



East Carolina University

FINANCIAL REPORT 2005-2006

East Carolina University Financial Report

2005-2006

FINANCIAL STATEMENT REPORT OF EAST CAROLINA UNIVERSITY

Greenville, North Carolina

Year Ended June 30, 2006

Introductory Information

Board of Trustees and Executive Council	3
Letter from the Chancellor	4
Letter from the Vice Chancellor for Administration and Finance	5

Financial Section

Report of the Independent Auditor	8
Management's Discussion and Analysis	10
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Net Assets	20
Statement of Cash Flows	21
East Carolina University Foundation Statement of Net Assets	22
East Carolina University Foundation Statement of Activities	23
Notes to the Financial Statements	25

Supplementary Information

State Appropriations: Ten Year History	44
Grants and Contracts Revenues	45
Total Compensation	45
Salaries and Wages	46
Staff Benefits	46
Scholarships and Fellowships	47
Supplies, Equipment and Plant	47
Utilities	48
Admissions, Enrollment and Degree Status	49
Fall Enrollment 2005	50
Faculty by Rank	51
Average Freshman SAT Scores by Year	51

2005–2006 Board of Trustees and Executive Council

2005–2006 Board of Trustees

Stephen D. Showfety, chair
Robert J. Greczyn Jr., vice chair
Michael W. Kelly, secretary
Bruce N. Austin
William H. Bodenhamer Jr.
David S. Brody
Joel K. Butler
Robert O. Hill Jr.
Robert V. Lucas
Honorable E. David Redwine
Mark Tipton
Margaret C. Ward
M. Cole Jones, SGA president*

*The student body president serves ex-officio.

2005–2006 Executive Council

Steve Ballard, Chancellor
James L. Smith, Provost and Vice Chancellor for Academic Affairs
Kevin Seitz, Vice Chancellor for Administration and Finance
Deidre Mageean, Vice Chancellor for Research and Graduate Studies
Marilyn Sheerer, Interim Vice Chancellor for Student Life
Mickey Dowdy, Vice Chancellor for University Advancement
Michael Lewis, Vice Chancellor for Health Sciences
Jack Brinn, Interim Chief Information Officer
Austin Bunch, Chief of Staff
John Durham, Executive Director of University Communications and Assistant Secretary to the Board
Terry Holland, Director of Athletics
Virginia Hardy, Interim Chief Diversity Officer
Kitty Wetherington, University Attorney

Letter from the Chancellor

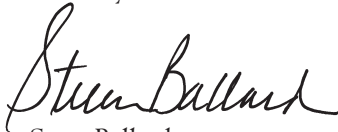
To the Members of the ECU Board of Trustees:

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, 2006. 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 2005-06 year at East Carolina was one of outstanding achievement and successes. Highlight accomplishments include the groundbreakings for the \$60 million East Carolina Heart Institute and the 129-acre North Recreational Complex; the approval of legislative funding for a UNC joint plan for dental education which includes establishment of a dental school at ECU; the completion of the Health Sciences Building which houses the Laupus Library and the Schools of Allied Health Sciences and Nursing; the establishment of innovative, and in many cases interdisciplinary, degree programs – such as the MA in communication with an emphasis in health communication, the MS in athletic training, and the PhD in health psychology; and the hiring of outstanding new leaders in key positions on the executive leadership team. We continue to lead the state in innovation and leadership in our outreach to the region and state through distance education offerings in almost 50 degree programs. It has been a successful 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, reading "Steve Ballard". The signature is fluid and cursive, with the first name "Steve" and last name "Ballard" clearly distinguishable.

Steve Ballard
Chancellor

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, 2006. 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 Executive Council. This section is intended to broadly acquaint the reader with the mission, organization and structure of the University.

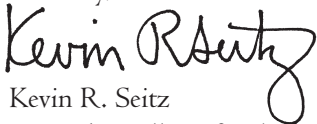
The **Financial Section** presents the management's discussion and analysis, basic financial statements, and the auditor's report from the Office of the State Auditor. The management's discussion and analysis provides an objective review of the University's financial activities. The financial statements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

The **Supplementary Information** 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 of its relationship.

The financial statements have received an unqualified opinion from the State of North Carolina auditors, whose report appears on page 8.

Sincerely,

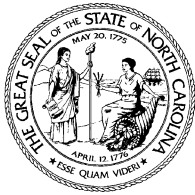


Kevin R. Seitz

Vice Chancellor of Administration and Finance

Financial Section

2005-2006



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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-
7500
Fax: (919) 807-7647
Internet
<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 sixteen-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, 2006, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express 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 provides 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we will also issue our report dated November 30, 2006, 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.

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 supplementary information, identified in the table of contents, were not audited by us, and accordingly, we do not express an opinion thereon.



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

November 30, 2006

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, 2006. The preceding transmittal letter and the following financial statements and notes 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.

Financial Highlights

- At June 30, 2006, the University had assets of \$804 million and liabilities of \$183 million. These resulted in net assets of \$621 million, which represent the residual interest in the assets after liabilities are deducted. The increase from last year's \$598 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 \$26 million increase in State appropriations, due to additional funding provided by the legislation to cover an increase in enrollment and legislative salary increases.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the University as of June 30, 2006, 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, 2006, and 2005 is as follows:

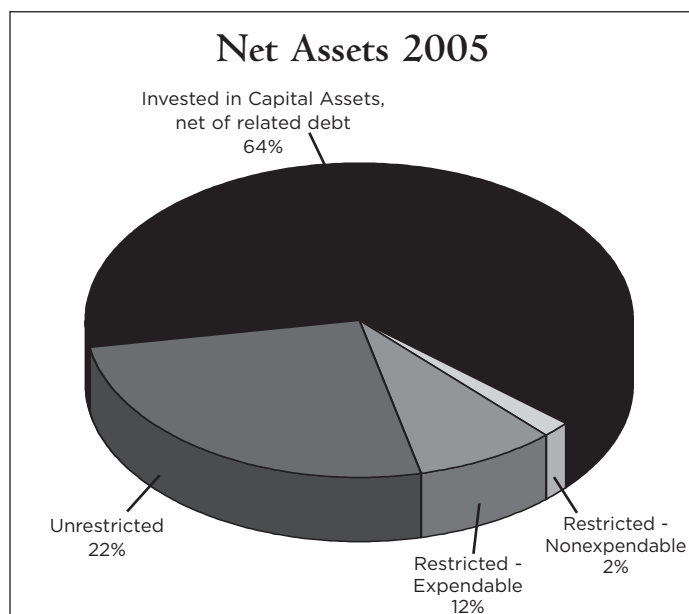
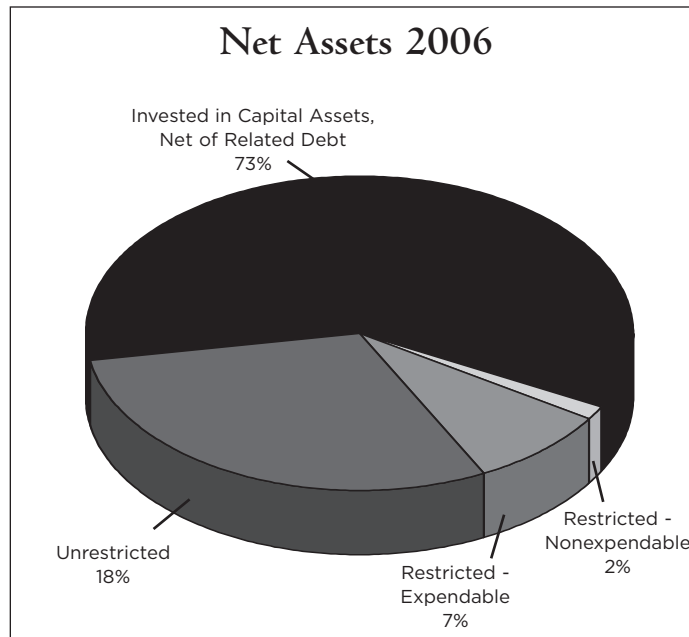
	<i>Dollars in thousands</i>		
	2006	2005	Variance
Assets			
Current Assets	\$ 189,703	187,043	2,660
Noncurrent Assets:			
Capital assets, net	561,517	498,722	62,795
Other	53,057	98,417	(45,360)
Total Noncurrent Assets	\$ 614,574	597,139	17,435
Total Assets	\$ 804,277	784,182	20,095
Liabilities			
Current Liabilities	\$ 46,147	44,621	1,526
Noncurrent Liabilities	136,812	141,301	(4,489)
Total Liabilities	\$ 182,959	185,922	(2,963)
Net Assets			
Invested in Capital Assets, net of related debt	\$ 454,439	384,893	69,546
Restricted - nonexpendable	10,922	9,848	1,074
Restricted - expendable	44,750	71,344	(26,594)
Unrestricted	111,207	132,175	(20,968)
Total Net Assets	\$ 621,318	598,260	23,058

A review of the Statement of Net Assets at June 30, 2006, 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, 2006, were \$190 million, which increased from \$187 million for 2005. Total noncurrent assets increased from \$597 million to \$615 million, largely because of the construction of the Cardiovascular Disease Institute and the College Hill Dormitory, renovations made to the Old Cafeteria Building, and other infrastructure repairs.

Current liabilities are comprised mostly of accounts payable, accrued compensation, and current portions of long-term liabilities. Current liabilities for the year increased to \$46 million, comprised largely of accounts payable and accrued payroll, which together made up \$22 million. Noncurrent liabilities decreased from \$141 million to \$137 million due to repayment of debt.

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 2006 and 2005:



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 \$621 million in net assets this year, \$454 million was attributable to East Carolina's investment in capital assets. At June 30, 2006, the accumulated depreciation balance was \$180 million.

Restricted nonexpendable net assets primarily include the University's permanent endowment fund, accounting for \$11 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 \$45 million of the \$621 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 \$111 million represent 18% 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.

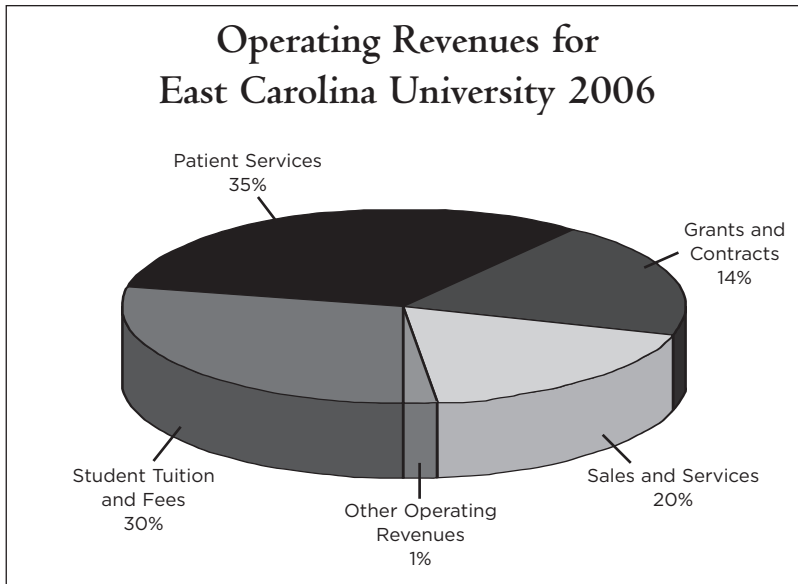
Operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating 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, 2006, compared with that of 2005.

	<i>Dollars in thousands</i>		
	2006	2005	Variance
Operating Loss			
Operating Revenues	\$ 327,035	317,125	9,910
Operating Expenses	(570,163)	(523,107)	(47,056)
Total Operating Loss	<u>\$ (243,128)</u>	<u>(205,982)</u>	<u>(37,146)</u>
Nonoperating Revenues	\$ 226,743	198,576	28,167
Income (Loss) before other revenues, expenses, gains and losses	\$ (16,385)	(7,406)	(8,979)
Other revenues, expenses gains and losses	<u>\$ 39,443</u>	<u>54,635</u>	<u>(15,192)</u>
Change in Net Assets	<u>\$ 23,058</u>	<u>47,229</u>	<u>(24,171)</u>
Net Assets - July 1	\$ 598,260	551,031	47,229
Change in Net Assets (above)	<u>\$ 23,058</u>	<u>47,229</u>	<u>(24,171)</u>
Net Assets - June 30	<u>\$ 621,318</u>	<u>598,260</u>	<u>23,058</u>

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 \$23 million.

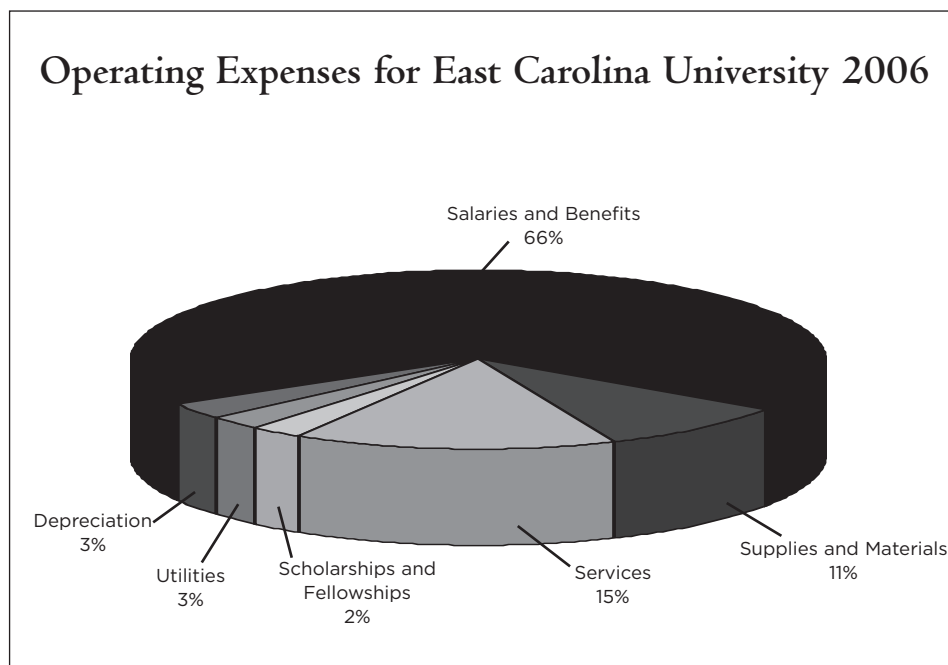
Operating revenues totaled \$327 million and consisted of five areas: student tuition and fees, net; patient services, net; grants and contracts; sales and services, net; and other operating revenues. The chart on page I4, shows each component of operating revenue as it relates to total operating revenues as a whole.



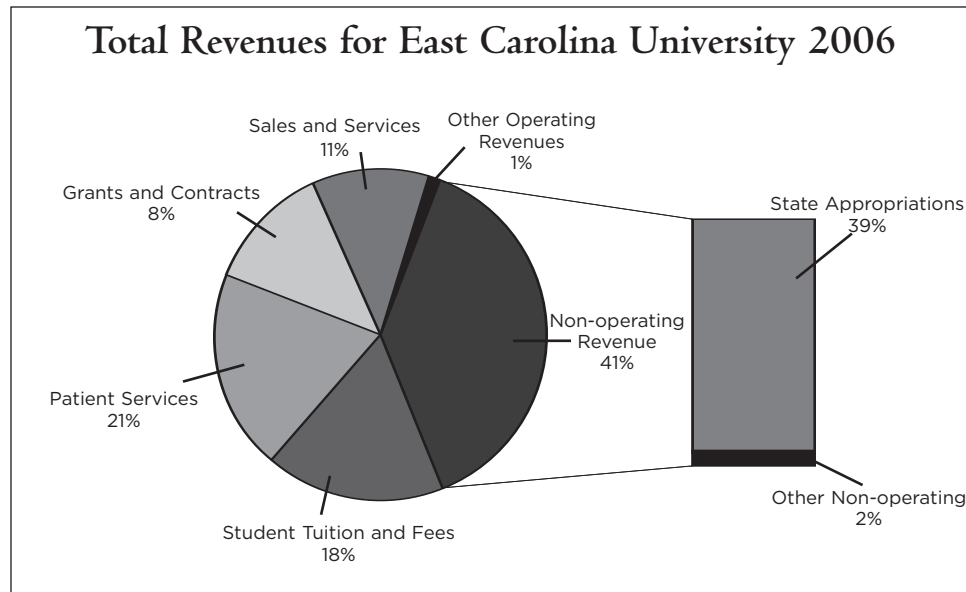
As is evident by the graph, patient services makes up over one-third of all operating revenues. Tuition and fees, net the tuition discount, is the second largest source of operating revenues. The tuition discount is an offset to revenues for the scholarships and fellowships that are applied to student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

There were no major differences in the areas of operating revenues between 2005 and 2006.

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 \$570 million in operating expenses, \$369 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 decreased by two percent and salaries and benefits increased by two percent.



As mentioned before, nonoperating revenue consists primarily of State appropriations and investment income. Of the \$232 million recognized as nonoperating revenue, disregarding nonoperating expenses, \$219 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 39% of total revenue and 94% of nonoperating revenue. Although the percentages were about the same as last year, the amount received for State appropriations increased by almost \$26 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 \$4.8 million. This is higher than the \$3.4 million in interest and fees paid last year. This increase can be explained by the College Hill Dormitory debt being outstanding for a full year. 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, 2006.

Cash Provided (Used) by:		<i>Dollars in thousands</i>
		2006
Operating activities		\$ (218,867)
Noncapital financing activities		225,371
Capital financing activities		(37,037)
Investing activities		<u>7,679</u>
Net change in cash		\$ (22,854)
Cash, beginning of year		<u>\$ 187,876</u>
Cash, end of year		<u><u>\$ 165,022</u></u>

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 \$330 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 \$365 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 \$45 million in capital grants and \$6 million in proceeds from State capital appropriations. Acquisition and construction of capital assets in the amount of \$81 million was the most significant capital use.

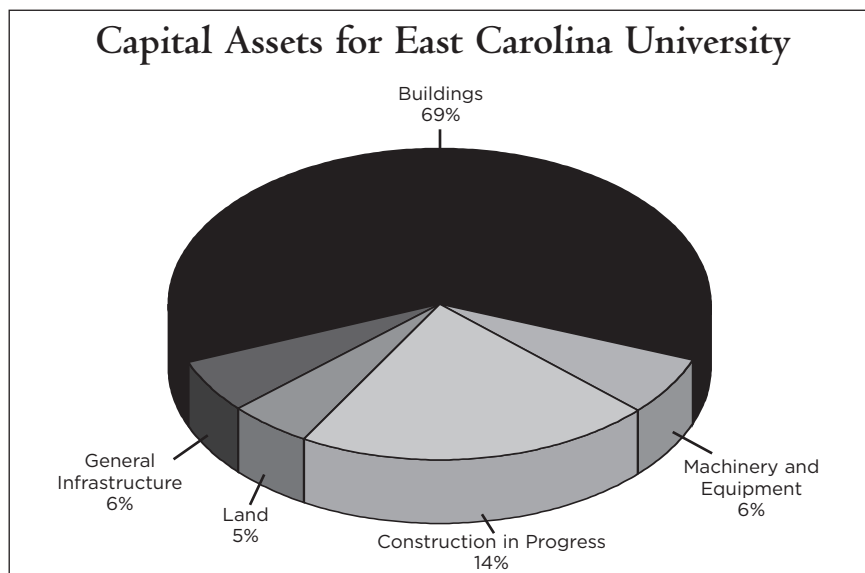
The final group on the Statement of Cash Flows is investing. Investing activities include making and collecting loans and acquiring or disposing of debt or equity instruments. Proceeds from sales and maturities of investments, along with interest on investments, make up the \$20 million in investing sources. The major related use of these funds was \$13 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 \$562 million invested in capital assets at year-end. There was a net increase from \$499 million from last year, which is mostly attributable to the construction of the new Nursing/Allied Health/Developmental Evaluation Center building.

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 three percentage points, which was offset by a one percent decrease for machinery and equipment and a two percent decrease for buildings.

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 \$84 million. As noted on the previous page, 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 marketing 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>
Cardiovascular Diseases Institute	Certificates of Participation	\$ 37,979
Infrastructure Repairs	Appropriated	3,490
Nursing, Allied Health, DEC	Appropriated	3,079
College Hill - Phase I	Bond Proceeds	2,635
Mendenhall/Ledonia Wright	University Revenues	2,044

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

Debt

The University had \$107 million in outstanding bonds, certificates of participation, and capital leases on June 30, 2006. Of this, \$98 million was for bonds, \$7.7 million was for certificates of participation, \$1.4 million was for capital leases. The university issued no new debt this fiscal year.

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 AI rating from Moody's on the latest bond issuance will provide a high degree of flexibility in supporting expected growth in the future. This flexibility, along with the University's ongoing efforts toward revenue enhancement and cost containment, will enable the University to provide the necessary resources to support this level of excellence.

The North Carolina economy continues to recover from the economic slowdown experienced earlier in the decade. The State continues to struggle to overcome its economic dependency on textiles and tobacco. This provides a challenge to the North Carolina General Assembly to identify other revenue streams. This also provides an opportunity for East Carolina University to expand its partnership with local and State governments to establish an environment that will bring new business to North Carolina and provide additional revenues to the State.

A crucial element of the University's future will continue to be our relationship with the State of North Carolina. Education continues to be recognized as an investment in North Carolina's future and is well supported by the State of North Carolina

General Assembly, Board of Governors and the North Carolina citizens. The State continues to fully fund enrollment increases, providing substantial additional resources to East Carolina University based on significant growth in our student population through the end of the decade.

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

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

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

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

Contacting the University's Financial Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the University's finances and show accountability for all funds received. If you have any questions or need additional financial information, please contact David Price, Financial Director for East Carolina University, at (252) 737-1133.

Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 130,230,936.93
Restricted Cash and Cash Equivalents	16,869,284.71
Receivables, Net (Note 4)	36,751,534.36
Due from State of North Carolina Component Units	505,000.00
Due from University Component Units	4,981.86
Inventories	3,709,091.60
Notes Receivable, Net (Note 4)	1,324,792.31
Other Assets	307,197.02
Total Current Assets	189,702,818.79

Noncurrent Assets:

Restricted Cash and Cash Equivalents	17,922,042.35
Restricted Due from Primary Government	3,041,668.29
Endowment Investments	14,410,468.96
Other Long-Term Investments	7,118,203.38
Notes Receivable, Net (Note 4)	10,565,077.77
Capital Assets - Nondepreciable (Note 5)	102,546,825.64
Capital Assets - Depreciable, Net (Note 5)	458,969,444.16
Total Noncurrent Assets	614,573,730.55
Total Assets	804,276,549.34

LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities (Note 6)	27,046,185.81
Due to Primary Government	39,910.11
Unearned Revenue	10,278,324.43
Interest Payable	741,328.54
Long-Term Liabilities - Current Portion (Note 7)	8,040,968.56
Total Current Liabilities	46,146,717.45

Noncurrent Liabilities

Deposits Payable	2,583,823.11
Funds Held for Others	7,269,523.13
U. S. Government Grants Refundable	12,553,610.16
Long-Term Liabilities (Note 7)	114,405,239.48
Total Noncurrent Liabilities	136,812,195.88
Total Liabilities	182,958,913.33

NET ASSETS

Invested in Capital Assets, Net of Related Debt 454,439,230.22

Restricted for:

Nonexpendable:

Scholarships and Fellowships	1,948,988.14
Endowed Professorships	6,127,950.00
Departmental Uses	322,777.27
Loans	2,522,162.89

Expendable:

Scholarships and Fellowships	2,623,940.41
Research	1,102,523.01
Departmental Uses	106,482.45
Capital Projects	37,067,206.92
Debt Service	2,982,695.68
Other	866,972.92

Unrestricted 111,206,706.10

Total Net Assets \$ 621,317,636.01

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, 2006

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 98,823,314.73
Patient Services, Net (Note 9)	117,071,753.12
Federal Grants and Contracts	28,479,128.31
State and Local Grants and Contracts	10,990,715.56
Nongovernmental Grants and Contracts	4,870,864.04
Sales and Services, Net (Note 9)	64,437,959.52
Interest Earnings on Loans	138,959.33
Other Operating Revenues	2,221,835.02
Total Operating Revenues	327,034,529.63

EXPENSES

Operating Expenses:

Salaries and Benefits	368,641,584.52
Supplies and Materials	65,123,380.82
Services	87,961,058.71
Scholarships and Fellowships	12,255,802.11
Utilities	18,541,014.99
Depreciation	17,640,475.61

Total Operating Expenses 570,163,316.76

Operating Loss (243,128,787.13)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	218,644,074.11
Noncapital Gifts	6,726,521.37
Investment Income	6,476,379.29
Interest and Fees on Capital Asset-Related Debt	(4,856,241.78)
Other Nonoperating Expenses	(247,496.85)

Net Nonoperating Revenues 226,743,236.14

Loss Before Other Revenues, Expenses, Gains, or Losses (16,385,550.99)

Capital Appropriations	6,112,400.00
Capital Grants	30,231,015.44
Capital Gifts	3,099,376.57

Increase in Net Assets 23,057,241.02

NET ASSETS

Net Assets - July 1, 2005 598,260,394.99

Net Assets - June 30, 2006 \$ 621,317,636.01

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, 2006**

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 330,419,815.53
Payments to Employees and Fringe Benefits	(365,397,311.63)
Payments to Vendors and Suppliers	(173,199,377.88)
Payments for Scholarships and Fellowships	(12,255,802.11)
Loans Issued	(2,296,112.75)
Collection of Loans	3,214,479.19
Interest Earned on Loans	135,564.39
Student Deposits Received	3,313,139.06
Student Deposits Returned	(2,801,644.45)
Net Cash Used by Operating Activities	(218,867,270.65)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	218,644,074.11
Noncapital Gifts	6,726,521.37
Cash Provided by Noncapital Financing Activities	225,370,595.48

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	6,112,400.00
Capital Grants	45,860,164.98
Capital Gifts	3,099,376.57
Proceeds from Sale of Capital Assets	44,850.00
Acquisition and Construction of Capital Assets	(80,727,570.03)
Principal Paid on Capital Debt and Leases	(6,751,035.21)
Interest and Fees Paid on Capital Debt and Leases	(4,674,858.14)
Net Cash Used by Capital Financing and Related Financing Activities	(37,036,671.83)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	14,607,824.27
Interest on Investments	5,767,625.38
Purchase of Investments and Related Fees	(12,696,016.43)
Net Cash Provided by Investing Activities	7,679,433.22

Net Decrease in Cash and Cash Equivalents	(22,853,913.78)
Cash and Cash Equivalents - July 1, 2005	187,876,177.77
Cash and Cash Equivalents - June 30, 2006	\$ 165,022,263.99

**Statement of Cash Flows
for the Fiscal Year Ended June 30, 2006**

Exhibit A-3 (continued)

**RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH
USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (243,128,787.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	17,640,475.61
Changes in Assets and Liabilities:	
Receivables (Net)	1,750,034.30
Inventories	(932.47)
Prepaid Items	346,854.91
Accounts Payable and Accrued Liabilities	(644,027.32)
Funds Held for Others	(636,567.70)
Unearned Revenue	1,770,815.99
Compensated Absences	2,605,022.11
Deposits Payable	511,474.61
Note Principal Repayments	3,214,479.19
Notes Issued	(2,296,112.75)
Net Cash Used by Operating Activities	<u>\$ (218,867,270.65)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 130,230,936.93
Restricted Cash and Cash Equivalents	16,869,284.71
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>17,922,042.35</u>
Total Cash and Cash Equivalents - June 30, 2006	<u>\$ 165,022,263.99</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 708,330.92
Loss on Disposal of Capital Assets	292,346.85

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, 2006

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 11,396
Investments	57,451,441
Investment in Joint Venture	2,100,000
Cash Surrender Value of Life Insurance	154,317
Assets Held in Charitable Remainder Trusts and Annuities	2,418,250
Real Estate Held for Investment, Net	922,233
Receivables, Net	6,461,804
Prepaid Expenses	4,038
	<hr/>
Total Assets	69,523,479

LIABILITIES

Accounts Payable and Accrued Expenses	276,191
Funds Held for Others	726,818
Split Interest Agreement Obligations	533,318
Annuities Payable	751,555
	<hr/>
Total Liabilities	2,287,882

NET ASSETS

Unrestricted	7,120,864
Temporarily Restricted	20,882,501
Permanently Restricted	39,232,232
	<hr/>
Total Net Assets	\$ 67,235,597

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, 2006

Exhibit B-2

REVENUES

Contributions	\$ 5,415,170
Gifts in Kind	141,900
Contributed Services and Facilities	1,538,896
Interest and Dividends	1,248,399
Net Unrealized and realized Gains on Long-Term Investments	5,208,812
Gain or Sale or Transfer of Property	167,567
Change in Value of Split Interest Agreements	(218,581)
Other Income	381,011

Total Revenues, Gains, and Other Support	<u>13,883,174</u>
--	-------------------

EXPENSES

Program Services	3,671,413
General and Administrative	552,898
Fund Raising	1,428,160
Bad Debt Losses	<u>135,723</u>

Total Expenses and Losses	<u>5,788,194</u>
---------------------------	------------------

Increase in Net Assets	8,094,980
------------------------	-----------

NET ASSETS

Net Assets - Beginning of Year	<u>59,140,617</u>
Net Assets - End of Year	<u><u>\$ 67,235,597</u></u>

See Note 1 in the Notes to the Financial Statements

Notes to the Financial Statements

June 30, 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

- A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. East Carolina University is a constituent institution of the 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 Unit - 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-seven 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, 2006, the Foundation distributed \$3,671,413.00 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) 744-1133.

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

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

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

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

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 fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. **Investments** - 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. If considered immaterial, the University expenses bond premiums/discounts at the time of issuance. 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 year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$155,382,903.65 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2006 was \$9,548,402.84. The carrying amount of the University's deposits not with the State Treasurer was \$90,957.50 and the bank balance was \$121,058.66 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. and Consolidated Affiliate, 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 are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University's Endowment Board has a formal investment policy that addresses interest rate risk. The policy expects fixed income managers to maintain a duration no greater than $\pm 40\%$ that of the Lehman Brothers Aggregate Bond Index.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, for the University's investments.

Investment Type	Investments			
	Fair Values	Investment Maturities (in years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
U.S. Treasuries	\$ 721,811.60	\$ 644,968.15	\$ 44,294.31	\$ 32,549.14
U.S. Agencies	47,351.48	7,962.48	29,998.40	9,390.60
Mutual Bond Funds	5,921.57			5,921.57
Money Market Mutual Funds	6,518,183.16	6,518,183.16		
	<u>7,293,267.81</u>	<u>\$ 7,171,113.79</u>	<u>\$ 74,292.71</u>	<u>\$ 47,861.31</u>
Other Securities				
International Mutual Funds	2,796,452.79			
Other Mutual Funds	8,710,859.14			
Limited Partnerships	2,532,567.96			
Domestic Stocks	187,890.84			
Other	<u>7,633.80</u>			
Total Investments	<u>\$21,528,672.34</u>			

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Endowment Board has a formal 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, 2006, the University's investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
U.S. Agencies	\$ 47,351.48	47,351.48
Money Market Mutal Funds	6,518,183.16	6,518,183.16
Mutual Bond Funds	5,921.57	5,921.57

Rating Agency: Moody's/Standard & Poor's

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

At June 30, 2006, 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	\$ 81,811.60	640,000.00
U.S. Agencies	47,351.48	
Domestic Stocks	187,890.84	
Total	\$ 317,053.92	640,000.00

Component Units - Investments of the University's discretely presented component unit, the East Carolina University Foundation, Inc., are 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Common Stock	\$ 152,237.00
Money Market Mutal Funds	45,589,713.00
Mutual Bond Funds	11,709,491.00
Investment in Joint Ventures	2,100,000.00
Real Estate Held for Investments, Net	922,233.00
Total	\$ 60,473,674.00

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 4% of the endowment principal's average market value. To the extent that the total return for the current year exceeds the payout and a 1% administrative fee, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2006, net appreciation of \$1,651,000.00 was available to be spent, all of which was restricted for specific purposes.

NOTE 4: RECEIVABLES

Receivables at June 30, 2006 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,687,059.89	\$ 211,041.44	\$ 1,476,018.45
Accounts	66,397,905.96	38,942,848.00	27,455,057.96
Intergovernmental	92,109.00		92,109.00
Investment Earnings	2,337.36		2,337.36
Interest on Loans	191,280.56		191,280.56
Other	7,534,731.03		7,534,731.03
Total Current Receivables	\$ 75,905,423.80	\$ 39,153,889.44	\$ 36,751,534.36
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 2,004,584.96	\$ 681,692.65	\$ 1,322,892.31
Institutional Student Loan Programs	1,900.00		1,900.00
Total Notes Receivable - Current	\$ 2,006,484.96	\$ 681,692.65	\$ 1,324,792.31
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 10,565,077.77	\$ 0.00	\$ 10,565,077.77

NOTE 5: CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 24,673,285.99	\$ 1,191,267.60	\$ 0.00	\$ 25,864,553.59
Construction in Progress	54,159,377.39	70,072,129.86	47,549,235.20	76,682,272.05
Total Capital Assets, Nondepreciable	78,832,663.38	71,263,397.46	47,549,235.20	102,546,825.64
Capital Assets, Depreciable:				
Buildings	462,933,184.77	46,938,160.17		509,871,344.94
Machinery and Equipment	84,491,118.71	11,078,815.02	4,506,299.00	91,063,634.73
General Infrastructure	35,790,594.62	2,094,125.41		37,884,720.03
Total Capital Assets, Depreciable	583,214,898.10	60,111,100.60	4,506,299.00	638,819,699.70
Less Accumulated Depreciation/Amortization for:				
Buildings	108,489,258.10	9,360,695.69		117,849,953.79
Machinery and Equipment	50,660,619.89	7,320,131.00	1,116,259.32	56,864,491.57
General Infrastructure	4,176,161.26	959,648.92		5,135,810.18
Total Accumulated Depreciation	163,326,039.25	17,640,475.61	1,116,259.32	179,850,255.54
Total Capital Assets, Depreciable, Net	419,888,858.85	42,470,624.99	3,390,039.68	458,969,444.16
Capital Assets, Net	\$ 498,721,522.23	\$ 113,734,022.45	\$ 50,939,274.88	\$ 561,516,269.80

NOTE 6: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006 were as follows:

Accounts Payable	\$ 9,194,403.17
Accrued Payroll	12,493,902.41
Contract Retainage	5,003,976.47
Other	353,903.76
	<hr/>
Total Accounts Payable and Accrued Liabilities	<u>\$ 27,046,185.81</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, 2006 is presented as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Revenue Bonds Payable	\$ 103,490,000.00	0.00	5,500,000.00	97,990,000.00	5,675,000.00
Certificates of Participation Payable	8,515,000.00		820,000.00	7,695,000.00	850,000.00
Total Bonds Payable	<u>112,005,000.00</u>		<u>6,320,000.00</u>	<u>105,685,000.00</u>	<u>6,525,000.00</u>
Notes Payable	162,086.09		162,086.09		
Capital Leases Payable	1,660,988.70		268,949.12	1,392,039.58	277,026.31
Compensated Absences	12,764,146.35	10,799,470.36	8,194,448.25	15,369,168.46	1,238,942.25
		<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	<u>\$ 126,592,221.14</u>	<u>10,799,470.36</u>	<u>14,945,483.46</u>	<u>122,446,208.04</u>	<u>8,040,968.56</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:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/06	Principal Outstanding 6/30/06
<u>Housing and Dining Services</u>						
Residence Hall Renovation—Jarvis Jones Hall and Galley Dining Facility Renovations	1998	4.00-4.75	11-01-18	5,095,000.00	1,290,000.00	3,805,000.00
Housing & Dining Revenue Refunding Bonds	2001A	4.25-5.75	11-01-21	12,570,000.00	495,000.00	12,075,000.00
West End Dining Hall	2003A	4.25-5.75	11-01-15	11,985,000.00	5,645,000.00	6,340,000.00
Housing HVAC Renovation	2004	2.60-5.00	05-01-24	14,960,000.00	600,000.00	14,360,000.00
College Hill Dormitory Construction	2004C	variable	05-01-14	4,290,000.00	655,000.00	3,635,000.00
		3.00-5.00	06-30-34	27,530,000.00	505,000.00	27,025,000.00
Total Housing and Dining Services				76,430,000.00	9,190,000.00	67,240,000.00
<u>Student Services System</u>						
Student Health Center	1999	4.75-5.25	05-01-19	3,500,000.00	910,000.00	2,590,000.00
Student Recreation Center Refunding Bonds	2001C	3.0-4.75	05-01-19	14,555,000.00	3,180,000.00	11,375,000.00
University of North Carolina System Pooled Bonds	2004	variable	05-01-09	1,245,000.00	430,000.00	815,000.00
Total Student Services System				19,300,000.00	4,520,000.00	14,780,000.00
<u>Athletic Facilities Revenue System</u>						
Athletic Facilities Student Fee Refunding Bonds	2003A	2.00-4.00	05-01-09	4,630,000.00	2,205,000.00	2,425,000.00
Dowdy-Ficklen Stadium Expansion Refunding	2004	variable	05-01-17	5,145,000.00	560,000.00	4,585,000.00
Baseball (Clark-LeClair) Stadium Construction	2004	variable	05-01-24	7,110,000.00	430,000.00	6,680,000.00
Dowdy-Ficklen Stadium Repairs	2004C	3.00-5.00	06-30-14	2,530,000.00	250,000.00	2,280,000.00
Total Athletic Facilities Revenue System				19,415,000.00	3,445,000.00	15,970,000.00
<u>University of North Carolina Foundation Certificates of Participation</u>						
Banner System Certificates of Participation	2004	3.00-5.00	06-01-14	8,875,000.00	1,180,000.00	7,695,000.00
Total Bonds Payable (principal only)				124,020,000.00	18,335,000.00	105,685,000.00

- 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 legal agreements, 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, U.S. National Bank, National Association, 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, 2006, 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, 2006 are as follows:

Fiscal Year	Annual Requirements			
	Bonds Payable		Certificates of Participation Payable	
	Principal	Interest	Principal	Interest
2007	\$ 5,675,000.00	\$ 4,270,956.22	\$ 850,000.00	\$ 289,700.00
2008	5,880,000.00	4,062,394.95	875,000.00	264,200.00
2009	6,090,000.00	3,837,442.86	905,000.00	237,950.00
2010	5,005,000.00	3,594,642.53	935,000.00	206,362.50
2011	5,190,000.00	3,405,076.34	970,000.00	168,962.50
2012-2016	26,305,000.00	13,930,506.14	3,160,000.00	260,500.00
2017-2021	17,535,000.00	8,371,496.76		
2022-2026	14,755,000.00	4,053,217.10		
2027-2031	6,720,000.00	2,100,490.00		
2032-2034	4,835,000.00	451,490.00		
Total Requirements	\$ 97,990,000.00	\$ 48,077,712.90	\$ 7,695,000.00	\$ 1,427,67.00

Interest on the variable rate 2004 revenue bonds is calculated at 4.0% at June 30, 2006. Debt is remarketed, so interest rates fluctuate based on supply and demand.

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, 2006:

Fiscal Year	Amount
2007	\$ 315,303.52
2008	315,303.52
2009	315,303.52
2010	315,303.52
2011	236,477.64
Total Minimum Lease Payments	1,497,691.72
Amount Representing Interest (2.97% Rate of Interest)	105,652.14
Present Value of Future Lease Payments	\$ 1,392,039.58

- 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, 2006 (in thousands):

Fiscal Year	Amount
2007	\$ 2,135,674.99
2008	1,476,142.57
2009	1,146,125.24
2010	818,702.87
2011	364,745.11
2012-2016	52,500.00
Total Minimum Lease Payments	\$ 5,993,890.78

Rental expense for all operating leases during the year was \$2,107,863.75.

NOTE 9: REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Indigent Care Less Allowance for Uncollectibles	Less and Contractual Adjustments	Net Revenues
Operating Revenues:						
Student Tuition and Fees	\$ 112,358,136.39	\$ 0.00	\$ 13,323,780.22	\$ 211,041.44	\$ 0.00	\$ 98,823,314.73 (B), (C), (D)
Patient Services	\$ 316,260,836.12	\$ 0.00	\$ 0.00	\$ 38,942,848.00	\$ 160,246,235.00	\$ 117,071,753.12
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 17,665,480.15	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 17,665,480.15 (A)
Dining	15,529,536.27	707,961.00				14,821,575.27 (A)
Student Union Services	23,327.51					23,327.51
Health, Physical Education, and Recreation Services	1,887,799.89					1,887,799.89
Bookstore	11,923,695.24					11,923,695.24
Parking	2,040,392.62					2,040,392.62
Athletic	8,467,119.41					8,467,119.41
Other	1,784,996.32					1,784,996.32
Sales and Services of Education and Related Activities	5,823,573.11					5,823,573.11
Total Sales & Services	\$ 65,145,920.52	\$ 707,961.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 64,437,959.52

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:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 175,849,809.86	\$ 101,675,852.09	\$ 12,973,347.79	\$ 0.00	\$ 82,306.02	\$ 0.00	\$200,581,315.76
Research	10,233,863.53	2,248,627.75	4,639,786.45	3,000.00	6,896.74		17,132,174.47
Public Service	9,831,568.87	143,576.88	2,618,949.73	8,428.50	71.40		12,602,595.38
Academic Support	12,382,095.89	6,623,972.29	1,252,705.90	1,975.00	5,542.50		20,266,291.58
Student Services	5,583,591.60	590,104.21	1,567,771.44	15,000.00			7,756,467.25
Institutional Support	21,414,843.91	3,007,675.62	7,856,472.00		12,839.56		32,291,831.09
Operations and Maintenance of Plant	19,148,396.68	15,711,501.04	4,915,219.86		12,441,488.26		52,216,605.84
Student Financial Aid	528,838.59	494.20	1,231,155.48	7,450,137.67			9,210,625.94
Auxiliary Enterprises	113,668,575.59	25,121,576.74	50,905,650.06	4,777,260.94	5,991,870.51		200,464,933.84
Depreciation						17,640,475.61	17,640,475.61
Total Operating Expenses	\$ 368,641,584.52	\$ 65,123,380.82	\$ 87,961,058.71	\$ 12,255,802.11	\$ 18,541,014.99	\$ 17,640,475.61	\$570,163,316.76

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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the University had a total payroll of \$303,873,971.41, of which \$137,843,139.50 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$8,270,588.37 and \$3,225,529.47, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$3,225,529.47, \$2,712,065.41, and \$253,880.00, 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, 2006, 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, 2006, the University had a total payroll of \$303,873,971.41, of which \$130,599,549.67 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$7,835,972.98 and \$8,933,009.20, 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 \$1,782,181.31 for the year ended June 30, 2006.

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, 2006 were \$96,666.27. The voluntary contributions by employees amounted to \$1,414,769.29 for the year ended June 30, 2006.

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 \$6,427,419.60 for the year ended June 30, 2006.

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 3.8% 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, 2006, the University's total contribution to the Plan was \$10,200,822.19. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability** - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teacher's and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2006, the University's total contribution to the DIPNC was \$1,395,901.99. 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 \$56,818,957.76 and on other purchases were \$14,257,876.65 at June 30, 2006.
- B. **Pending Litigation and Claims** – 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. **Other Contingent Receivables** – The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

<u>Purpose</u>	<u>Amount</u>
General Obligation Bonds	\$20,751,133.00

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 \$4,077,864.99 for construction projects and \$4,266,281.52 to the Department of Athletics in primary support of student athlete scholarships. The Medical Foundation of East Carolina University, Inc., 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: SUBSEQUENT EVENTS

On August 15, 2006, the University issued \$4,000,000 of notes payable. The note proceeds will be used to complete the College Hill Dormitory Project.

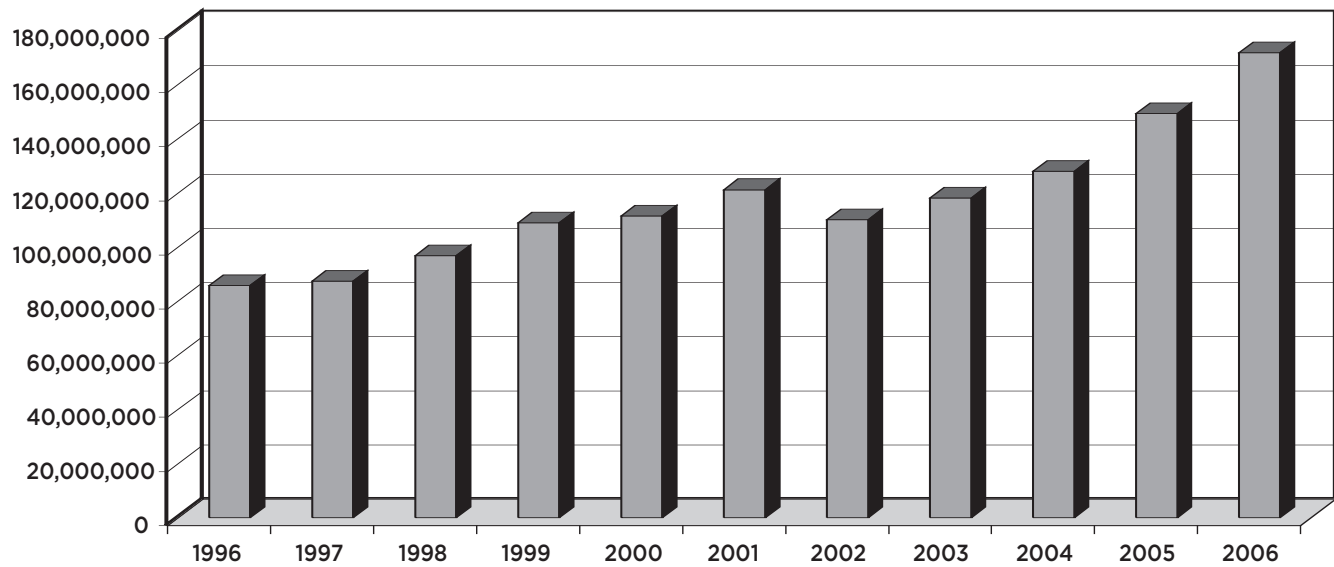
Supplementary Information

2005-2006

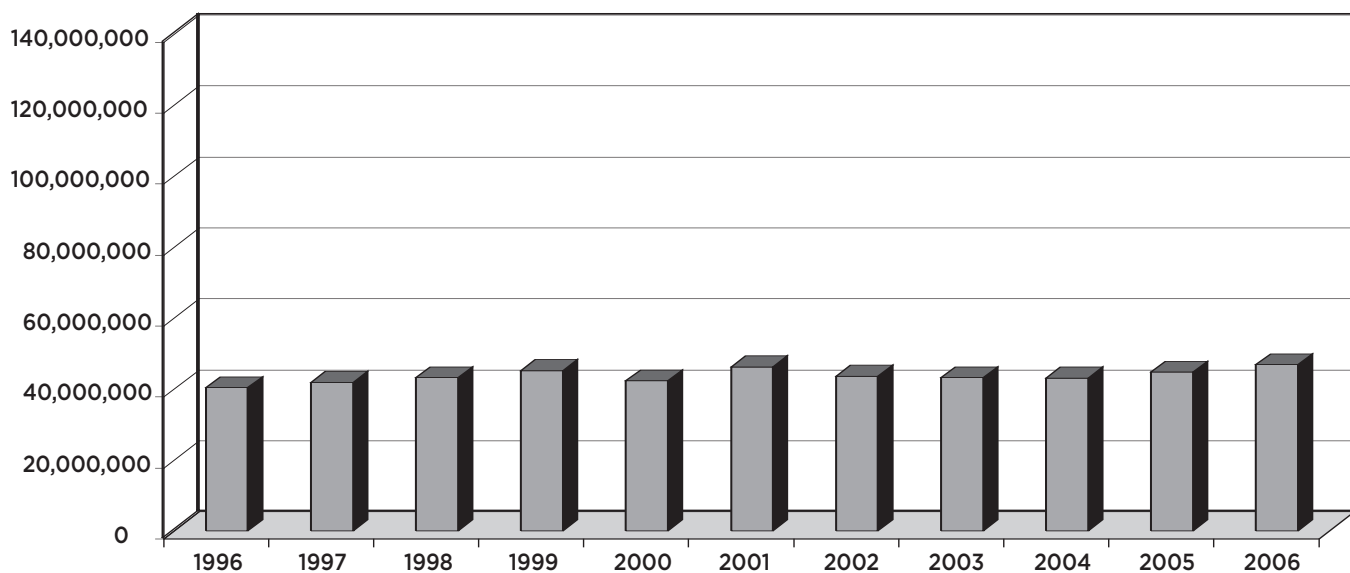
State Appropriations: Ten Year History

For the Fiscal Year Ended June 30, 2006

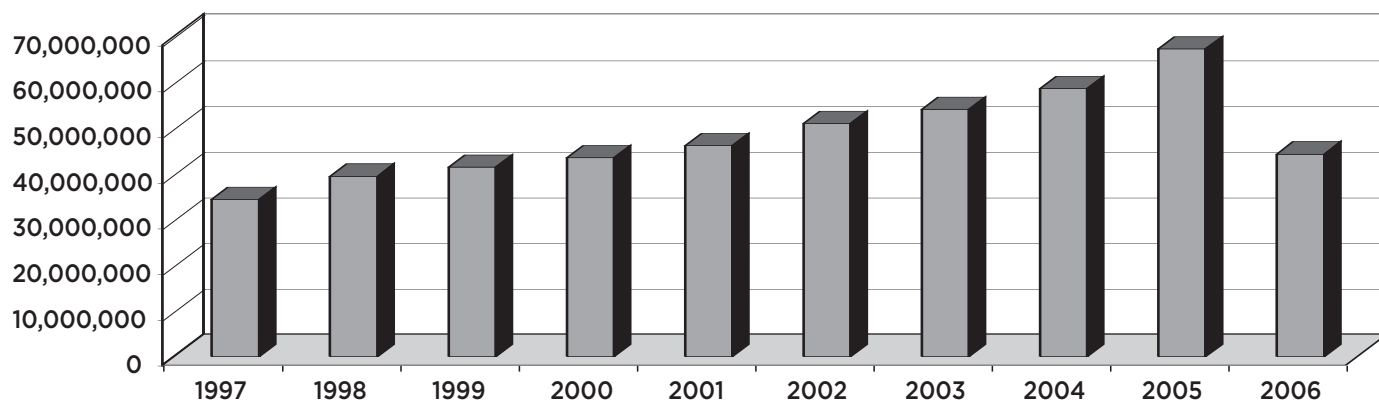
Academic Affairs



Health Affairs

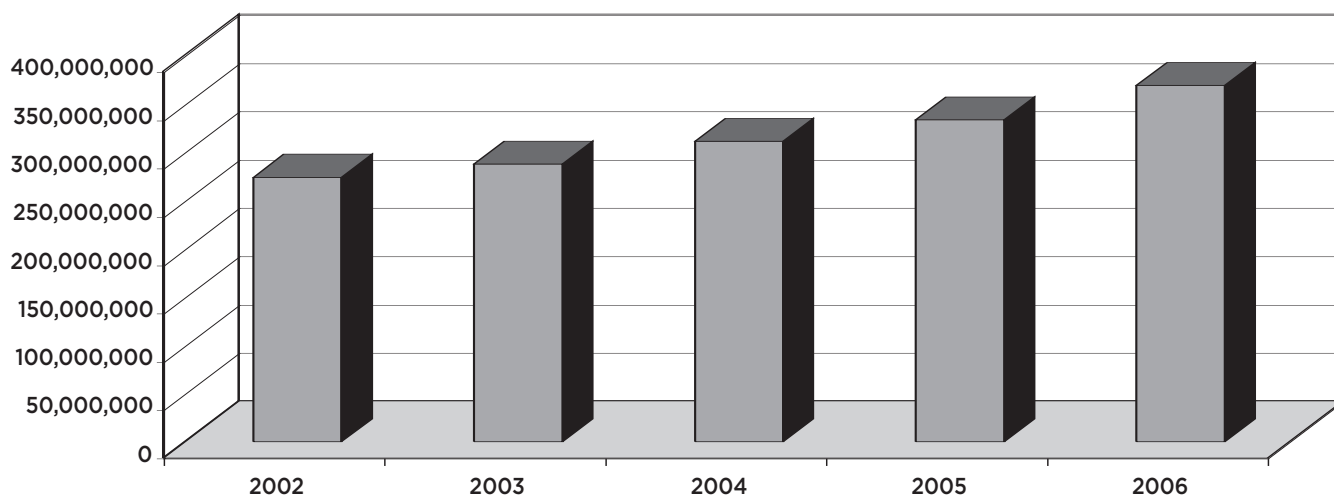


Grants and Contracts Revenues

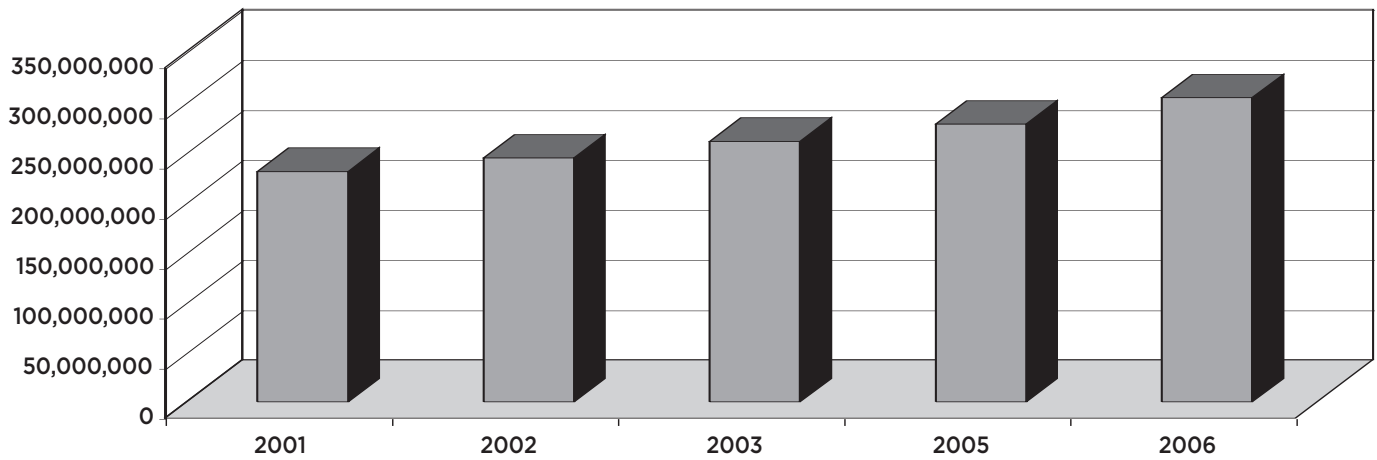


In 2006, \$17,557,477.27 was reclassified from Non-Governmental Grants and Contracts to Patient Services. The prior fiscal years have not been restated to reflect this change in accounting.

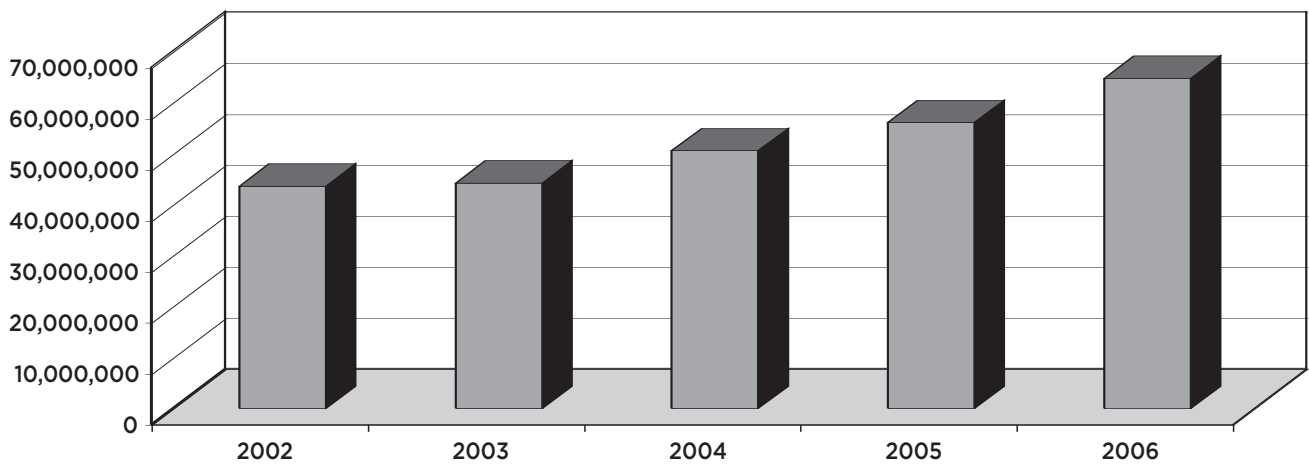
Total Compensation



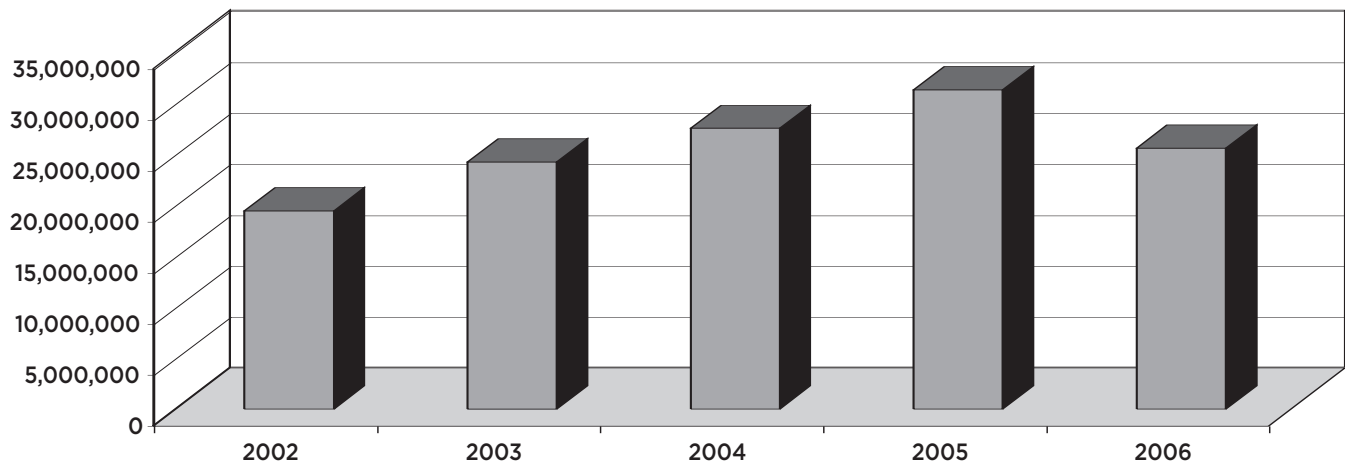
Salaries & Wages



Staff Benefits

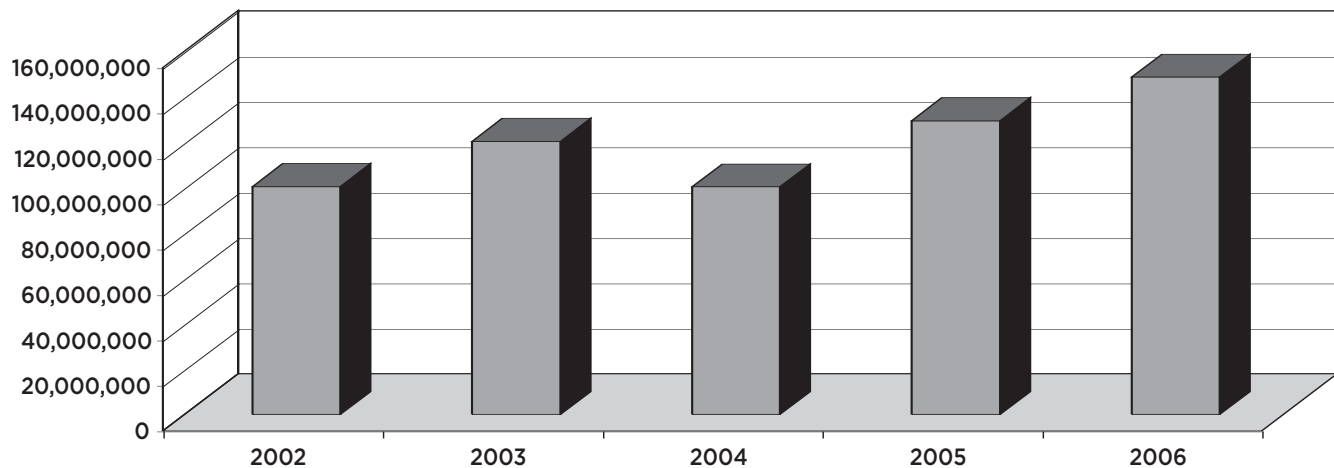


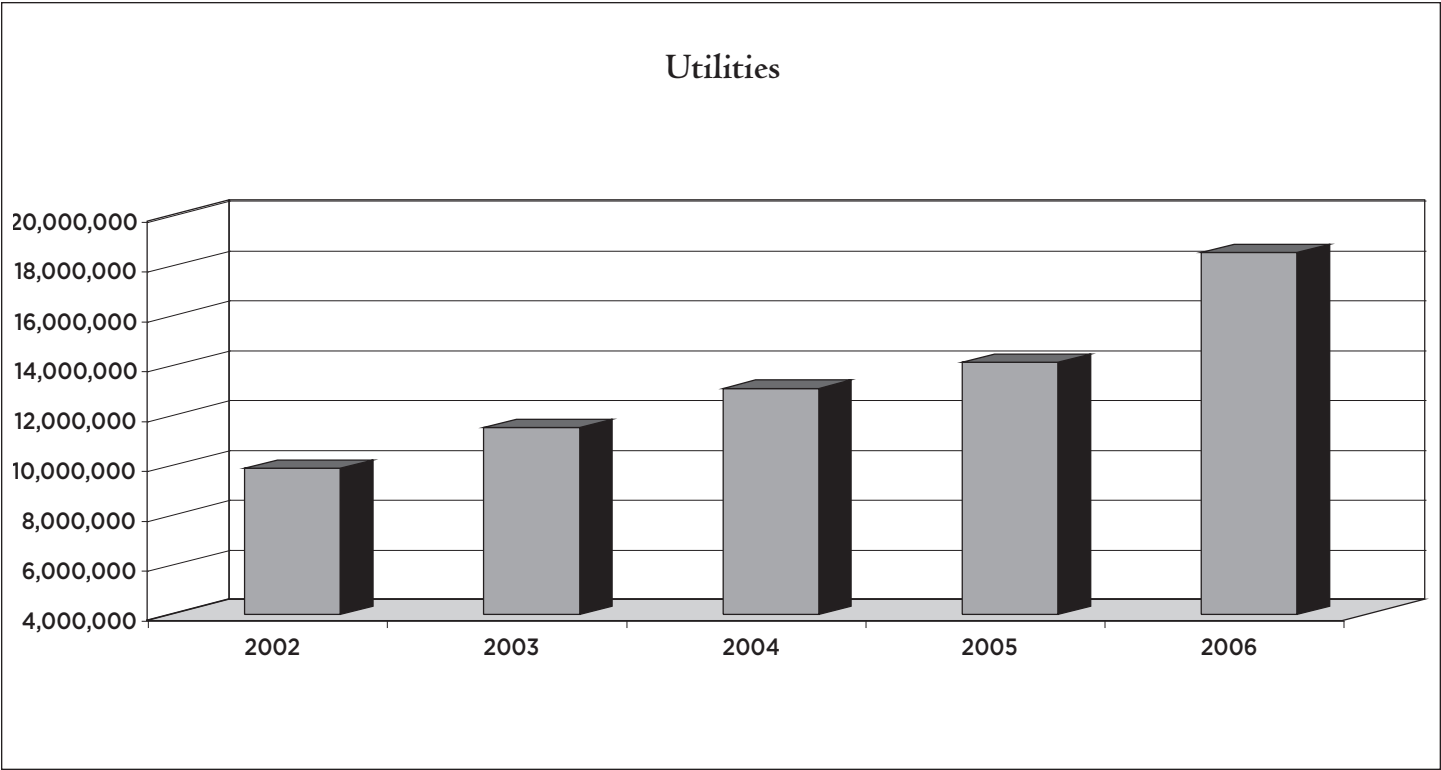
Scholarships and Fellowships



The amounts for 2002, 2003, 2004, 2005 and 2006 have been increased by \$10,695,795.09, \$14,512,674.71, \$16,521,932.29, \$18,807,052.49, and \$13,323,780.22 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)

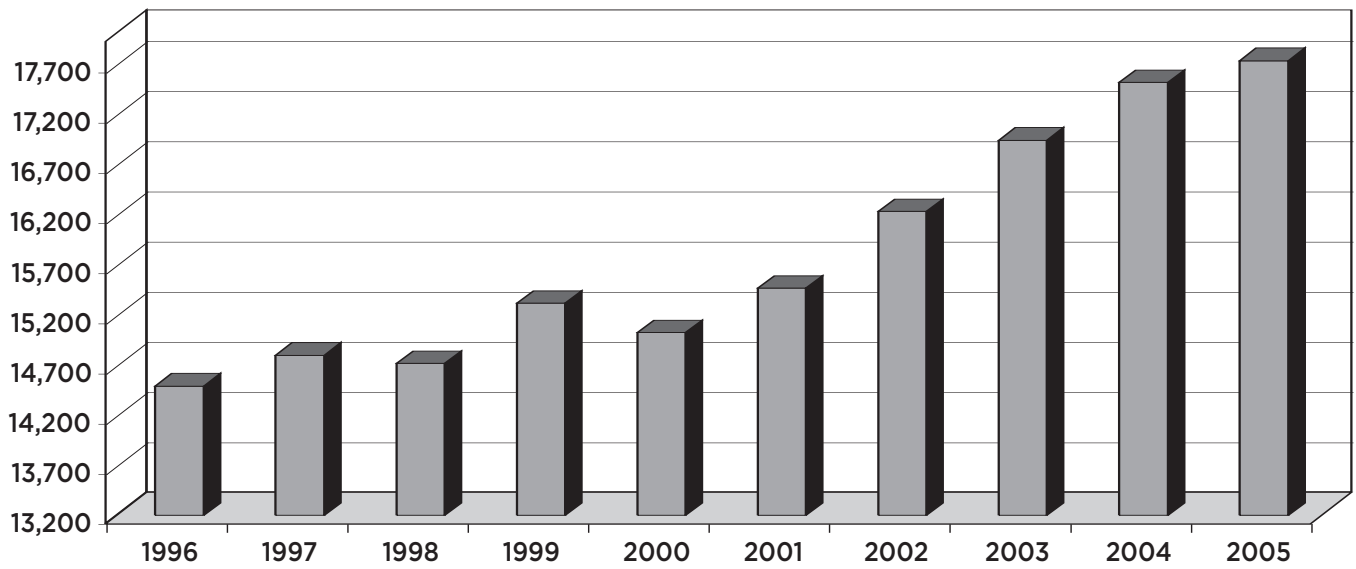
Freshman Admissions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Applied	8,898	9,766	9,693	10,076	10,522	10,433	11,333	11,005	10,960	11,628
Admitted	6,828	7,514	7,527	8,062	7,755	8,155	8,730	8,423	8,536	8,567
Enrolled	2,807	2,935	2,819	3,270	3,112	3,197	3,580	3,534	3,512	3,273
SAT Total	1,015	1,014	1,018	1,015	1,035	1,030	1,036	1,048	1,043	1,042
SAT Verbal	509	508	508	508	515	511	512	518	515	513
SAT Math	506	506	510	507	520	519	524	530	528	529

Percentage of Total Applications

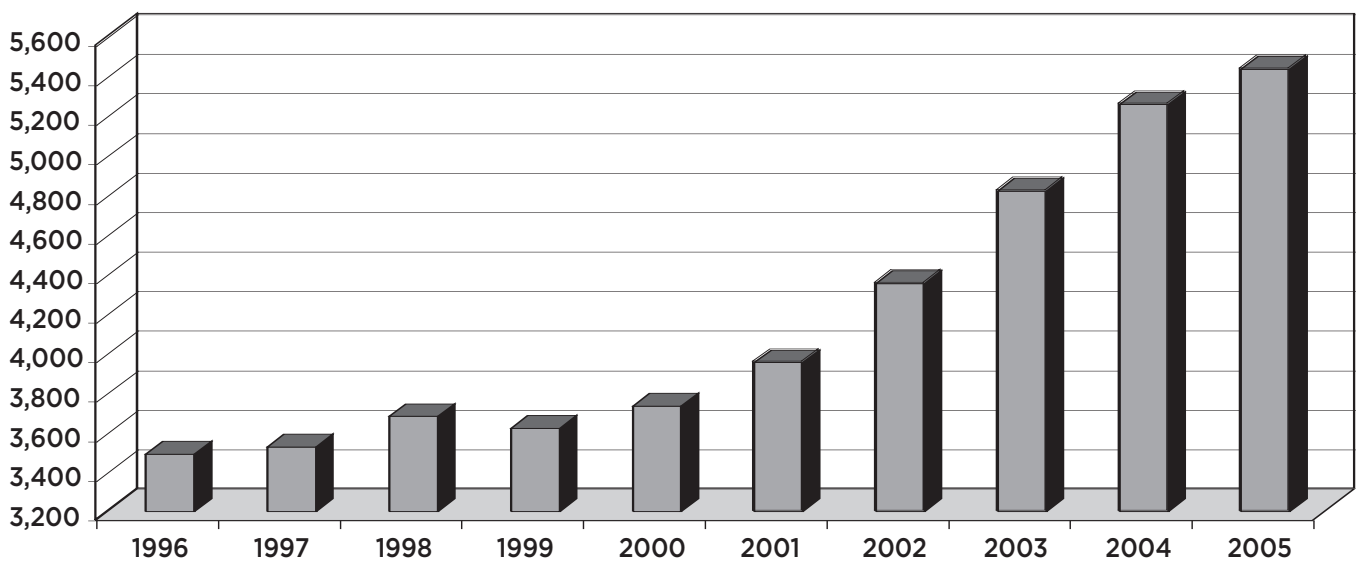
Freshman Admissions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Admitted	76.7%	76.9%	77.7%	80.0%	73.7%	78.2%	77.0%	76.5%	77.9%	73.7%
Enrolled	31.5%	30.1%	29.1%	32.5%	29.6%	30.6%	31.6%	32.1%	32.0%	28.1%

Degrees Conferred	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Undergraduate	2,715	2,840	2,625	2,511	2,744	2,773	2,833	2,849	3,024	3,065
Graduate	813	835	821	935	950	943	921	1,007	1,080	1,236
First Professional	67	73	64	67	71	71	69	66	80	72
Total	<u><u>3,595</u></u>	<u><u>3,748</u></u>	<u><u>3,510</u></u>	<u><u>3,513</u></u>	<u><u>3,765</u></u>	<u><u>3,787</u></u>	<u><u>3,823</u></u>	<u><u>3,922</u></u>	<u><u>4,184</u></u>	<u><u>4,373</u></u>

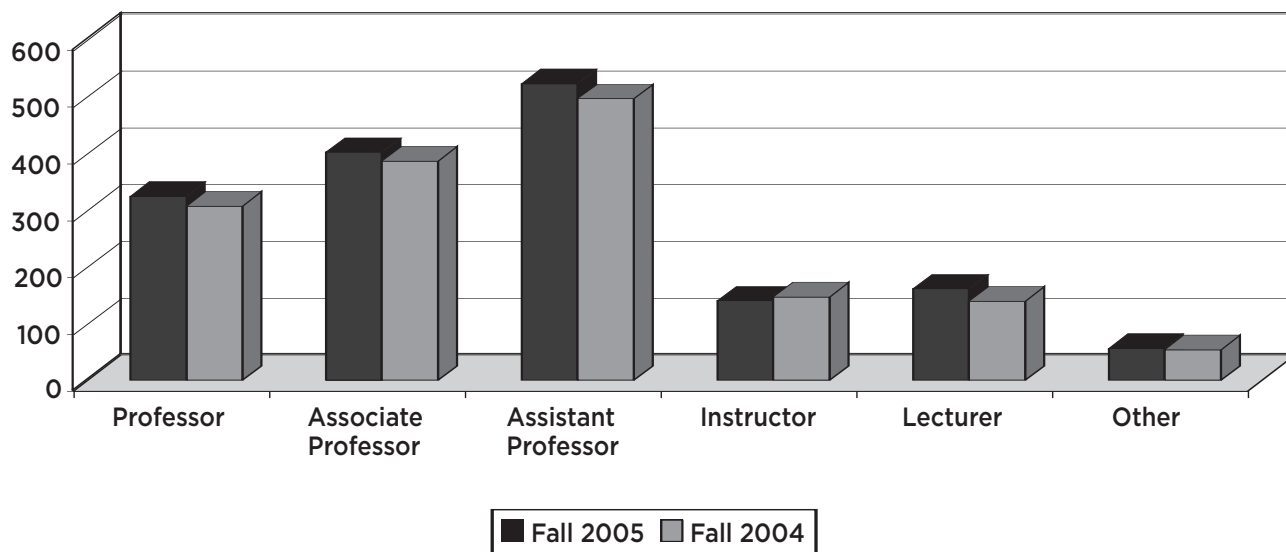
Undergraduate



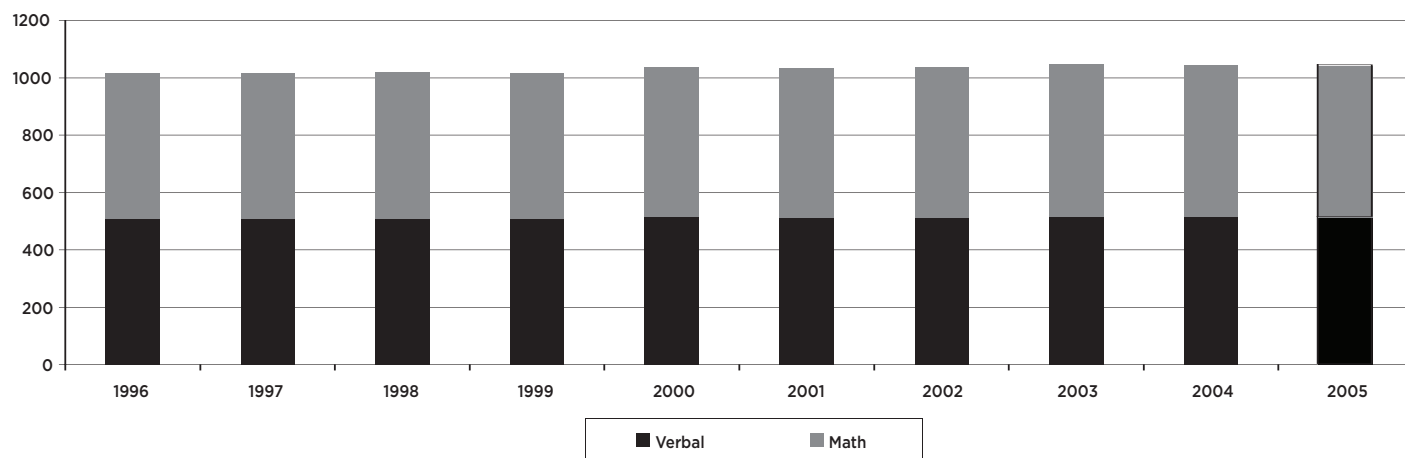
Graduate/Professional



Faculty by Rank



Average Freshman SAT Scores by Year





Tomorrow starts here.