



Tomorrow starts here.

East Carolina University

FINANCIAL REPORT 2004-2005

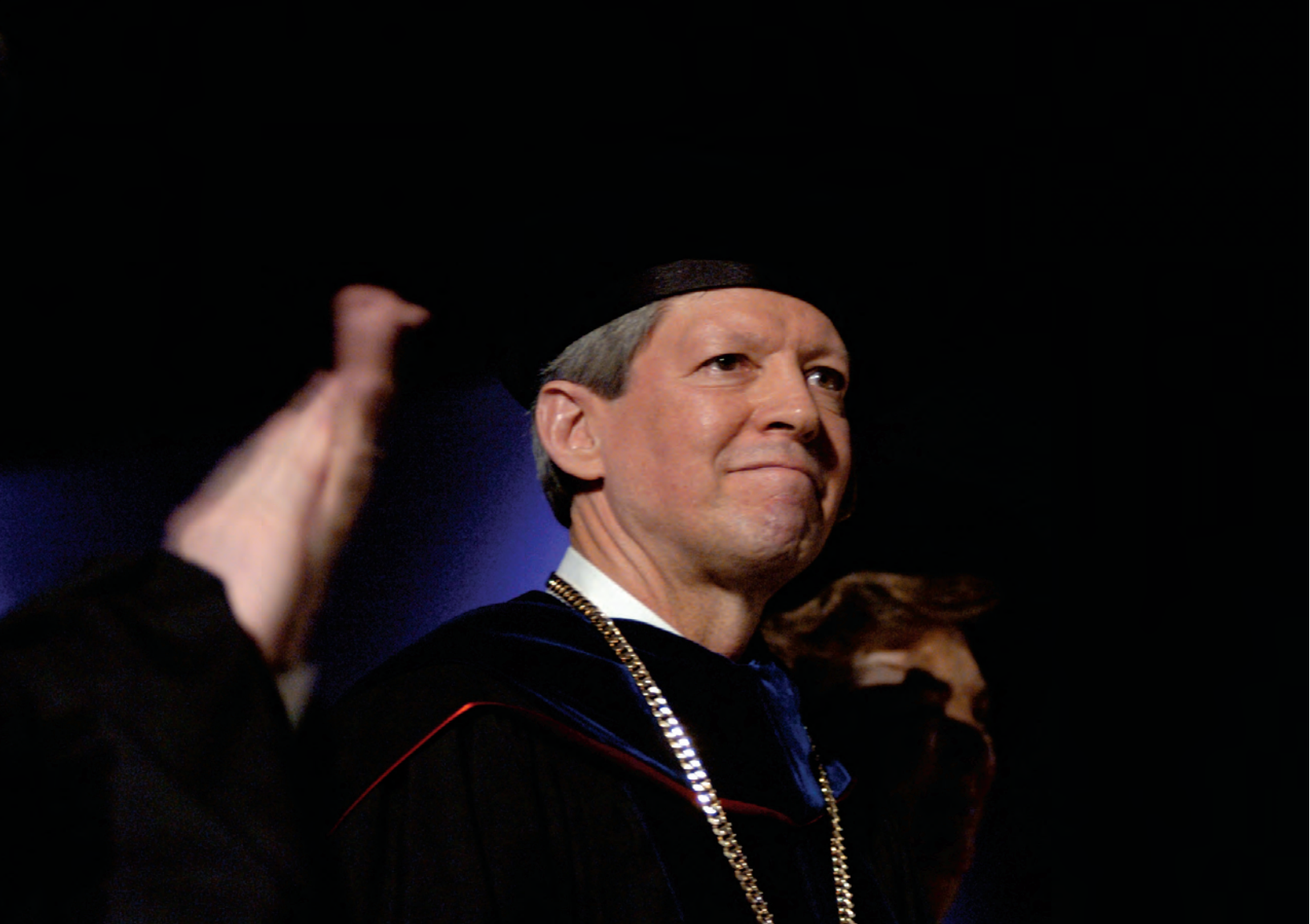


Photo by Cliff Hollis

DR. STEVE BALLARD CONVEYED HIS VISION for East Carolina during his installation as chancellor of the university on March 31, 2005. More than one hundred representatives from universities and colleges across the nation were among those who attended the ceremony, which took place during ECU's Founders Week celebrations. Ballard, the tenth chief executive of East Carolina, noted the university's role as a wellspring of leadership, innovation, and opportunity. Ballard was appointed chancellor of East Carolina in March 2004 by the University of North Carolina Board of Governors.

East Carolina University Financial Report

2004-2005



Photo by Forrest Croce

AN INNOVATIVE AND COLLABORATIVE PROJECT

between East Carolina University, a local church, and the musical community continued through the year. The new Perkins and Wells Memorial Organ, C. B. Fisk, Opus 126, at St. Paul's Episcopal Church is the fruit of nearly a decade of planning and fund-raising to bring a world-class instrument to Greenville for the benefit of the church, students and faculty in ECU's School of Music, the city, and the region. Congregants, community members, and Fisk personnel gathered to unload the instrument after it was delivered to the church in February 2005. The organ will provide students, faculty, and guest artists the resource they need to share the highest standards in organ performance. Dedication events are planned through 2005 and 2006.

FINANCIAL STATEMENT REPORT OF EAST CAROLINA UNIVERSITY

Greenville, North Carolina

Year Ended June 30, 2005

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Photo by Marc Kawanishi

EAST CAROLINA'S NEWEST ATHLETICS FACILITY

opened to record crowds in March 2005. The \$10 million Clark-LeClair Stadium played host to the second annual Keith LeClair Classic, a six-team baseball tournament featuring squads from across the nation. The state-of-the-art complex has three thousand reserved seats, a general admission area, a press box, coaching offices, and locker, training, and equipment rooms. The stadium bears the name of the William H. Clark family, who gave \$1.5 million for construction, and LeClair, former Pirate baseball coach. Shown in the foreground are LeClair and his wife, Lynne, during opening ceremonies. Behind them with the baseball team are Dr. Steve Ballard, chancellor, and Terry Holland, athletics director. The ceremonies included a tribute to Coach LeClair, who despite battling Lou Gehrig's disease remains a loyal supporter of the baseball program and the university.

East Carolina University is on the cusp of a new century of service to North Carolina and the world. The close of the 2004-2005 fiscal year provides a chance for ECU to reflect on its achievements and to focus on turning the opportunities of today into the realities of tomorrow.

East Carolina welcomed new leadership and marked another year of growth during this past fiscal year. Dr. Steve Ballard was installed as chancellor in March, and key positions in academics, administration, and athletics were filled during the year by men and women with a wealth of experience and expertise in their respective fields.

The student body reached an all-time high of 22,767. East Carolina began new academic programs, including the only systems engineering program in the state and a doctoral program in physical therapy. The university advanced its statewide leadership in distance education, offering more than forty degree programs online or in satellite locations such as a new office at Fort Bragg.

Construction began, continued, or was completed across campus for several major projects, including a new residence hall on College Hill and the new home for the School of Allied Health Sciences, the School of Nursing, and Laupus Library on the Health Sciences Campus. Governor Mike Easley signed legislation authorizing funds for a new cardiovascular diseases institute that will serve as a research, clinical care, and economic development center. Students and faculty gathered for classes in the renovated Flanagan Building, and the Pirates baseball team hosted opponents in the brand-new Clark-LeClair Stadium.

East Carolina furthered its standing as a leader in education, research, and health care. The university continued to prepare more teachers for North Carolina schools, as well as more nurses and allied health professionals in North Carolina, than any other institution in the state. A \$1 million corporate gift strengthened ECU's leadership-related projects and programs. The Brody School of Medicine at East Carolina University again was included in the annual *US News & World Report* listing of the nation's best graduate schools.

East Carolina University never has been an institution satisfied with remaining still. The accomplishments, victories, and good works of the past year only strengthen the university's foundation of service. With strong leadership, dedicated faculty and staff, enthusiastic students, and supportive friends, ECU moves ahead, building on that foundation for a bright future.

East Carolina University. *Tomorrow starts here.*



Photo by Forrest Croce

BB&T CORP. GAVE A \$1 MILLION GIFT to bolster East Carolina's leadership initiatives. The announcement came in March 2005 at the BB&T Center for Leadership Development on East Carolina's Main Campus. East Carolina has enjoyed a lengthy relationship with BB&T, whose \$250,000 grant in 1982 established the leadership development center. The gift will enhance training and development programs focusing on preparing future leaders on campus and beyond.

2004–2005 Board of Trustees and Officers of Administration

2004–2005 Board of Trustees

James R. Talton Jr., chair
Stephen D. Showfety, vice chair
Dan V. Kinlaw, secretary
William H. Bodenhamer Jr.
David S. Brody
Robert J. Greczyn
Robert O. Hill Jr.
Michael Kelly
Willie C. Martin
J. Fielding Miller
Honorable E. David Redwine
Margaret C. Ward
M. Cole Jones, SGA President*

*The student body president serves ex-officio.

2004–2005 Officers of Administration

Steve Ballard, Chancellor
Jack Brinn, Interim Chief Information Officer
Glen Gilbert, Acting Vice Chancellor for Research and Graduate Studies
George Harrell, Senior Associate Vice Chancellor for Campus Operations
Charles M. Hawkins, CPA, Senior Associate Vice Chancellor for Financial Services
Michael Lewis, Vice Chancellor for Health Sciences
Garrie Moore, Vice Chancellor for Student Life
Kevin Seitz, Vice Chancellor for Administration and Finance
Marilyn Sheerer, Vice Chancellor for University Advancement
James L. Smith, Provost and Vice Chancellor for Academic Affairs

2004–2005 Business and Financial Staff

Scott Buck, Associate Vice Chancellor for Administration and Finance–Business Services
Anne Jenkins, Budget Director
Sherrilyn Johnson, CPA, Financial Director of Foundations and Institutional Trust Funds
Nancy Phelps, Director of Systems and Special Projects
David Price, CPA, Financial Director of Reporting, State Funds, and Financial Transactions
John Toller, Associate Vice Chancellor for Human Resources
Stacie Tronto, CIA, CISA, Director of Internal Audit
Gary Vanderpool, Executive Associate Vice Chancellor for Administration and Finance–Health Science
John Worth, Chief Financial Officer–The Brody School of Medicine



Photo by Cliff Hollis

GOVERNOR MIKE EASLEY AUTHORIZED FUNDING

in August 2004 for a cardiovascular research institute on the Health Sciences Campus at East Carolina. The institute will focus on reducing the high incidence of cardiovascular disease, particularly in eastern North Carolina. In a partnership between East Carolina and Pitt County Memorial Hospital, which will build a new bed tower as part of the project, the institute will be a center for research, clinical care, and economic development. Shown from left are Dr. W. Randolph Chitwood Jr., director of the institute; Dr. Michael Lewis, vice chancellor for health sciences; Dr. Steve Ballard, chancellor; and Easley.



To the Members of the ECU Board of Trustees:

It is my pleasure to submit for your consideration and review the Financial Report of East Carolina University for the fiscal year that ended June 30, 2005. It is a pleasure to note that once again the year ended with a clean audit report; this report is the latest in a successive number of such outstanding audit reports.

The 2004-05 year at East Carolina has been one of outstanding achievement and successes. The year has seen a bill signed by Governor Mike Easley that authorized funding for the \$60 million North Carolina Cardiovascular Diseases Institute at ECU; the “topping out” of the Allied Health, Nursing and Laupus Library Building; the establishment of innovative and unique degree programs; the completion of the Clark-LeClair Baseball Stadium; and the hiring of outstanding new leaders in key positions on the executive leadership team. Our athletics program has undergone significant change with the coup of hiring a nationally recognized and admired athletic director and ambitious head coaches for football and men’s basketball. We continue to lead the state in innovation and leadership in our outreach to the region and state through distance education offerings in over 50 degree programs. It has been a good year and we look to the future with its promise of even more recognition of what this university is all about – being the university for North Carolina.

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

Sincerely,

A handwritten signature in black ink that reads "Steve Ballard". The signature is written in a cursive, flowing style.

Steve Ballard
Chancellor



Photo courtesy of National Oceanic and Atmosphere Administration

RESEARCHERS FROM EAST CAROLINA

UNIVERSITY IDENTIFIED a nineteenth-century shipwreck off the Alaskan coast. A team from ECU's maritime studies program in July 2004 discovered that the underwater remains were those of the *Kad'yak* when they recovered a brass object, believed to be the hub of the ship's wheel, that bears the name of the wooden, three-masted vessel. The shipwreck is the oldest one located in Alaska to date and is the first to be investigated by professional underwater archaeologists. The *Kad'yak* sank off the coast of Kodiak Island in 1860 after striking a rock while shipping ice from Alaska to San Francisco. The shipwreck project is being financed by the National Oceanic and Atmospheric Administration and the National Science Foundation.

Letter from the Vice Chancellor for Administration and Finance



To Chancellor Steve Ballard 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, 2005. 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. As part of the University's implementation of GASB 39, the East Carolina University Foundation, Inc. was included as a discretely presented component unit based on the nature and significance of its relationship.

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

Sincerely,

A handwritten signature in black ink that reads "Kevin R. Seitz". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Kevin R. Seitz
Vice Chancellor of Administration and Finance



Photo by Forrest Croce

CONSTRUCTION CONTINUED THROUGH THE YEAR

on the complex that will house East Carolina's School of Allied Health Sciences, School of Nursing, and Laupus Library. The \$58 million project is financed through East Carolina's share of the state's construction bonds for higher education. Once completed in 2006, the complex of classrooms, laboratories, and offices will bring several of East Carolina's key health sciences programs together on the Health Sciences Campus. For the first time, students will receive their academic training on the same campus as their clinical training.

Financial Section

2004-2005



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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Office of the State Auditor

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Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
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<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Carolina University
Greenville, North Carolina

We have audited the accompanying financial statements of East Carolina University, a constituent institution of the 16-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the East Carolina University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of East Carolina University Foundation, Inc. and Consolidated Affiliate, the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Carolina University and its discretely presented component unit, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2005, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. This report will be issued under separate cover in the Financial Statement Audit Report of East Carolina University published by this office.

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

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

October 17, 2005

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, 2005. The preceding transmittal letter and the following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis 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 2005, the University continued to follow the guidelines established by GASB statements 35, 37, 38 and 39. GASB statements 35, 37 and 38 were first adopted for the year ended 2002 and provided for the division of revenues and expenses into operating and nonoperating, the separation of the Statement of Net Assets into current and noncurrent and the recording of depreciation expense for the first time, among other changes. GASB statement 39, adopted in fiscal year 2004, required the University to include foundations and similarly affiliated organizations whose financial data had not been blended in the institution's financial report as part of the institution's financial reporting entity (as a discretely presented component unit) if they are found to be "significant". Significance is established if either the assets or revenues of the organization surpass 5% of the assets or revenues of the University. Since there have been very few changes in accounting policies between this year and last year, it is possible to present comparative data.

The only significant change in this year's statements is the adoption of GASB statement 40, which establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

Financial Highlights

- At June 30, 2005, the University had assets of \$784 million and liabilities of \$186 million. These resulted in net assets of \$598 million, which represent the residual interest in the assets after liabilities are deducted. The increase from last year's \$551 million in net assets indicates an improvement of financial position.
- The statewide financial environment has begun to improve over the past fiscal year. This is evidenced by an almost \$22 million increase in State appropriations, due to an increase in enrollment.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the University as of June 30, 2005, 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 assets, liabilities and net assets at June 30, 2005, and 2004 is as follows:

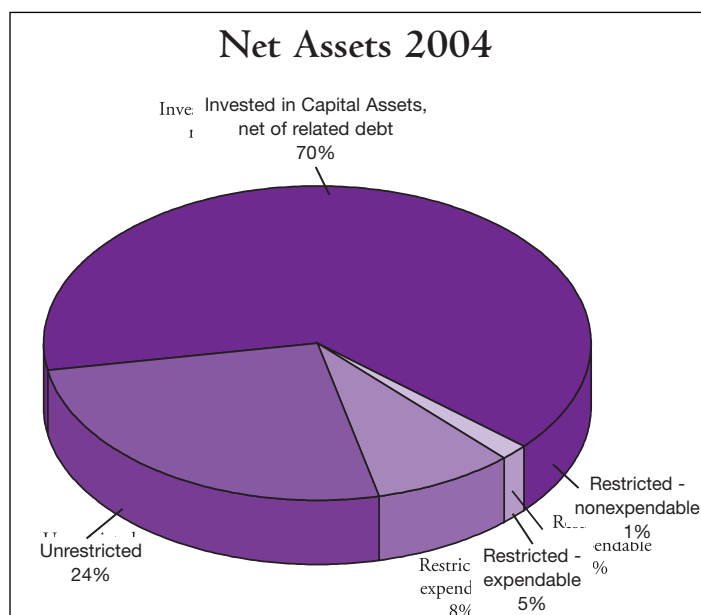
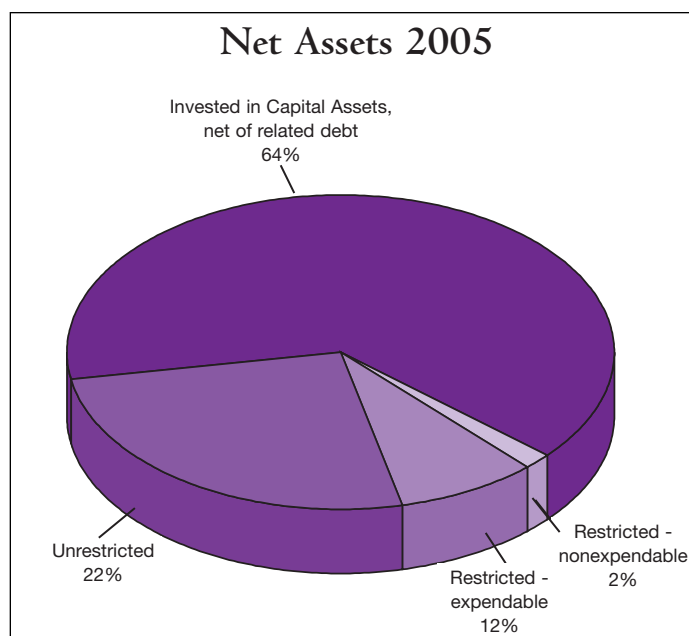
Assets	<i>Dollars in thousands</i>		
	2005	2004	Variance
Current Assets	\$ 187,043	182,684	4,358
Noncurrent Assets:			
Capital assets, net	498,722	453,923	44,799
Other	98,417	52,924	45,494
Total Noncurrent Assets	\$ 597,139	506,847	90,293
Total Assets	\$ 784,182	689,531	94,651
Liabilities			
Current Liabilities	\$ 44,621	40,192	4,429
Noncurrent Liabilities	141,301	98,308	42,993
Total Liabilities	\$ 185,922	138,500	47,422
Net Assets			
Invested in Capital Assets, net of related debt	\$ 384,893	385,052	(159)
Restricted - nonexpendable	9,848	8,042	1,806
Restricted - expendable	71,344	28,240	43,104
Unrestricted	132,175	129,697	2,478
Total Net Assets	\$ 598,260	551,031	47,229

A review of the Statement of Net Assets at June 30, 2005, 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, 2005, were \$187 million, which increased from \$182.7 million for 2004. Total noncurrent assets increased from \$507 million to \$597 million, largely because of the construction of the West End Dining Hall and the Clark-LeClair Baseball Stadium and the renovations made to the Rivers and Flanagan buildings.

Current liabilities are comprised mostly of accounts payable, accrued compensation, and current portions of long-term liabilities. Current liabilities for the year increased to \$44 million, comprised largely of accounts payable and accrued payroll, which together made up over \$24 million. Noncurrent liabilities increased from \$98 million to \$141 million mostly due to \$56.7 million in new bonds during the fiscal year to fund the College Hill, Clement, White and Greene A/C, Baseball (Clark-LeClair) Stadium, and Dowdy-Ficklen Stadium Repairs projects, to refund the University of North Carolina System Pooled Bonds, Series 1998A and the Dowdy-Ficklen Stadium Expansion, Series 1996, and Banner System Certificates of Participation.

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 nonexpendable, restricted expendable, and unrestricted net assets. The following charts display the contribution of each category to the total in both 2005 and 2004:



As the charts indicate, there was little change in the makeup of Net Assets. The largest portion continued to be amounts 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 \$598 million in net assets this year, \$385 million was attributable to East Carolina's investment in capital assets. At June 30, 2005, the accumulated depreciation balance was \$163 million.

Restricted nonexpendable net assets primarily include the University's permanent endowment fund, accounting for \$10 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 \$71 million of the \$598 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 \$132 million represent 22% 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 nonoperating, 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. Nonoperating revenues are revenues received for which goods and services are not provided, i.e., state appropriations and investment income. Nonoperating 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, 2005, compared with that of 2004.

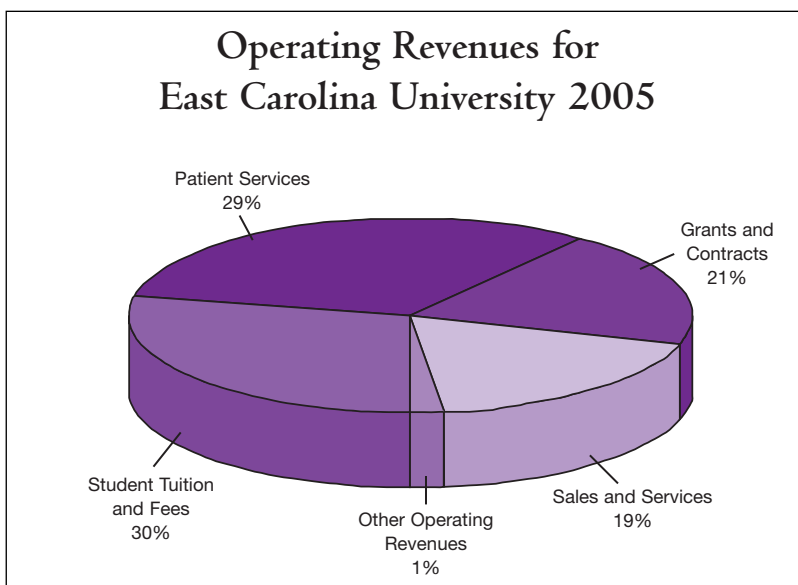
	<i>Dollars in thousands</i>		
	2005	2004	Variance
Operating Loss			
Operating Revenues	\$ 317,125	292,902	24,223
Operating Expenses	<u>(523,107)</u>	<u>(473,512)</u>	<u>(49,595)</u>
Total Operating Loss	\$ (205,982)	(180,610)	(25,372)
Nonoperating Revenues	\$ 198,576	178,494	20,082
Income (Loss) before other revenues, expenses, gains and losses	\$ (7,406)	(2,116)	(5,290)
Other revenues, expenses gains and losses	\$ 54,635	20,679	33,956
Change in Net Assets	\$ 47,229	18,563	28,666
Net Assets - July 1	\$ 551,031	532,468	18,563
Change in Net Assets (above)	\$ 47,229	18,563	28,666
Net Assets - June 30	\$ 598,260	551,031	47,229

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 over \$47 million.

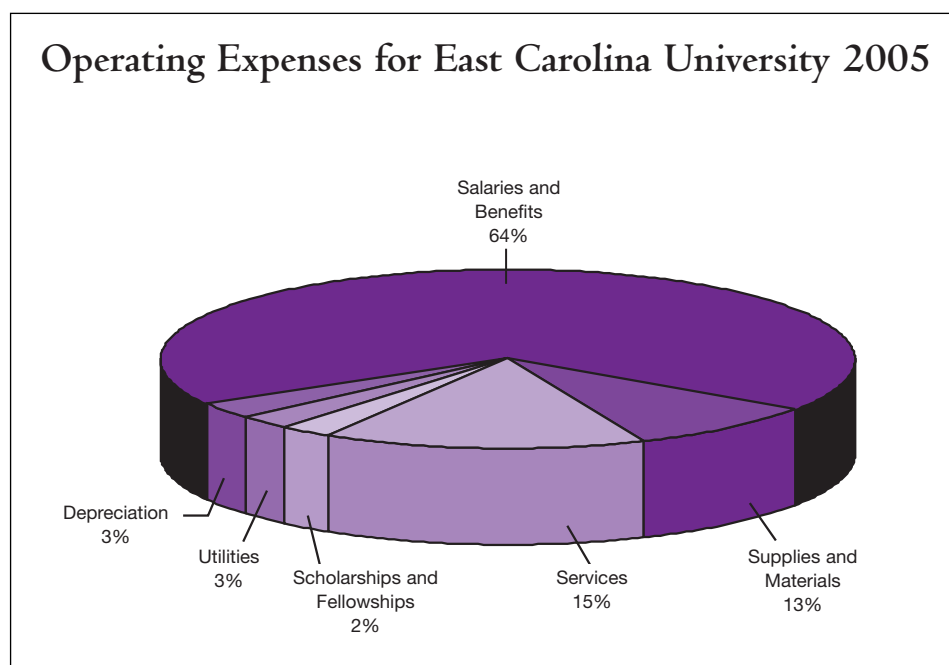
Operating revenues totaled \$317 million and consisted of five areas: student tuition and fees, net; patient services, net; grants and contracts; sales and services, net; and other operating revenues. The chart on page I8, shows each component of operating revenue as it relates to total operating revenues as a whole.

As is evident by the graph, student tuition and fees, net of the tuition discount makes up nearly one-third of all operating revenues. The tuition discount is an offset to revenues for the scholarships and fellowships that are applied to student accounts. Patient Services is the second largest source of operating revenues.

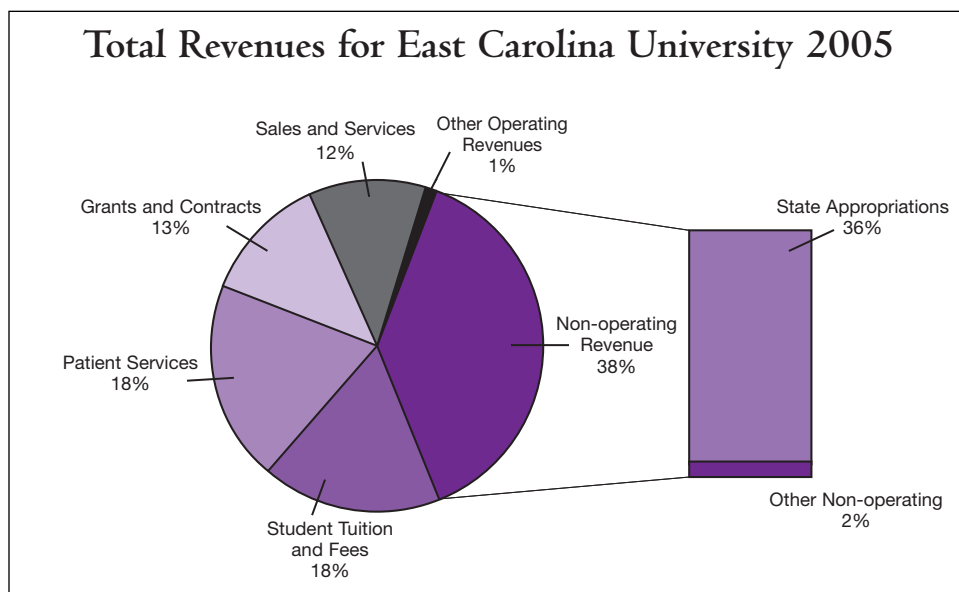


There were no major differences in the areas of operating revenues between 2004 and 2005. None of the components changed more than 4% in either direction.

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 \$523 million in operating expenses, \$333 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 up by two percent and salaries and benefits went down by two percent.



As mentioned before, nonoperating revenue consists primarily of state appropriations and investment income. Of the \$202 million recognized as nonoperating revenue, disregarding nonoperating expenses, \$193 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 nonoperating revenues in conjunction with all revenues for the institution.



As illustrated by the above graph, State appropriations represent a very significant component of total revenues for the University accounting for thirty-six percent of total revenue and ninety-five percent of nonoperating revenue. Although the percentages were about the same as last year, the amount received for State appropriations increased by almost \$22 million. As mentioned before, this increase reflects an improvement in the State economic situation as a whole.

Nonoperating expenses for the University were mostly comprised of interest and fees on capital asset-related debt, which totaled \$3.4 million. This is higher than the \$2.8 million in interest and fees paid last year. This increase can be explained by rising interest rates on which the variable bond debt is based. 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, noncapital financing, capital financing or investing. Net cash used is reconciled to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets. The following is a condensed version of the Statement of Cash Flows for the year ended June 30, 2005.

Cash Provided (Used) by:		<i>Dollars in thousands</i>	
		2005	2004
Operating activities	\$	(180,564)	(162,691)
Noncapital financing activities		197,439	175,193
Capital financing activities		14,973	(28,538)
Investing activities		4,819	6,669
Net change in cash	\$	36,667	(9,367)
Cash, beginning of year	\$	151,209	160,576
Cash, end of year	\$	187,876	151,209

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 amounts received from customers, which increased to \$322 million. This includes tuition and fees, grants and contracts, patient services, and sales and services of educational and auxiliary nature. The most notable use of operating cash was for compensation and benefits for University employees, which totaled \$334 million.

Noncapital 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 \$57 million in proceeds from capital debt. Acquisition and construction of capital assets in the amount of \$69 million was the most significant capital use.

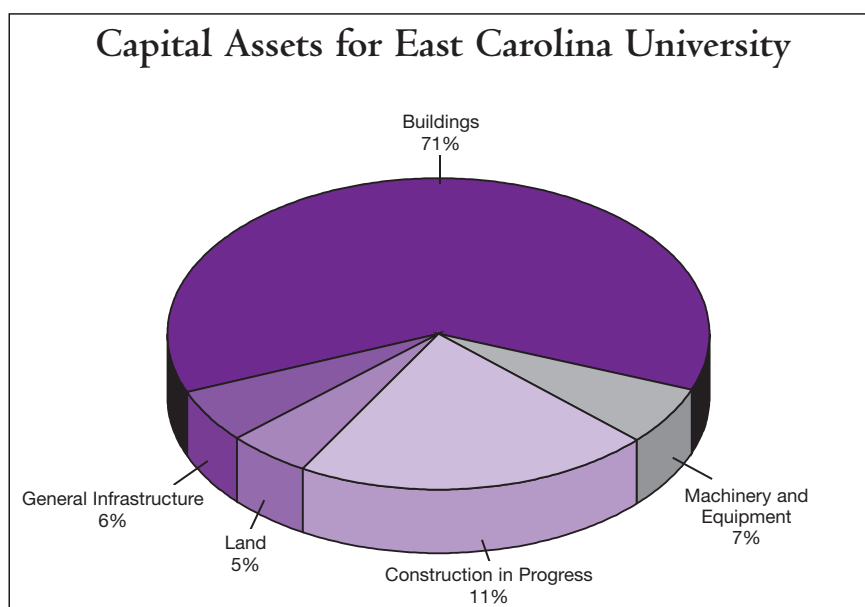
The final group on the Statement of Cash Flows is investing. Investing activities include making and collecting loans and acquiring or disposing of debt or equity instruments. Proceeds from sales and maturities of investments, along with interest on investments, make up the \$26 million in investing sources. The major related use of these funds was \$21 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 \$499 million invested in capital assets at year-end. There was a net increase from \$454 million from last year, which is mostly attributable to the construction of the new West End Dining Hall, the Clark-LeClair Baseball Stadium, and the renovations made to the Rivers and Flanagan buildings.

Capital assets for the University were comprised of nondepreciable and depreciable assets. Nondepreciable 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 lost two percentage points, which was offset by a one point increase for buildings and a one point increase for general infrastructure.

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 \$69 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.

<u>Description</u>	<u>Funding Source</u>	<u>Amount in thousands</u>
Nursing, Allied Health, DEC	Appropriated	\$ 22,730
Infrastructure Repairs	Appropriated	9,134
College Hill Phase I	Bond Proceeds	978
Fletcher & Tyler A/C	University Revenues	853

Also on the horizon for East Carolina University is the development of a new cardiovascular research center. House Bill 1264, which was signed on August 5, 2004, provides the University with \$60 million for the construction of this facility.

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

Debt

The University had \$113.8 million in outstanding bonds, certificates of participation, notes and capital leases on June 30, 2005. Of this, \$103.5 million was for bonds, \$8.5 million was for certificates of participation, \$1.7 million was for capital leases and \$162 thousand was for notes payable. New debt issued during the year included, the East Carolina University Variable Rate General Revenue Bonds, Series 2004, issued on August 5, 2004 for \$18 million, the University of North Carolina System Pooled Bonds, Series 2004C, issued October 6, 2004 for \$30 million and the University of North Carolina Foundation Certificates of Participation, Series 2004, issued December 22, 2004 for \$9 million.

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 has improved as compared with the past several years. This has enabled the North Carolina General Assembly to fully fund the enrollment growth the University is currently experiencing. At the current time, the University expects this trend to continue.

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 for all funds received. If you have any questions or need additional financial information, please contact David Price, Financial Director for East Carolina University.

Statement of Net Assets
June 30, 2005 (in thousands)

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 122,857
Restricted Cash and Cash Equivalents	18,847
Receivables, Net (Note 4)	38,836
Due from State of North Carolina Component Units	175
Inventories	3,708
Notes Receivable, Net (Note 4)	1,966
Other Assets	654
Total Current Assets	<u>187,043</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	46,172
Restricted Due from Primary Government	18,671
Endowment Investments	12,611
Other Long-Term Investments	10,121
Notes Receivable, Net (Note 4)	10,842
Capital Assets - Nondepreciable (Note 5)	78,833
Capital Assets - Depreciable, Net (Note 5)	<u>419,889</u>
Total Noncurrent Assets	<u>597,139</u>
Total Assets	<u>784,182</u>

LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities (Note 6)	27,671
Due to Primary Government	59
Deferred Revenue	8,508
Interest Payable	560
Long-Term Liabilities - Current Portion (Note 7)	<u>7,823</u>
Total Current Liabilities	<u>44,621</u>

Noncurrent Liabilities

Deposits Payable	2,072
Funds Held for Others	7,906
U. S. Government Grants Refundable	12,554
Long-Term Liabilities (Note 7)	<u>118,769</u>
Total Noncurrent Liabilities	<u>141,301</u>
Total Liabilities	<u>185,922</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt 384,893

Restricted for:

Nonexpendable:

Scholarships and Fellowships	834
Endowed Professorships	5,639
Departmental Uses	322
Loans	<u>3,053</u>

Expendable:

Scholarships and Fellowships	2,549
Research	560
Departmental Uses	918
Capital Projects	63,777
Debt Service	2,985
Other	<u>555</u>

Unrestricted 132,175

Total Net Assets \$ 598,260

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, 2005 (in thousands)**

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 93,435
Patient Services, Net (Note 9)	91,767
Federal Grants and Contracts	29,821
State and Local Grants and Contracts	10,620
Nongovernmental Grants and Contracts	27,003
Sales and Services, Net (Note 9)	60,462
Interest Earnings on Loans	122
Other Operating Revenues	3,895

Total Operating Revenues	317,125
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EXPENSES

Operating Expenses:

Salaries and Benefits	333,365
Supplies and Materials	67,693
Services	78,431
Scholarships and Fellowships	12,483
Utilities	14,133
Depreciation	17,002

Total Operating Expenses	523,107
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Operating Loss	(250,982)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	192,632
Noncapital Gifts, Net	4,807
Investment Income	4,753
Interest and Fees on Capital Asset-Related Debt	(3,411)
Other Nonoperating Revenues (Expenses)	(205)

Net Nonoperating Revenues	198,576
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Loss Before Other Revenues, Expenses, Gains, or Losses	(7,406)
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Capital Appropriations	2,392
Capital Grants	50,750
Capital Gifts, Net	1,493

Increase in Net Assets	47,229
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NET ASSETS

Net Assets - July 1, 2004	551,031
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Net Assets - June 30, 2005	\$ 598,260
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The accompanying notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
for the Fiscal Year Ended June 30, 2005 *(in thousands)*

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 322,766
Payments to Employees and Fringe Benefits	(333,557)
Payments to Vendors and Suppliers	(157,090)
Payments for Scholarships and Fellowships	(12,483)
Loans Issued	(2,531)
Collection of Loans	2,176
Interest Earned on Loans	86
Student Deposits Received	2,937
Student Deposits Returned	(2,868)
Net Cash Used by Operating Activities	(180,564)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	192,632
Noncapital Gifts	4,807
Cash Provided by Noncapital Financing Activities	197,439

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	57,218
State Capital Appropriations	2,392
Capital Grants	38,086
Capital Gifts	1,493
Proceeds from Sale of Capital Assets	48
Acquisition and Construction of Capital Assets	(69,198)
Principal Paid on Capital Debt and Leases	(11,768)
Interest and Fees Paid on Capital Debt and Leases	(3,297)
Net Cash Used by Capital Financing and Related Financing Activities	14,974

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	21,648
Interest on Investments	4,425
Purchase of Investments and Related Fees	(21,255)
Net Cash Provided by Investing Activities	4,818

Net Increase in Cash and Cash Equivalents	36,667
Cash and Cash Equivalents - July 1, 2004	151,209
Cash and Cash Equivalents - June 30, 2005	\$ 187,876

Statement of Cash Flows
for the Fiscal Year Ended June 30, 2005 (in thousands)

Exhibit A-3 (continued)

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH

USED BY OPERATING ACTIVITIES

Operating Loss	\$ (205,982)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	17,002
Changes in Assets and Liabilities:	
Receivables (Net)	6,674
Inventories	(786)
Prepaid Items	532
Accounts Payable and Accrued Liabilities	3,544
Funds Held for Others	(114)
U.S. Government Grants Refundable	421
Deferred Revenue	(947)
Compensated Absences	(622)
Deposits Payable	69
Note Principal Repayments	2,176
Notes Issued	(2,531)

Net Cash Used by Operating Activities \$ (180,564)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 122,857
Restricted Cash and Cash Equivalents	18,847
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>46,172</u>

Total Cash and Cash Equivalents - June 30, 2004 \$ 187,876

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 286
Loss on Disposal of Capital Assets	253

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

East Carolina University Foundation, Inc. and Consolidated Affiliate
Statement of Net Assets
June 30, 2005 (*in thousands*)

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 18
Investments	49,297
Investment in Joint Venture	2,100
Cash Surrender Value of Life Insurance	141
Assets Held in Charitable Remainder Trusts and Annuities	2,756
Real Estate Held for Investment, Net	996
Receivables, Net	6,256
Prepaid Expenses	41
	<hr/>
Total Assets	61,605
	<hr/>

LIABILITIES

Accounts Payable and Accrued Expenses	98
Due to University and Other Foundations	1
Funds Held for Others	1,028
Split Interest Agreement Obligations	562
Annuities Payable	776
	<hr/>
Total Liabilities	2,465
	<hr/>

NET ASSETS

Unrestricted	4,612
Temporarily Restricted	18,142
Permanently Restricted	36,387
	<hr/>
Total Net Assets	\$ 59,141
	<hr/>

See Note 1 in the Notes to the Financial Statements

East Carolina University Foundation, Inc. and Consolidated Affiliate
Statement of Activities
for the Fiscal Year Ended June 30, 2005 (*in thousands*)

Exhibit B-2

REVENUES

Contributions	\$ 2,782
Gifts in Kind	336
Contributed Services and Facilities	1,520
Net Realized and Unrealized Gains on Investments	3,625
Interest and Dividends	774
Other Income	300
Loss on Sale or Transfer of Property	(593)
Change in Value of Split Interest Agreements	998
	<hr/>
Total Revenues, Gains, and Other Support	9,742

EXPENSES

Program services:

Gifts, Scholarships, Professorships, Support, etc. to or for East Carolina University	3,094
General and Administrative	515
Fund Raising	1,381
	<hr/>

Total Expenses	4,990
	<hr/>

Change in Net Assets	4,752
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NET ASSETS

Net Assets - Beginning of Year	54,389
	<hr/>
Net Assets - End of Year	\$ 59,141
	<hr/>

See Note 1 in the Notes to the Financial Statements

NOTE I: 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 16-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. The University's component unit is discretely presented in the University's financial statements. Discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

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

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

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

During the year ended June 30, 2005, the Foundation distributed \$3,095,000 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Financial Service's Office, 120 Reade Street, Greenville, NC 27858, or by calling (252) 328-6757.

- 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, and limited partnerships. 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 charged 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 that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at the 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.

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 general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

The University does not capitalize library and art collections. These collections adhere to the University's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and 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, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on

refunds are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs are 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at yearend is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. 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 for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

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

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

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

NOTE 2: DEPOSITS AND INVESTMENTS

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

At June 30, 2005, the University's deposit with the State Treasurer's Short-Term Investment Fund totaled \$180,323,000. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The carrying amount of the University's deposits not with the State Treasurer was \$100,000 and the bank balance was \$120,000, all of which was covered by federal depository insurance.

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

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

specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

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

Investments – The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the University's non-pooled investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The University does not have a formal investment policy that addresses interest rate risk.

Investments				
Investment Type	Fair Values	Investment Maturities (in years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
U.S. Treasuries	\$ 675	\$ 612	\$ 26	\$ 37
U.S. Agencies	58	11	39	8
Mutual Bond Funds	6			6
Money Market Funds	9,539	9,539		
		<u>\$ 10,162</u>	<u>\$ 65</u>	<u>\$ 51</u>
Other Securities				
Other Mutual Funds	9,786			
Limited Partnerships	2,478			
Domestic Stocks	183			
Other	<u>7</u>			
Total Investments	<u>\$ 22,732</u>			

Credit Risk - The University's Endowment Board has a formal policy that addresses credit risk. The policy states that the funds are to be allocated 70% equity and equity-like securities and 30% fixed income and fixed income substitutes. Each equity and fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies. Each fixed income portfolio must have an overall weighted average credit rating of "A" or better by Moody's and Standard & Poor's rating services. In addition, there shall be no bond investments rated below "B". As of June 30, 2005, the University's non-pooled investments were rated as follows:

	Fair Values	AAA Aaa	AA Aa
U.S. Agencies	58	58	
Mutual Bond Funds	6		6
Money Market Funds	9,539	9,539	

Rating Agency: Moody's/Standard & Poors

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's Endowment Board does not have a formal policy for custodial credit risk. The University's investments were exposed to custodial credit risk as follows:

Investment Type	Held By Counterparty	Held by Counterparty's Trust Dept. or Agent not in University's Name
U.S. Treasuries	\$ 70	\$ 605
U.S. Agencies	58	
Domestic Stocks (Common & Preferred)	183	
Total	\$ 311	\$ 605

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 3% of the endowment principal's average market value. To the extent that the total return for the current year exceeds the payout and a .75% 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 during recent years, the Endowment Board has taken action to stop the spending of those endowments that are currently "underwater" by 106% of the original endowment amount. Those accounts are reviewed annually to determine if earnings have been sufficient to allow them to meet the 106% requirement. During the 2004-2005 fiscal year, sufficient earnings had been made to allow \$515,000 to be transferred back to restricted funds. The spending accounts for those endowments were transferred to quasi-endowment accounts. At June 30, 2005, net appreciation was \$1,181,000.

NOTE 4: RECEIVABLES

Receivables at June 30, 2005 (in thousands) were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 5,577	\$ 314	\$ 5,263
Accounts	54,098	27,335	26,763
Investment Earnings	2		2
Interest on Loans	188		188
Other	6,620		6,620
Total Current Receivables	\$ 66,485	\$ 27,649	\$ 38,836
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 2,015	\$ 68	\$ 1,947
Institutional Student Loan Programs	20	1	19
Total Notes Receivable - Current	\$ 2,035	\$ 69	\$ 1,966
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 10,842	\$ 0	\$ 10,842

NOTE 5: CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005 (in thousands), is presented as follows:

	<u>Balance July 1, 2004</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Capital Assets, Nondepreciable:					
Land	\$ 21,797	\$ 0	\$ 2,876	\$ 0	\$ 24,673
Construction in Progress	<u>57,521</u>	<u>(54,667)</u>	<u>58,451</u>	<u>7,145</u>	<u>54,160</u>
Total Capital Assets, Nondepreciable	<u>79,318</u>	<u>(54,667)</u>	<u>61,327</u>	<u>7,145</u>	<u>78,833</u>
Capital Assets, Depreciable:					
Buildings	418,841	45,318		1,226	462,933
Machinery and Equipment	76,251	867	9,046	1,673	84,491
General Infrastructure	<u>27,309</u>	<u>8,482</u>			<u>35,791</u>
Total Capital Assets, Depreciable	<u>522,401</u>	<u>54,667</u>	<u>9,046</u>	<u>2,889</u>	<u>583,215</u>
Less Accumulated Depreciation/Amortization for:					
Buildings	99,982		8,528	21	108,489
Machinery and Equipment	44,394		7,718	1,451	50,661
General Infrastructure	<u>3,420</u>		<u>756</u>		<u>4,176</u>
Total Accumulated Depreciation	<u>147,796</u>		<u>17,002</u>	<u>1,472</u>	<u>163,326</u>
Total Capital Assets, Depreciable, Net	<u>374,605</u>	<u>54,667</u>	<u>(7,956)</u>	<u>1,427</u>	<u>419,889</u>
Capital Assets, Net	<u><u>\$ 453,923</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 53,371</u></u>	<u><u>\$ 8,572</u></u>	<u><u>\$ 498,722</u></u>

NOTE 6: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005 (in thousands) were as follows:

Accounts Payable	\$ 12,538
Accrued Payroll	11,880
Contract Retainage	3,198
Other	<u>55</u>
Total Accounts Payable and Accrued Liabilities	<u><u>\$ 27,671</u></u>

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, 2005 (in thousands) is presented as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Revenue Bonds Payable	\$ 66,590	\$ 47,850	\$ 10,950	\$ 103,490	\$ 5,500
Certificates of Participation Payable		8,875	360	8,515	820
Total Bonds Payable	<u>66,590</u>	<u>56,725</u>	<u>11,310</u>	<u>112,005</u>	<u>6,320</u>
Notes Payable	359		197	162	162
Capital Leases Payable	1,922		261	1,661	269
Compensated Absences	<u>13,386</u>	<u>6,993</u>	<u>7,615</u>	<u>12,764</u>	<u>1,072</u>
Total Long-Term Liabilities	<u>\$ 82,257</u>	<u>\$ 63,718</u>	<u>\$ 19,383</u>	<u>\$ 126,592</u>	<u>\$ 7,823</u>

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

B. 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 6/30/05	Principal Outstanding 6/30/05
<u>Housing and Dining Services</u>						
Residence Hall Renovation —Jarvis	1998	4.00-4.75	11-01-18	5,095	1,080	4,015
Jones Hall and Galley Dining Facility Renovations	2001A	4.25-5.75	11-01-21	12,570		12,570
Housing & Dining Revenue Refunding Bonds	2001B	4.25-5.75	11-01-15	11,985	4,990	6,995
West End Dining Hall	2003A	2.60-5.00	05-01-24	14,960		14,960
Housing HVAC Renovation	2004	variable	05-01-14	4,290	275	4,015
College Hill Dormitory Construction	2004C	3.00-5.00	06-30-34	27,530		27,530
Total Housing and Dining Services				76,430	6,345	70,085
<u>Student Services System</u>						
Student Health Center	1999	4.75-5.25	05-01-19	3,500	765	2,735
Student Recreation Center Refunding Bonds	2001C	3.0-4.75	05-01-19	14,555	2,500	12,055
University of North Carolina System Pooled Bonds	2004	variable	05-01-09	1,245	180	1,065
Total Student Services System				19,300	3,445	15,855
<u>Athletic Facilities Revenue System</u>						
Athletic Facilities Student Fee Refunding Bonds	2003A	2.00-4.00	05-01-09	4,630	1,450	3,180
Dowdy-Ficklen Stadium Expansion Refunding	2004	variable	05-01-17	5,145	235	4,910
Baseball (Clark-LeClair) Stadium Construction	2004	variable	05-01-24	7,110	180	6,930
Dowdy-Ficklen Stadium Repairs	2004C	3.00-5.00	06-30-14	2,530		2,530
Total Athletic Facilities Revenue System				19,415	1,865	17,550
<u>University of North Carolina Foundation Certificates of Participation</u>						
Banner System Certificates of Participation	2004	3.00-5.00	06-01-14	8,875	360	8,515
Total University of North Carolina System Pool Revenue Bonds				8,875	360	8,515
Total Bonds Payable (principal only)				<u>\$ 126,020</u>	<u>\$ 12,015</u>	<u>\$ 112,005</u>

- C. Demand Bonds** - Included in bonds payable is 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 an agreement, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

East Carolina University Variable Rate General Revenue Bonds, Series 2004: On August 5, 2004, the University issued tax-exempt variable rate demand bonds in the amount of \$17,790,000 that have a final maturity date of May 1, 2024. The bonds are subject to mandatory sinking fund redemption that begins on May 1, 2005. The proceeds of this issuance are for (i) renovating three residence halls known as Clement, White, and Greene Residence Halls located on the campus of East Carolina University, (ii) constructing and equipping a new baseball facility located on the University campus, (iii) refunding in advance of their maturities all of the outstanding East Carolina University Athletic Department Variable Rate Demand Revenue Bonds, Series 1996, the proceeds of which were applied to expanding the Dowdy-Ficklen Stadium located on the University campus, (iv) prepaying the East Carolina University Parking System Revenue Promissory Note dated November 3, 1998, the proceeds of which were used to refinance the construction of a parking lot at Dowdy-Ficklen Stadium located on the University campus, (v) prepaying the East Carolina University Student Fee Revenue Promissory Note dated November 3, 1998, the proceeds of which were used to refinance the improvements to the Blount Intramural Fields Complex located on the University campus, and (vi) paying the costs incurred in connection with the issuance of the 2004 Bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days’ notice and delivery to the bank paying agent, Wachovia Bank, National Association. Upon notice from the bond paying agent, the remarketing agent, Legg Mason Wood and Walker, 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 Wachovia Bank, National Association, a Liquidity Facility has been established for the Trustee (Wachovia Bank, National Association) 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. The agreement required a commitment fee equal to 0.14% of the available commitment, payable semi-annually in arrears, beginning November 1, 2004, and on each May 1 and November 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (the greater of the bank prime commercial lending rate and the bond interest rate). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by 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, 2005, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility is scheduled to expire on August 5, 2007, unless otherwise extended based on the terms of the agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in ten equal semi-annual installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the prime rate plus one-half of one percent (1/2%).

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2005 (in thousands) are as follows:

Fiscal Year	Annual Requirements					
	Bonds Payable		Certificates of Participation Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principle	Interest
2006	\$ 5,500	4,478	\$ 820	\$ 318	\$ 162	\$ 3
2007	5,675	4,271	850	290		
2008	5,880	4,062	875	264		
2009	6,090	3,837	905	238		
2010	5,005	3,595	935	206		
2011-2015	23,915	15,018	4,130	430		
2016-2020	22,785	9,347				
2021-2025	15,925	4,801				
2026-2030	6,405	2,415				
2031-2035	6,310	742				
Total Requirements	\$ 103,490	\$ 52,566	\$ 8,515	\$ 1,746	\$ 162	\$ 3

Interest on the variable rate revenue bonds is calculated at 3.0% at June 30, 2005.

Debt is remarketed, so interest rates fluctuate based on supply and demand.

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

Variable Rate General Revenue Bonds, Series 2004: On August 5, 2004, the University defeased \$5,100,000 of outstanding Athletic Variable Rate Demand Bonds, Series 1996 (original issue amount \$7,000,000) and \$1,235,000 of outstanding UNC System Variable Rate Demand Bonds, Series 1998A (original issue amount \$2,625,000). The refunding of the bonds will result in approximately \$170,000 of savings in liquidity and trustee fees over the remaining life of the bond.

F. 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 6/30/05	Principal Outstanding 6/30/05
Computer Equipment for Dormitories	Carlyle Capital Markets	5.05	03-01-06	\$ 950	\$ 792	\$ 158
Athletic Vehicles	Wachovia	8.13	11-01-05	35	31	4
Total Notes Payable				\$ 985	\$ 823	\$ 162

NOTE 8: LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to medical equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2005 (in thousands):

Fiscal Year	Amount
2006	\$ 315
2007	315
2008	315
2009	315
2010	315
2011-2015	238
Total Minimum Lease Payments	1,813
Amount Representing Interest (2.97% Rate of Interest)	152
Present Value of Future Lease Payments	\$ 1,661

- B. Operating Lease Obligations** - The University entered into operating leases for equipment and buildings. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005 (in thousands):

Fiscal Year	Amount
2006	\$ 1,251
2007	443
2008	247
2009	202
2010	156
2011-2015	123
Total Minimum Lease Payments	\$ 2,422

Rental expense for all operating leases during the year was \$2,013,000.

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	Indigent Care Allowance for Uncollectibles	Less and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees	\$ 112,744	\$ 0	\$ 18,807	\$ 502	\$ 0	\$ 93,435 (B), (C), (D)
Patient Services	\$ 242,817	\$ 0	\$ 0	\$ 27,334	\$ 123,714	\$ 91,767
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 16,792	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,792 (A)
Dining	14,845	684				14,161 (A)
Student Union Services	11					11
Health, Physical Education, and Recreation Services	1,763					1,763
Bookstore	12,234					12,234
Parking	2,343					2,343
Athletic	8,658					8,658
Other	642					642
Sales and Services of Education and Related Activities	3,858					3,858
Total Sales and Services	\$ 61,146	\$ 684	\$ 0	\$ 0	\$ 0	\$ 60,462

Revenue Bonds Secured by Pledged Revenues:

- (A) Housing and Dining System
- (B) Student Services System
- (C) University of North Carolina Foundation Certificates of Participation
- (D) Athletics Facilities Revenues 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	\$ 163,260	\$ 10,338	\$ 11,671	\$ 0	\$ 85	\$ 0	\$ 185,354
Research	8,192	1,756	3,209	5	4		13,166
Public Service	85,574	11,960	22,113	7	22		119,676
Academic Support	11,666	5,876	1,221	1	5,021		23,785
Student Services	4,836	441	1,529	65			6,871
Institutional Support	20,125	4,964	8,435				33,524
Operations and Maintenance of Plant	17,400	15,220	4,109		8,997		45,726
Student Financial Aid		6	162	8,076			8,244
Auxiliary Enterprises	22,312	17,132	25,982	4,329	4		69,759
Depreciation						17,002	17,002
Total Operating Expenses	\$ 333,365	\$ 67,693	\$ 78,431	\$ 12,483	\$ 14,133	\$ 17,002	\$ 523,107

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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the University had a total payroll of \$280,141,000, of which \$124,980,000 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$7,499,000 and \$2,712,000, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$2,712,000, \$254,000, and \$0 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, 2005, 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, 2005, the University had a total payroll of \$280,141,000 of which \$122,807,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$7,368,000 and \$8,400,000, 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 \$1,326,000 for the year ended June 30, 2005.

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, 2005 were \$98,000. The voluntary contributions by employees amounted to \$1,288,000 for the year ended June 30, 2005.

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 \$5,362,000 for the year ended June 30, 2005.

NOTE 12: OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees** - The University participates in State-administered programs that 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 3.2% 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, 2005, the University's total contribution to the Plan was \$7,929,000. 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 .445% of covered payroll under the Teacher's and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2005, the University's total contribution to the DIPNC was \$1,103,000. 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 self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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 \$5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate obtained through the NC Association of Insurance Agents, the agent of record.

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 thirteen buildings, vandalism on three buildings, flood coverage on four buildings, and all-risk coverage on three buildings. 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 vehicle, riot or civil commotion is provided on University buildings by the Fund and its reinsurer with a deductible of \$500 per occurrence where coverage is purchased.

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 North Carolina 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.

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 and independently licensed allied health providers (Nurse Practitioners, Certified Registered Nurse Anesthetists, Certified Nurse Midwives, and Physician Assistants). 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 \$15,000,000. As part of the medical malpractice insurance agreement, the University was required to establish a \$1,000,000, non-cancelable letter of credit. There have been no draws against this letter of credit to date.

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. There were no employer contributions required 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 \$37,027,000 and on other purchases were \$6,614,000 at June 30, 2005.

- B. Pending Litigation and Claims** – A \$26.7 million lawsuit has been filed against the University resulting from a contractual dispute. The parties have tentatively agreed to a \$4.5 million settlement.

The University is a party to other 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 \$2.5 billion 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 of \$45,951,000 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 two separately incorporated nonprofit foundations associated with the University. These foundations are the East Carolina University Educational Foundation, Inc., and the Medical Foundation of East Carolina University, Inc.

The East Carolina University Educational Foundation, Inc. provided \$3,309,000 for the Dowdy-Ficklen Stadium Expansion Project and the Harrington Field Expansion and \$3,799,000 to the Department of Athletics in primary support of student/athlete scholarships. The other Foundation provided indirect support to the University by distributing funds directly to recipients. The activities of the above Foundations are not included in the accompanying financial statements.

NOTE 16: CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

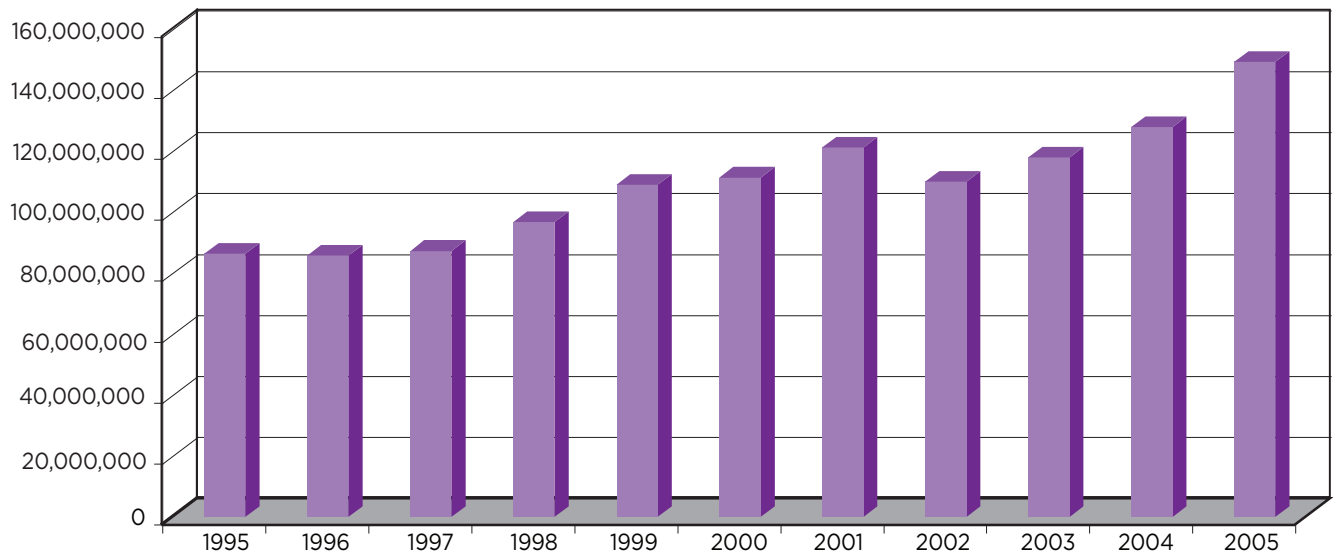
Statistical Section

2004-2005

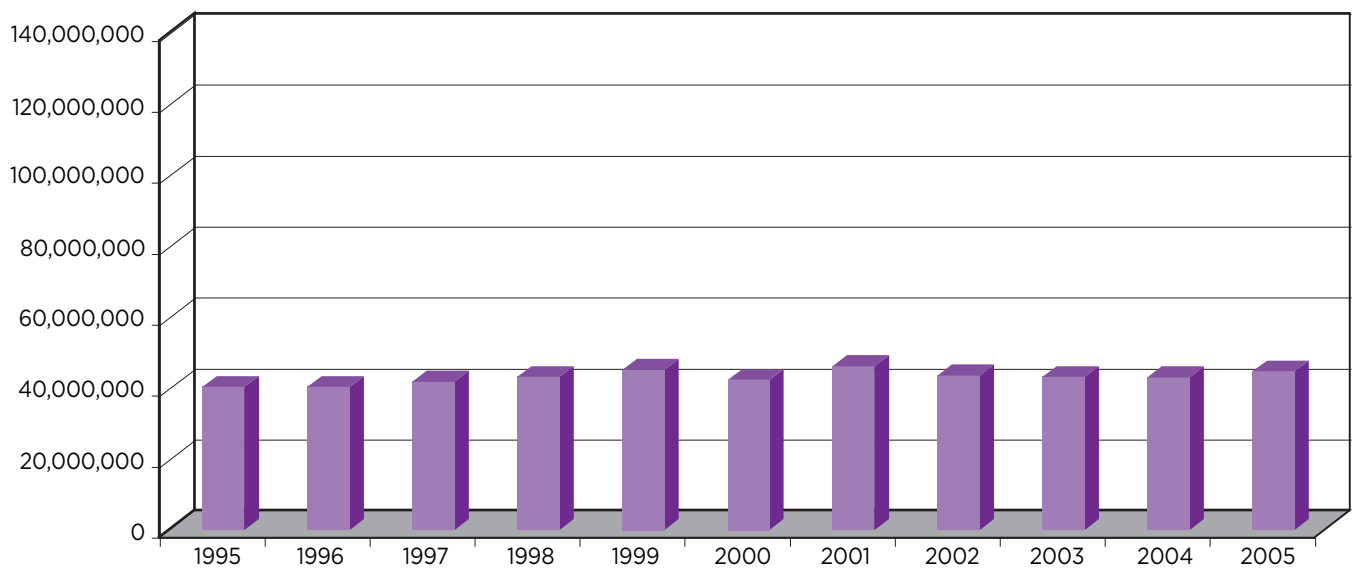
State Appropriations: Ten Year History

For the Fiscal Year Ended June 30, 2005

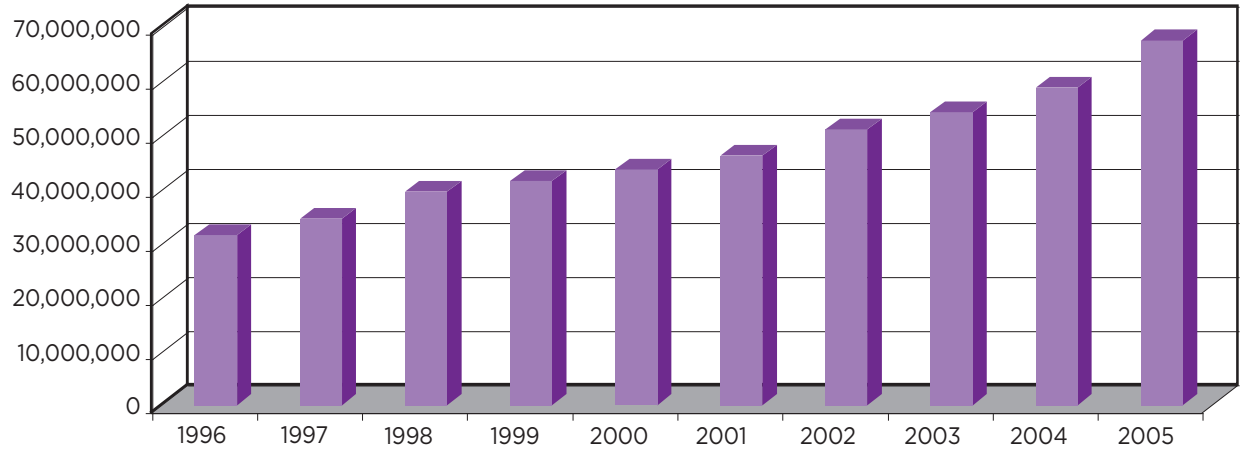
Academic Affairs



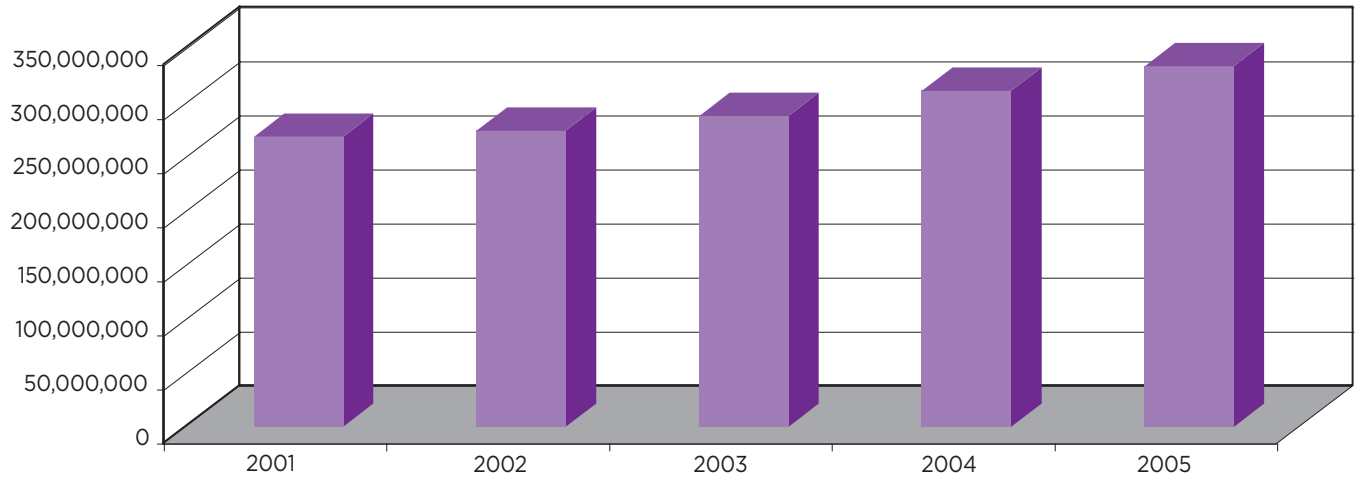
Health Affairs



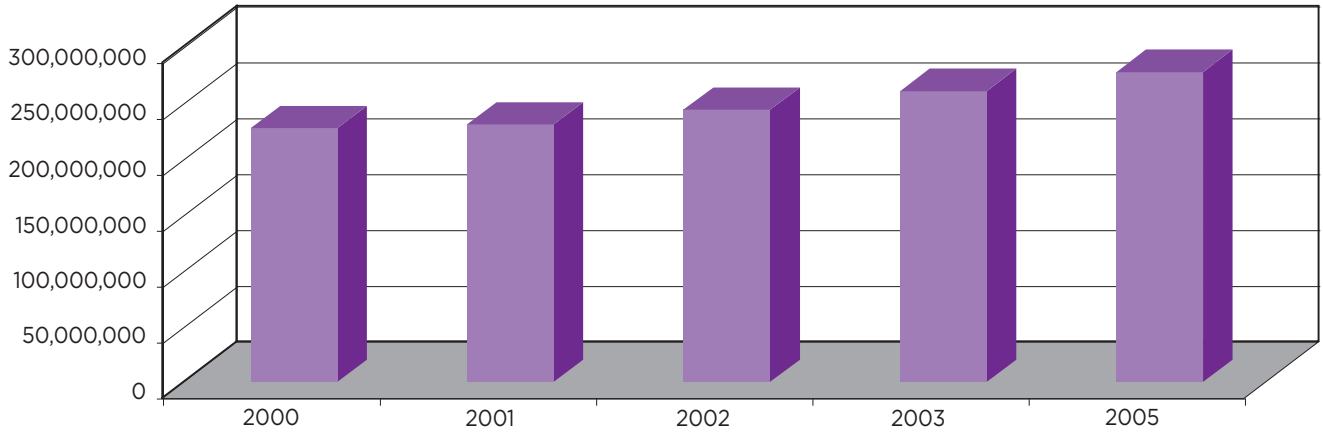
Grants and Contracts Revenues



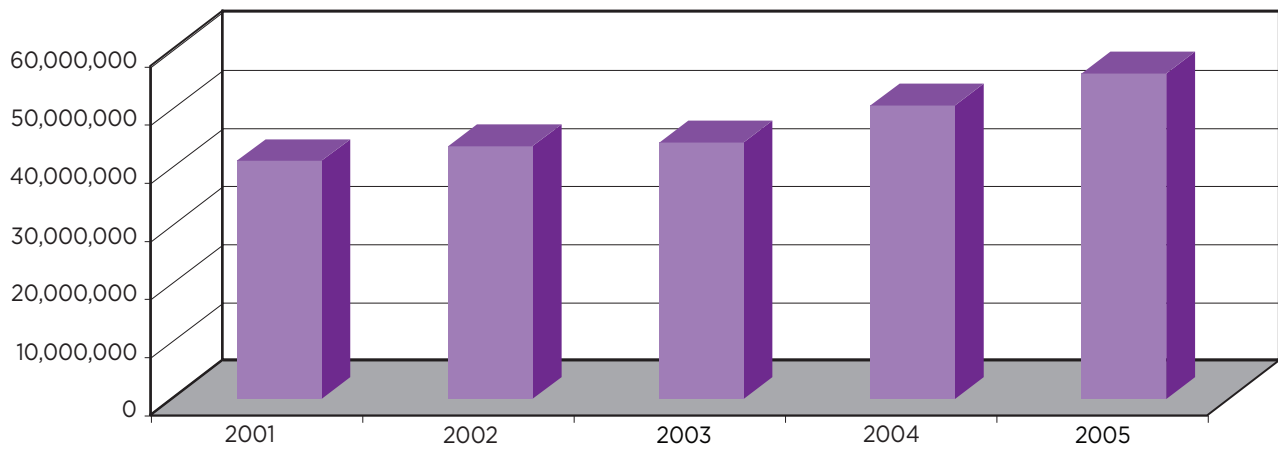
Total Compensation



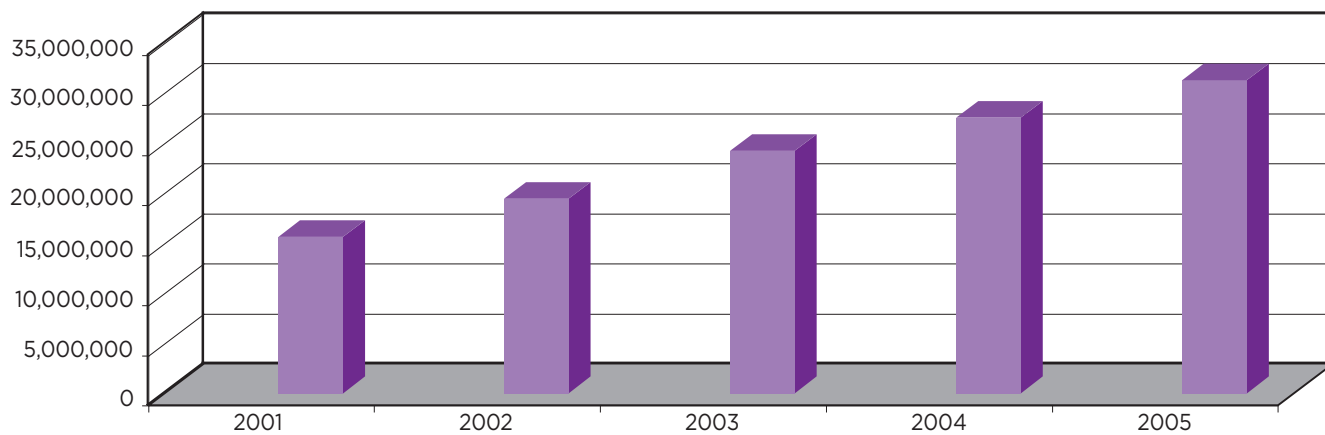
Salaries & Wages



Staff Benefits

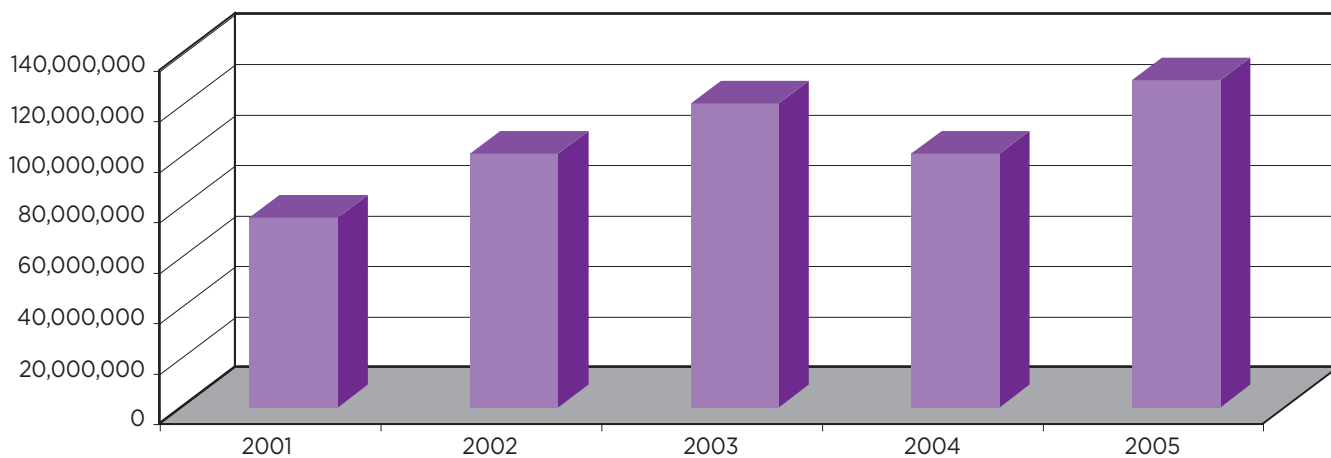


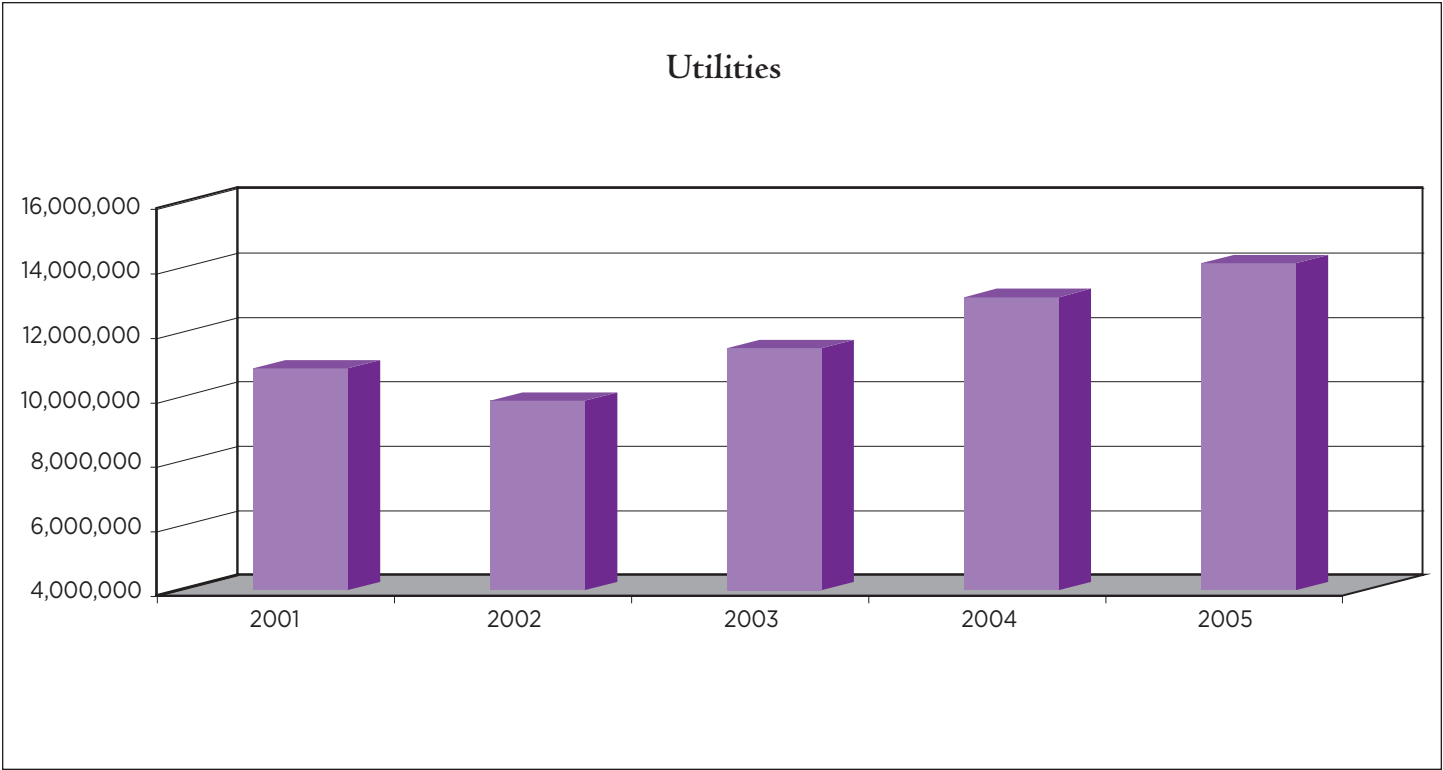
Scholarships and Fellowships



The amounts for 2002, 2003, 2004 and 2005 have been increased by \$10,695,795.09, \$14,512,674.71, \$16,521,932.29 and \$18,807,052.49 respectively to reverse the effect of tuition discounting as required by GASB 34.

Supplies, Equipment and Plant





Admissions, Enrollment and Degree Status: Ten Year History

Fall Enrollment

(Headcount)

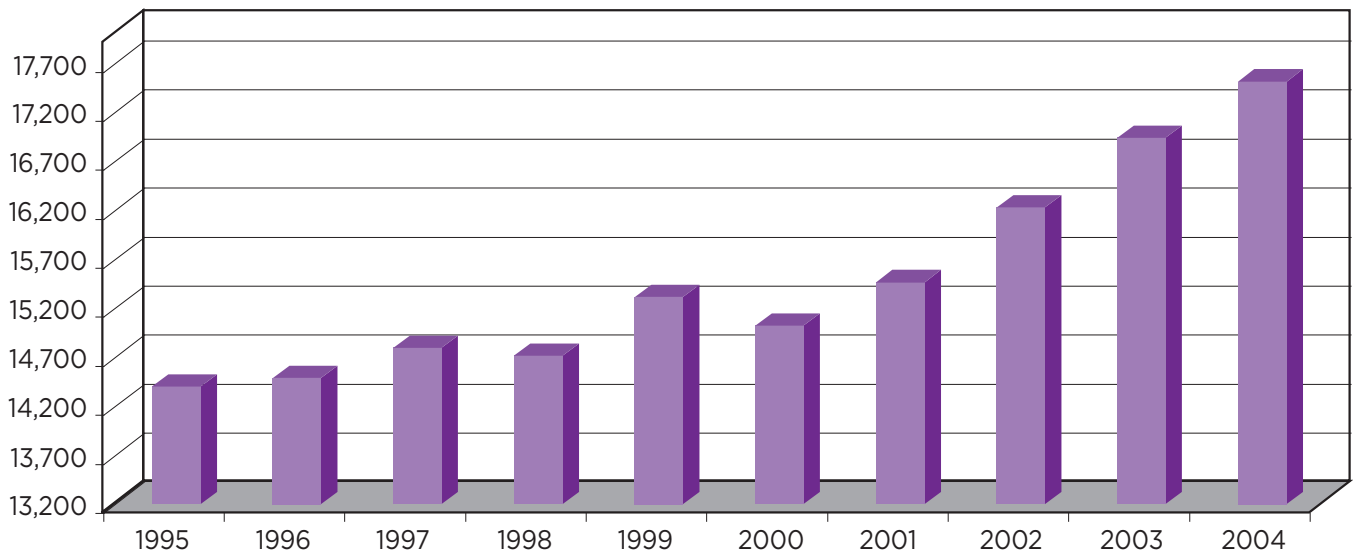
Freshman Admissions	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Applied	8,640	8,898	9,766	9,693	10,076	10,522	10,433	11,333	11,005	10,960
Admitted	6,803	6,828	7,514	7,527	8,062	7,755	8,155	8,730	8,423	8,536
Enrolled	2,642	2,807	2,935	2,819	3,270	3,112	3,197	3,580	3,534	3,512
SAT Total	911	1,015	1,014	1,018	1,015	1,035	1,030	1,036	1,048	1,043
SAT Verbal	433	509	508	508	508	515	511	512	518	515
SAT Math	478	506	506	510	507	520	519	524	530	528

Percentage of Total Applications

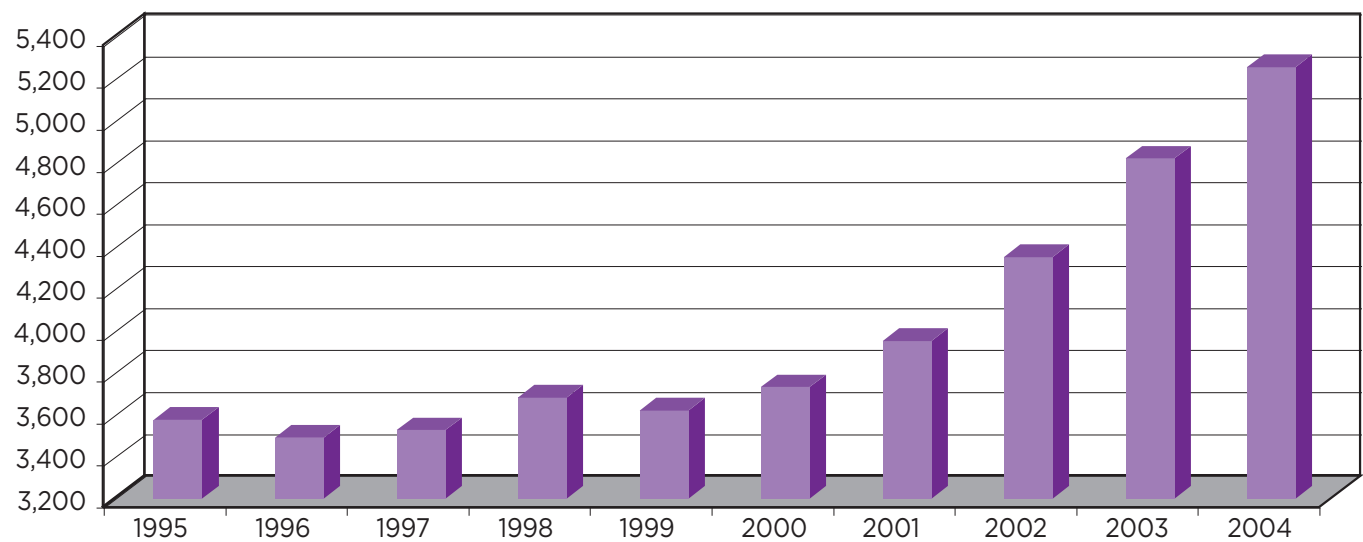
Freshman Admissions	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Admitted	78.7%	76.7%	76.9%	77.7%	80.0%	73.7%	78.2%	77.0%	76.5%	77.9%
Enrolled	30.6%	31.5%	30.1%	29.1%	32.5%	29.6%	30.6%	31.6%	32.1%	32.0%

Degrees Conferred	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Undergraduate	2,624	2,715	2,840	2,625	2,511	2,744	2,773	2,833	2,849	3,024
Graduate	730	813	835	821	935	950	943	921	1,007	1,080
First Professional	74	67	73	64	67	71	71	69	66	80
Total	<u>3,428</u>	<u>3,595</u>	<u>3,748</u>	<u>3,510</u>	<u>3,513</u>	<u>3,765</u>	<u>3,787</u>	<u>3,823</u>	<u>3,922</u>	<u>4,184</u>

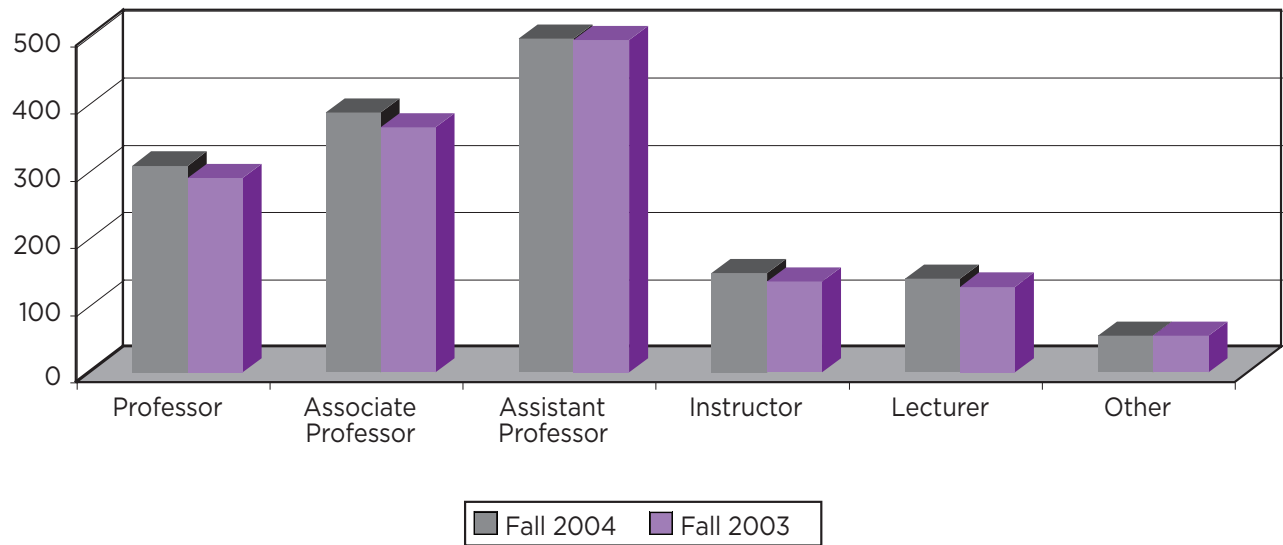
Undergraduate



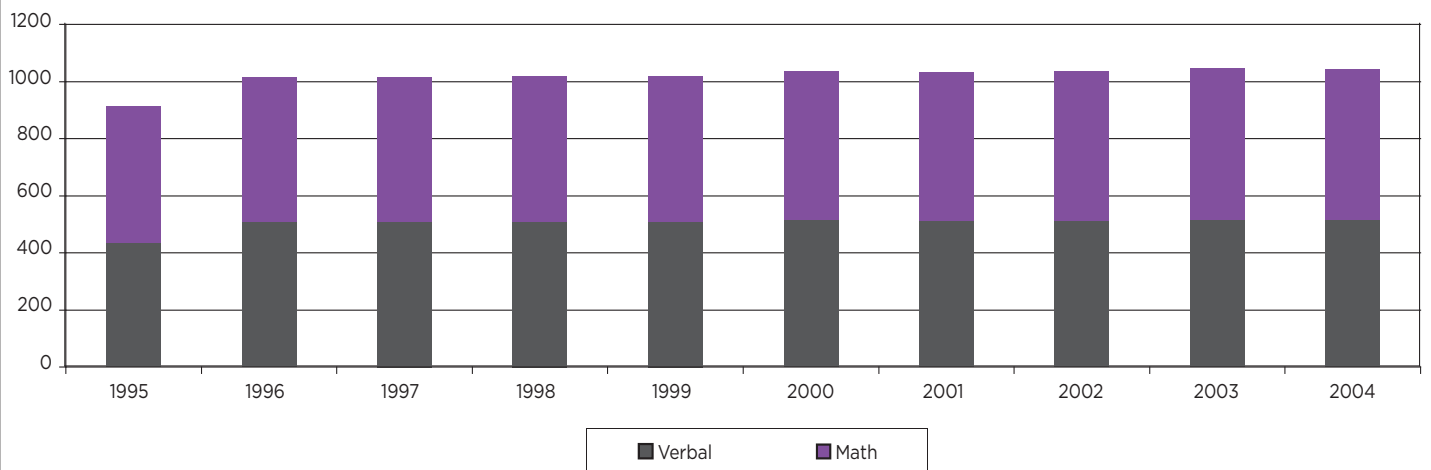
Graduate/Professional



Faculty by Rank



Average Freshman SAT Scores by Year





Tomorrow starts here.