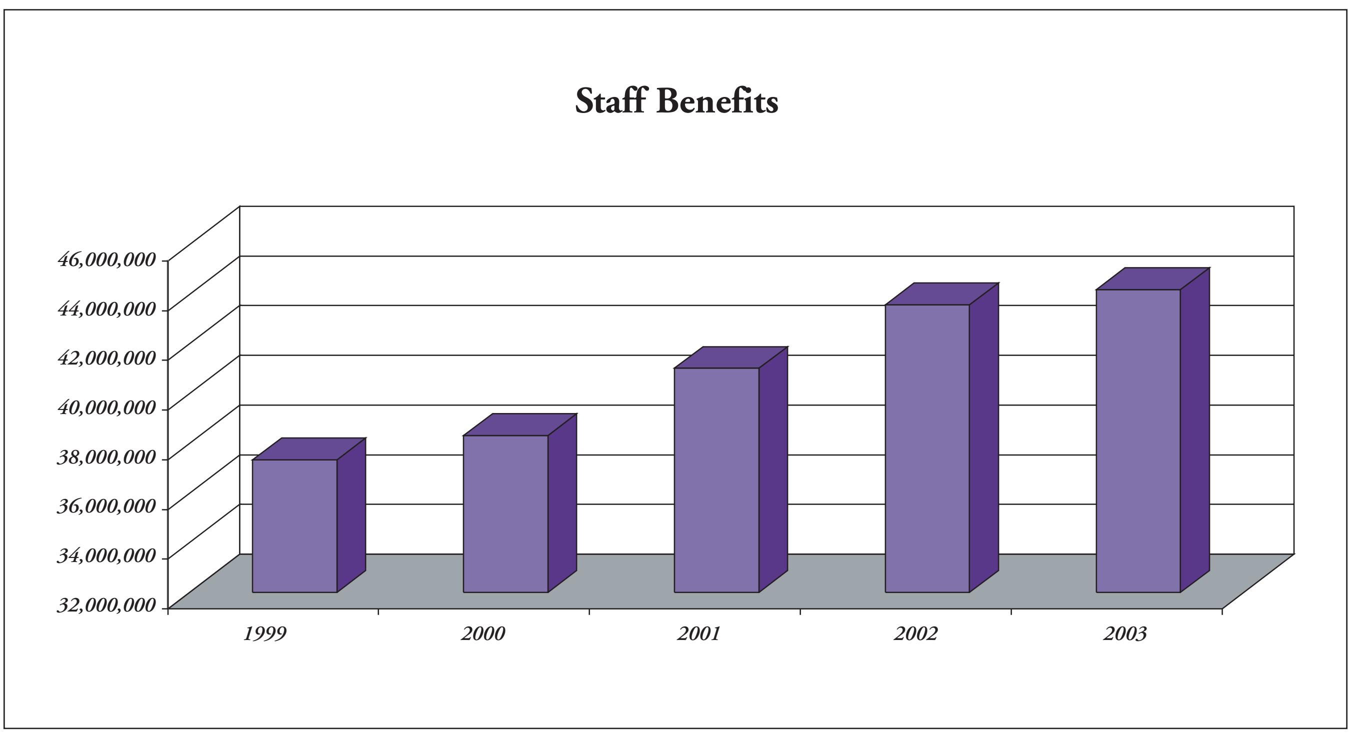
Health Affairs



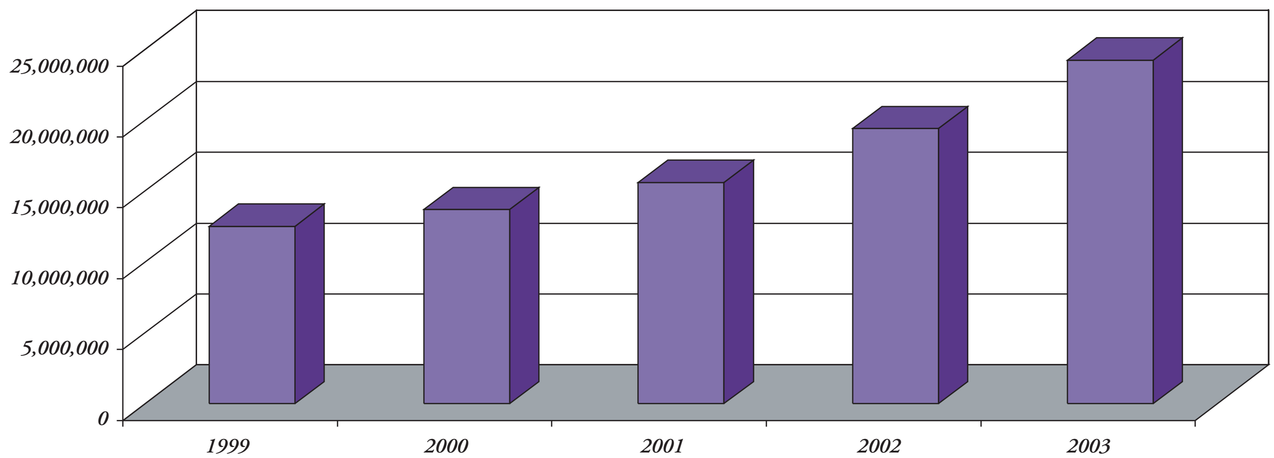

Grants and Contracts Revenues
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003


Total Compensation
300,000,000
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
0
1999
2000
2001
2002
2003


Salaries & Wages
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
0
1999
2000
2001
2002
2003

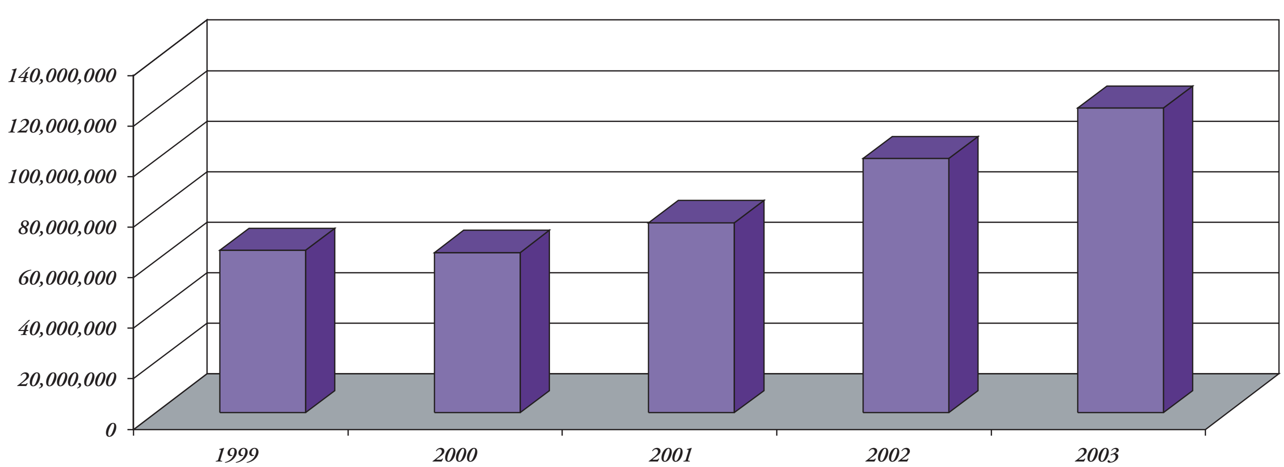

Staff Benefits
46,000,000
44,000,000
42,000,000
40,000,000
38,000,000
36,000,000
34,000,000
32,000,000
1999
2000
2001
2002
2003

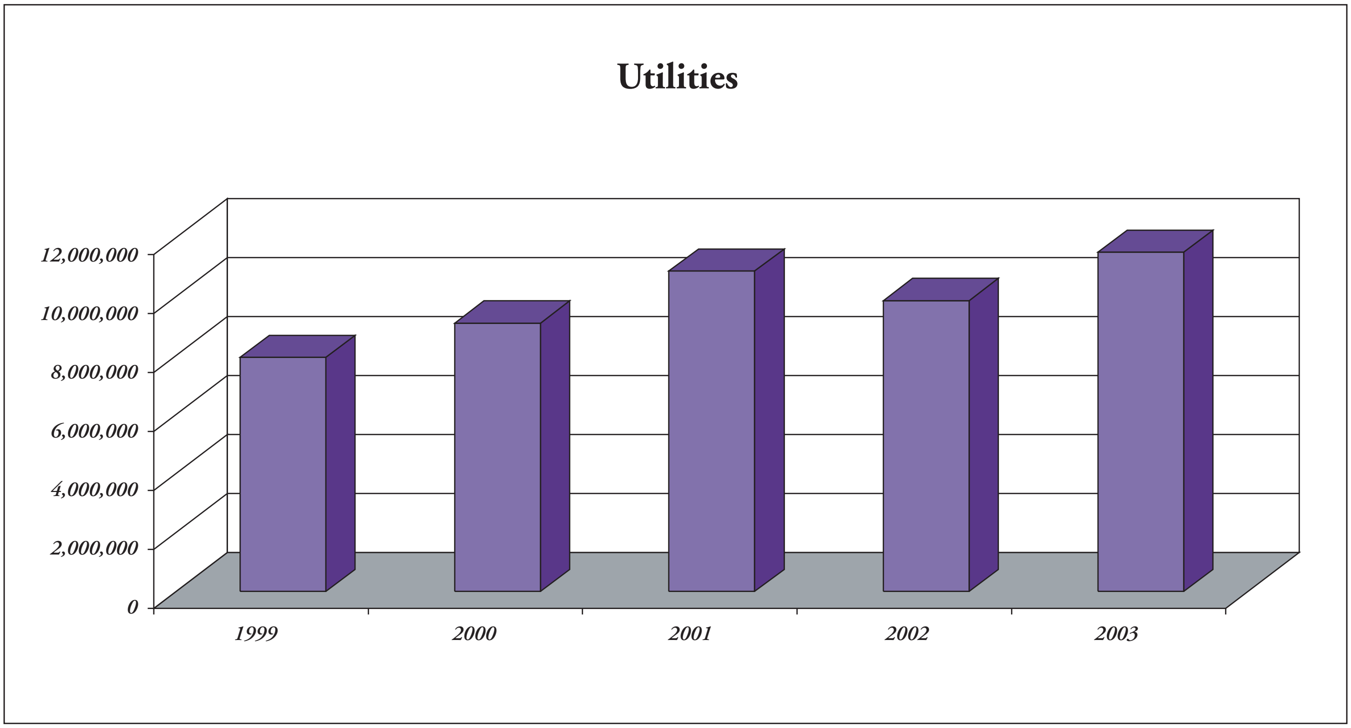
Scholarships and Fellowships



The amounts for 2002 and 2003 have been increased by $10,695,795.09 and $14,512,674.71 respectively to reverse the effect of tuition discounting as required by GASB 34.

Supplies, Equipment and Plant




Utilities
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
1999
2000
2001
2002
2003

Fall Enrollment

(Headcount)

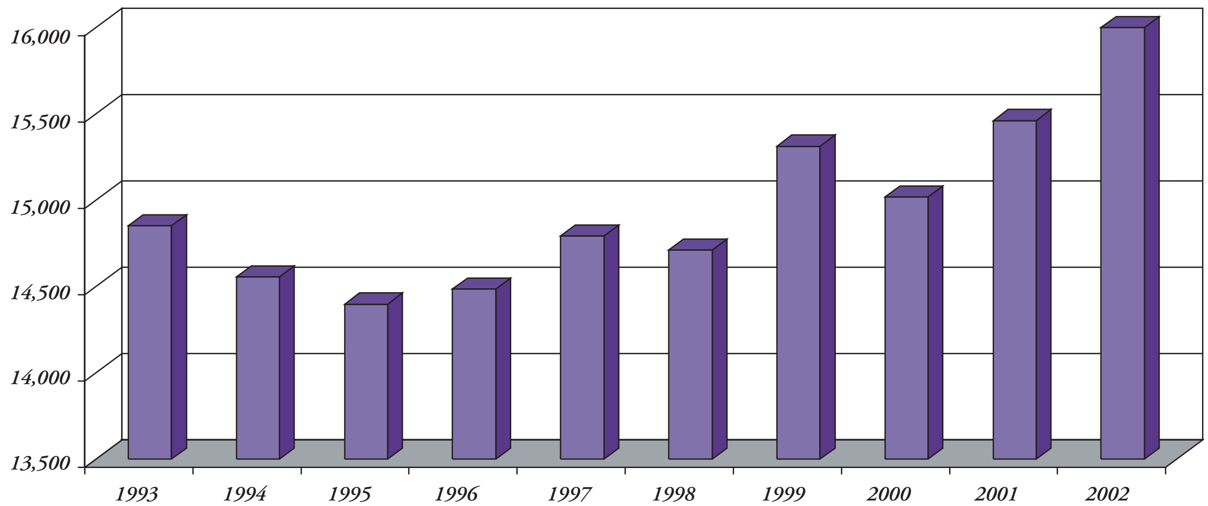
Freshman Admissions	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Applied	9,274	8,533	8,640	8,898	9,766	9,693	10,076	10,522	10,433	11,333
Admitted	6,362	6,398	6,803	6,828	7,514	7,527	8,062	7,755	8,155	8,730
Enrolled	2,435	2,363	2,642	2,807	2,935	2,819	3,270	3,112	3,197	3,580
SAT Total	920	913	911	1,015	1,014	1,018	1,015	1,035	1,030	1,036
SAT Verbal	435	429	433	509	508	508	508	515	511	512
SAT Math	485	484	478	506	506	510	507	520	519	524

Percentage of Total Applications

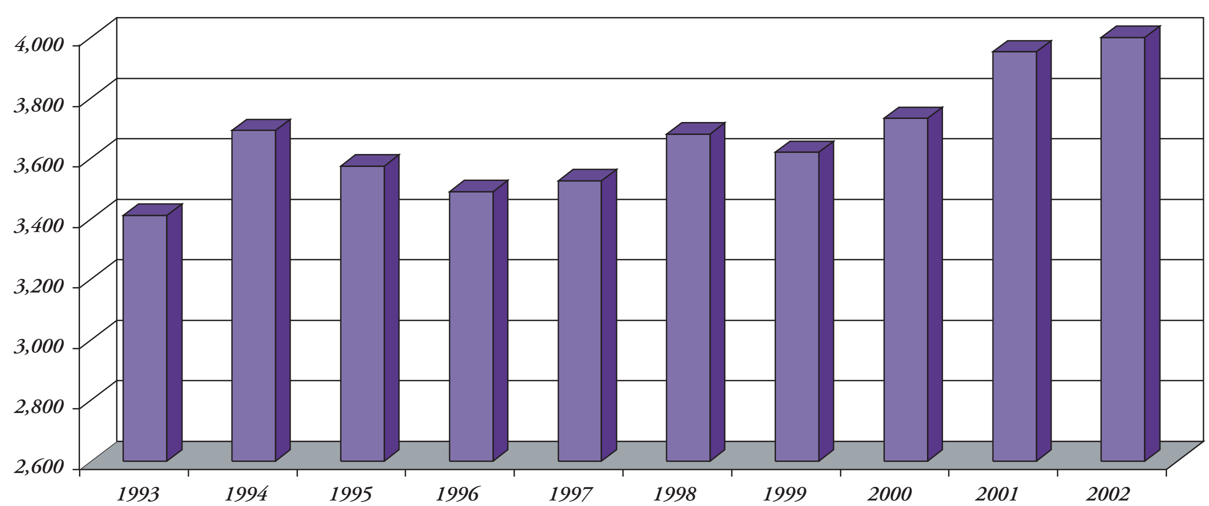
Freshman Admissions	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Admitted	68.6%	75.0%	78.7%	76.7%	76.9%	77.7%	80.0%	73.7%	78.2%	77.0%
Enrolled	26.3%	27.7%	30.6%	31.5%	30.1%	29.1%	32.5%	29.6%	30.6%	31.6%

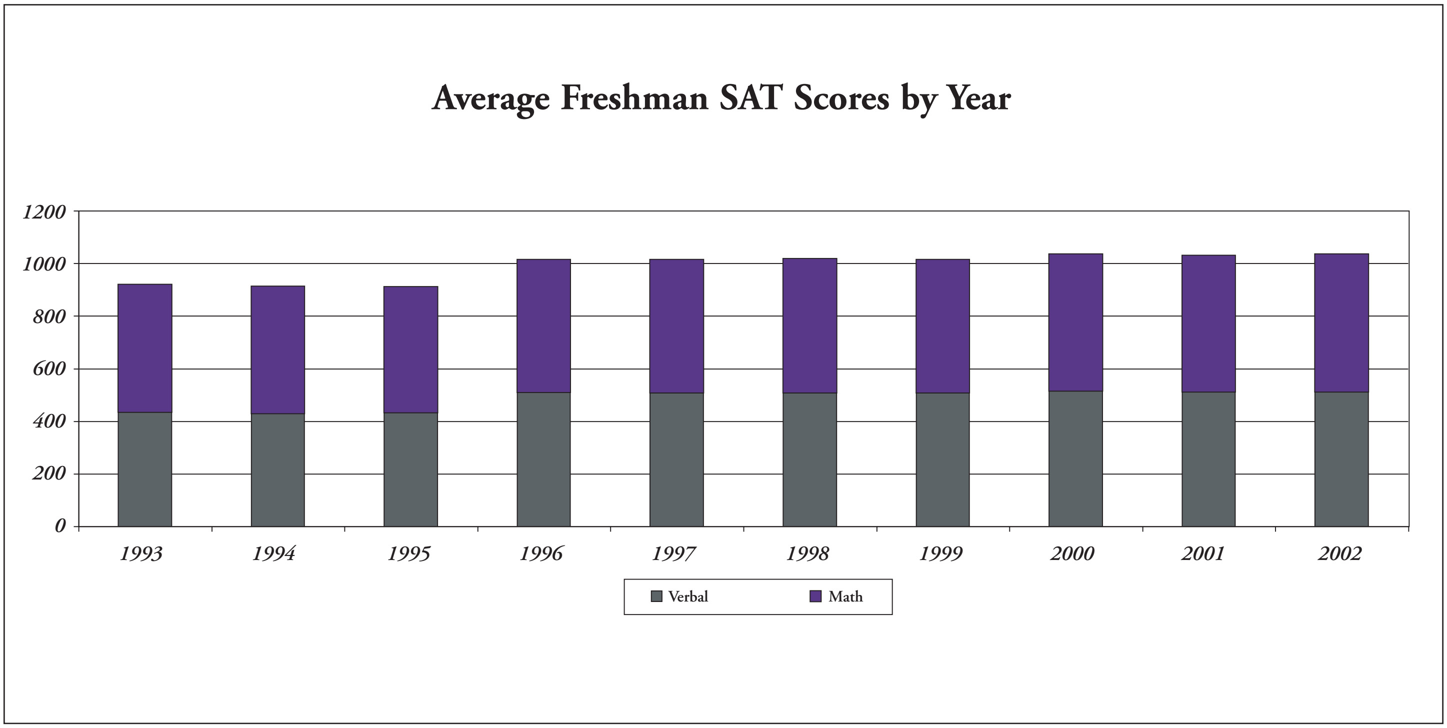
Degrees Conferred	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Undergraduate	2,642	2,509	2,624	2,715	2,840	2,625	2,511	2,744	2,773	2,833
Graduate	701	698	730	813	835	821	935	950	943	921
First Professional	73	72	74	67	73	64	67	71	71	69
Total	3,416	3,279	3,428	3,595	3,748	3,510	3,513	3,765	3,787	3,823

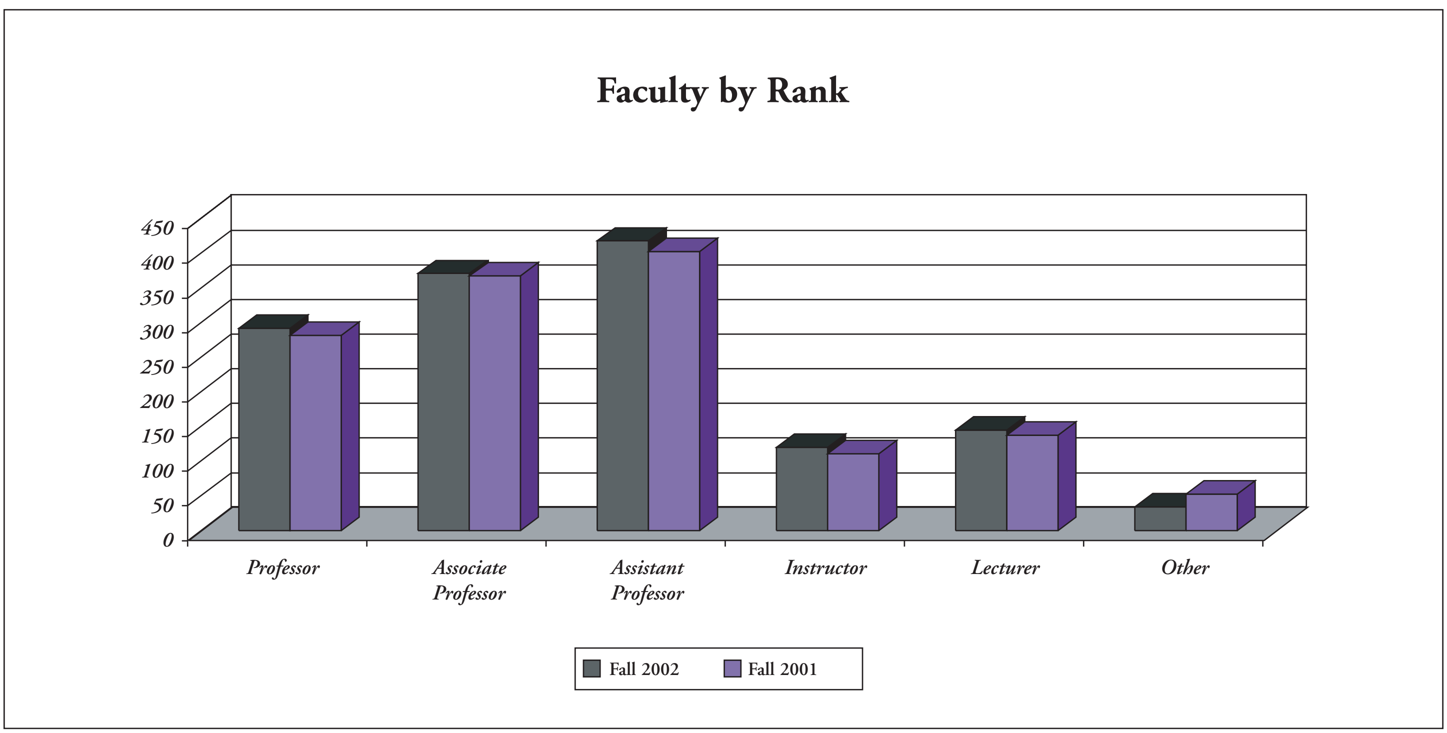
Undergraduate



Graduate/Professional




Average Freshman SAT Scores by Year
1200
1000
800
600
400
200
0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Verbal
Math


Faculty by Rank
450
400
350
300
250
200
150
100
50
0
Professor
Associate Professor
Assistant Professor
Instructor
Lecturer
Other
Fall 2002
Fall 2001