

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**UNIVERSITY OF  
THE DISTRICT OF COLUMBIA  
FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSIONS  
AND ANALYSIS FOR  
FISCAL YEARS 2005 AND 2004**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



June 8, 2006

The Honorable Anthony A. Williams  
Mayor  
District of Columbia  
John A. Wilson Building, Suite 600  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

The Honorable Linda W. Cropp  
Chairman  
Council of the District of Columbia  
John A. Wilson Building, Suite 504  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

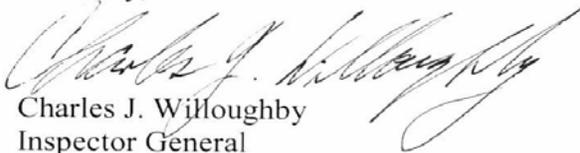
Dear Mayor Williams and Chairman Cropp:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal years (FY) 2005 and 2004, BDO Seidman LLP submitted the enclosed final report: *University of the District of Columbia (UDC) Financial Statements and Management's Discussion and Analysis*.

BDO Seidman LLP opined that the basic financial statements present fairly the financial position of UDC as of September 30, 2005, and the changes in its financial position and its cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby  
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

DISTRIBUTION:

Dr. William L. Pollard, President, University of the District of Columbia (2 copies)  
Mr. Robert C. Bobb, Deputy Mayor/City Administrator, District of Columbia (1 copy)  
Ms. Alfreda Davis, Chief of Staff, Office of the Mayor (1 copy)  
Ms. Sharon Anderson, Deputy Chief of Staff, Policy and Legislative Affairs (1 copy)  
Mr. Vincent Morris, Director, Office of Communications (1 copy)  
The Honorable Vincent B. Orange, Sr., Chairman, Committee on Government Operations,  
Council of the District of Columbia (1 copy)  
Mr. Herbert R. Tillery, Deputy Mayor for Operations (1 copy)  
Mr. Stanley Jackson, Deputy Mayor for Planning and Economic Development (1 copy)  
Ms. Brenda Donald Walker, Deputy Mayor for Children, Youth, Families,  
and Elders (1 copy)  
Mr. Edward D. Reiskin, Deputy Mayor for Public Safety and Justice (1 copy)  
Mr. Ira Stohlman, Acting Secretary to the Council (13 copies)  
Mr. Robert J. Spagnoletti, Attorney General for the District of Columbia (1 copy)  
Dr. Natwar M. Gandhi, Chief Financial Officer (5 copies)  
Mr. Ben Lorigo, Executive Director, Office of Integrity and Oversight, OCFO (1 copy)  
Ms. Deborah K. Nichols, D.C. Auditor (1 copy)  
Ms. Kelly Valentine, Interim Chief Risk Officer, Office of Risk Management,  
Attention: Monique Labeach Poydras (1 copy)  
Mr. Jeffrey C. Steinhoff, Managing Director, FMA, GAO (1 copy)  
Ms. Jeanette M. Franzel, Director, FMA, GAO (1 copy)  
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives  
Attention: Rosaland Parker (1 copy)  
The Honorable Tom Davis, Chairman, House Committee on Government Reform,  
Attention: Melissa C. Wojciak (1 copy)  
Ms. Shalley Kim, Professional Staff, House Committee on Government Reform (1 copy)  
The Honorable Joe Knollenberg, Chairman, House Appropriations Subcommittee on  
Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of  
Columbia (1 copy)  
Ms. Dena Baron, Subcommittee Clerk, House Appropriations Subcommittee on  
Transportation, Treasury, and Housing and Urban Development, the Judiciary, District of  
Columbia (1 copy)  
The Honorable George Voinovich, Chairman, Senate Subcommittee on Oversight of  
Government Management, the Federal Workforce, and the District of Columbia (1 copy)  
Mr. David Cole, Professional Staff Member, Senate Subcommittee on Oversight of  
Government Management, the Federal Workforce, and the District of Columbia (1 copy)  
The Honorable Daniel K. Akaka, Senate Subcommittee on Oversight of Government  
Management, the Federal Workforce, and the District of Columbia (1 copy)  
Ms. Nanci Langley, Staff Director/Chief Counsel, Senate Subcommittee on Oversight of  
Government Management, the Federal Workforce, and the District of Columbia (1 copy)  
The Honorable Sam Brownback, Chairman, Senate Appropriations Subcommittee on the  
District of Columbia (1 copy)

Mayor Williams and Chairman Cropp  
FYs 2005 and 2004 UDC Financial Statements  
and Management's Discussion and Analysis  
OIG No. 06-1-19GF – Final Report  
June 8, 2006  
Page 3 of 3

Ms. Mary Dietrich, Majority Clerk, Senator Sam Brownback (1 copy)  
The Honorable Mary Landrieu, Senate Subcommittee on D.C. Appropriations (1 copy)  
Ms. Kate Eltrich, Clerk, Senate Subcommittee on D.C. Appropriations (1 copy)  
The Honorable Susan M. Collins, Chairperson, Senate Committee on Governmental Affairs  
Attention: Johanna Hardy (1 copy)  
The Honorable Joseph Lieberman, Ranking Minority Member, Senate Committee on  
Governmental Affairs, Attention: Patrick J. Hart (1 copy)  
Mr. William D. Eisig, CPA, Partner (Assurance), BDO Seidman, LLP

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

**Financial Statements and Management's Discussion and Analysis**

**September 30, 2005 and 2004**

**(With Independent Auditors' Report Thereon)**



# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-6
Basic Financial Statements:	
Statements of Net Assets	7
Statements of Revenues, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to the Financial Statements	10-20



## Independent Auditors' Report

To the Board of Trustees  
University of the District of Columbia

We have audited the accompanying basic financial statements of the University of the District of Columbia (the University), a component unit of the Government of the District of Columbia, as of and for the year ended September 30, 2005, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the University as of September 30, 2004, were audited by other auditors whose report dated September 10, 2005, expressed an unqualified opinion on those statements.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University as of September 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 27, 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 to 6 is not a required part of the basic financial statements but is supplemental material 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.

BDO Seidman, LLP

Bethesda, Maryland  
January 27, 2006

## UNIVERSITY OF THE DISTRICT OF COLUMBIA

### Management's Discussion and Analysis

Years Ended September 30, 2005 and 2004

This section of the annual financial report of the University of the District of Columbia (the University) presents management's discussion and analysis of the financial performance of the University during the fiscal years ended September 30, 2005 and 2004. This discussion also includes an introduction of, and should be read in conjunction with, the basic financial statements and related disclosures that follow this discussion. The financial statements, disclosures and discussion and analysis are the responsibility of management.

#### **Basic Financial Statements**

The basic financial statements are prepared in accordance with the **Governmental Accounting Standards Board's, (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities***. These financial statements focus on the financial condition, the results of operations, and cash flows of the University as a whole.

The *Statement of Net Assets* presents the financial position of the University and includes all assets, liabilities and the various categories of net assets which are attributable to the University. Net assets are defined as total assets less total liabilities and represent the institutional equity of the University.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the revenues earned and the expenses incurred during the year, both operating and nonoperating, reconciling the amount of beginning net assets to the amount of ending net assets, which are presented in the *Statement of Net Assets* described above.

The *Statement of Cash Flows* presents the inflows and outflows of cash and cash equivalents during the year. The cash flow activity is summarized by operating, non capital and capital financing, and investing activities and reconciles the amount of beginning cash and cash equivalents to the ending amount of cash and cash equivalents, which is shown on the *Statement of Net Assets*, described above. This statement also reconciles cash flows from operating activities to the net assets used in operating activities as shown on the *Statement of Revenues, Expenses, and Changes in Net Assets* described above.

Presentation of detailed amounts shown for fiscal year 2004 in this report differs in some cases from details shown in the fiscal year 2004 Financial Statements and Management's Discussion and Analysis report. Fiscal year 2004 amounts have been redistributed in selected areas for comparison with fiscal year 2005 amounts. Such changes are for presentation only and do not affect total assets, liabilities, expenditures or revenues reported in the fiscal year 2004 Financial Statements and Management's Discussion and Analysis.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2005 and 2004

**Financial Highlights**

**Condensed Financial Information**

*Table 1 - Condensed Statements of Net Assets as of September 30, 2005 and 2004 (Dollars in rounded thousands)*

	<u>2005</u>	<u>2004</u>
Assets:		
Current assets	\$ 29,013	\$ 26,651
Noncurrent assets:		
Investments and note receivable	32,501	28,418
Capital assets, net of depreciation	65,647	63,356
Other	421	62
Total assets	<u>127,582</u>	<u>118,487</u>
Liabilities:		
Current liabilities	28,956	30,978
Noncurrent liabilities	564	448
Total liabilities	<u>29,520</u>	<u>31,426</u>
Net assets:		
Invested in capital assets	65,647	63,356
Restricted for endowments	7,242	7,242
Restricted for expendable grants and contracts	249	313
Unrestricted	24,924	16,150
Total net assets	<u>\$ 98,062</u>	<u>\$ 87,061</u>

The increase in total net assets shown in Table 1 of \$11.0 million or 12.6% from 2004 to 2005 is primarily the result of an increase in capital improvements, an increase in the market value of University investments, and an increase in other educational services to students, employees and citizens of the District of Columbia (the District).

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2005 and 2004

*Table 2 - Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended September 30, 2005 and 2004 (Dollars in rounded thousands)*

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Tuition and fees	\$ 13,152	\$ 12,607
Federal, District and private grants and contracts	25,177	23,740
Auxiliary enterprises and other sales and services	2,848	2,596
Other	<u>2,396</u>	<u>1,245</u>
Total operating revenues	43,573	40,188
Less operating expenses	<u>94,419</u>	<u>94,483</u>
Net assets used in operating activities	<u>(50,846)</u>	<u>(54,295)</u>
Nonoperating revenues:		
District of Columbia appropriations	51,581	50,861
Investment income	3,991	2,417
Other	<u>677</u>	<u>708</u>
Total	<u>56,249</u>	<u>53,986</u>
Increase (decrease) in net assets before capital appropriations	5,403	(309)
Capital appropriations	<u>5,598</u>	<u>8,012</u>
Increase in net assets	11,001	7,703
Net assets, beginning of year	<u>87,061</u>	<u>79,358</u>
Net assets, end of year	<u>\$ 98,062</u>	<u>\$ 87,061</u>

The increase in operating revenues of \$3.4 million or 8.4% from 2004 to 2005, shown in Table 2, is largely due to greater revenues realized from the Government of the District of Columbia and an increase in other/miscellaneous revenue (i.e. rental income and other local grants). The increase in revenues is also attributed to the fact that during the year, the University expanded programs that offered educational opportunities to District Government employees in various agencies and all citizens of the District.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2005 and 2004

**Table 3 - Expenses by Function for the Years Ended September 30, 2005 and 2004 (Dollars in rounded thousands)**

	FY 2005		FY 2004		Increase/(Decrease)	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent change
Instruction	\$ 39,124	41%	\$ 31,969	34%	\$ 7,155	22%
Research	3,735	4	2,831	3	904	32
Public service	2,899	3	8,248	9	(5,349)	(65)
Academic support	9,857	11	7,710	8	2,147	28
Student services	7,292	8	3,567	4	3,725	104
Institutional support	10,393	11	19,370	21	(8,977)	(46)
Operations and maintenance	7,576	8	7,978	8	(402)	(5)
Scholarships and fellowships	5,144	5	6,549	7	(1,405)	(21)
Auxiliary operations	3,049	3	1,131	1	1,918	170
Depreciation	5,350	6	5,130	5	220	4
	<u>\$ 94,419</u>	<u>100%</u>	<u>\$ 94,483</u>	<u>100%</u>	<u>\$ (64)</u>	<u>(0)%</u>

While operating expenses remain relatively stable from 2004 to 2005, 2005 expenses were reclassified to more accurately reflect program activities.

**Enrollment**

The University operates under an open admissions policy. The official student enrollment for the Fall 2005 Semester was 5,364, which represented an increase of 3.9% compared to the total enrollment for the Fall 2004 Semester. District residents comprised 73% and 56% of the University's total undergraduate and graduate enrollment, respectively. Comparatively, in the Fall 2004 Semester, District residents accounted for 70% and 68% of the University's total undergraduate and graduate enrollment, respectively. Full-time equivalent enrollments during these same timeframes were 3,296 in Fall 2005 and 3,196 in Fall 2004.

Enrollment levels at the University have remained relatively constant over the last three years with total tuition and fee revenue averaging approximately \$13 million annually.

**Capital Improvement Program**

The University participates in the District's Capital Improvement Program. Accordingly, the University trustees, the District of Columbia Council and the Congress of the United States has approved a capital plan totaling \$17.3 million to be financed through funding sources obtained by the District. The execution of the University's capital plan is contingent upon sufficient funding from the District, as the University has no separate long-term borrowing authority.

## **UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2005 and 2004

### **Factors Impacting Future Periods**

There are a number of factors that could impact future financial periods. Many of these factors relate to the sources of the University's funding including the District appropriation, tuition, grants and gifts. The appropriation from the District provides over 50% of the University's total funding and is therefore a key factor in determining the extent of the programs that the University can offer. Tuition levels are determined pursuant to the University's mission to provide affordable higher education. The level of support that the University experiences from its funding sources determines its ability to maintain or expand programs that meet its mission and on-going operational needs.

### **Requests for Information**

This discussion and analysis is designed to provide a general overview of the University's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer, University of the District of Columbia, 4200 Connecticut Avenue NW, Building 39, Room 301-P, Washington, D.C. 20008.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

**Statements of Net Assets**

**September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 18,033,076	\$ 16,408,322
Accounts receivables, net of allowance of \$7,443,825 and \$7,004,235 in 2005 and 2004, respectively	5,032,312	4,807,938
Grants receivable, net of allowance of \$129,065 in 2005 and 2004	4,124,517	2,004,865
Receivable from the District of Columbia	1,599,886	3,293,563
Accrued interest receivable	49,982	38,196
Other current assets	<u>173,322</u>	<u>97,444</u>
Total current assets	<u>29,013,095</u>	<u>26,650,328</u>
Noncurrent assets:		
Investments (Note 3)	32,090,206	27,899,160
Notes receivable, net of allowance of \$1,565,319 and \$1,557,054 in 2005 and 2004, respectively	410,304	519,228
Capital assets, net (Note 4)	65,647,126	63,356,325
Other receivables	<u>421,323</u>	<u>62,106</u>
Total noncurrent assets	<u>98,568,959</u>	<u>91,836,819</u>
 Total assets	 <u>127,582,054</u>	 <u>118,487,147</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	5,705,320	6,031,977
Accrued payroll	3,444,597	5,597,637
Litigation contingencies (Note 6d)	12,180,000	12,035,000
Accrued leave	2,339,760	1,867,171
Deferred revenue	4,703,681	4,576,344
Other current liabilities	<u>582,893</u>	<u>870,708</u>
Total current liabilities	<u>28,956,251</u>	<u>30,978,837</u>
Noncurrent liabilities:		
Refundable advances	<u>563,448</u>	<u>447,707</u>
 Total liabilities	 <u>29,519,699</u>	 <u>31,426,544</u>
<b>NET ASSETS</b>		
Investment in capital assets (Note 4)	65,647,126	63,356,325
Restricted for:		
Nonexpendable endowments	7,241,706	7,241,706
Expendable grants and contracts	249,317	313,277
Unrestricted	<u>24,924,206</u>	<u>16,149,295</u>
 Total net assets	 <u>\$ 98,062,355</u>	 <u>\$ 87,060,603</u>

*See accompanying notes to the financial statements.*

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

**Statements of Revenues, Expenses, and Changes in Net Assets**

**Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>REVENUES</b>		
Operating Revenues:		
Student tuition and fees, net of scholarships and discounts of \$994,878 and \$1,335,380, in 2005 and 2004, respectively	\$ 13,151,713	\$ 12,606,554
Federal grants and contracts	14,577,876	15,512,047
Local grants and contracts	9,656,074	7,421,988
Nongovernmental grants and contracts	943,439	806,621
Sales and services of educational departments	1,799,566	1,556,954
Auxiliary enterprise:		
Athletics division	915,932	887,192
Child development center	33,120	15,597
Cable Television	99,575	136,788
Other operating revenues	<u>2,395,600</u>	<u>1,244,541</u>
Total operating revenues	<u>43,572,895</u>	<u>40,188,282</u>
<b>EXPENSES</b>		
Operating Expenses:		
Salaries	51,347,772	52,439,447
Benefits	10,686,819	10,225,541
Scholarships and fellowships	8,178,977	7,833,245
Contractual Services	10,617,342	11,687,701
Utilities	3,503,636	3,207,671
Supplies and other services	4,734,677	3,960,086
Depreciation	<u>5,350,211</u>	<u>5,130,059</u>
Total operating expenses	<u>94,419,434</u>	<u>94,483,750</u>
Operating loss	<u>(50,846,539)</u>	<u>(54,295,468)</u>
<b>NONOPERATING REVENUES</b>		
District of Columbia appropriations	51,580,602	50,861,263
Investment income	3,991,351	2,417,207
Gifts for scholarships	<u>677,595</u>	<u>707,643</u>
Net nonoperating revenues	<u>56,249,548</u>	<u>53,986,113</u>
Income (loss) before capital appropriations	5,403,009	(309,355)
Capital appropriations	<u>5,598,743</u>	<u>8,011,773</u>
Change in net assets	11,001,752	7,702,418
<b>NET ASSETS</b>		
Net assets, beginning of year	<u>87,060,603</u>	<u>79,358,185</u>
Net assets, ending of year	<u>\$ 98,062,355</u>	<u>\$ 87,060,603</u>

*See accompanying notes to the financial statements.*

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

**Statements of Cash Flows**

**Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 13,047,449	\$ 15,278,793
Grants and contracts	23,064,963	23,983,339
Payments to vendors	(19,258,191)	(18,715,610)
Payments to employees	(63,570,042)	(65,334,287)
Other payments	<u>(3,357,549)</u>	<u>(3,205,662)</u>
Net cash used in operating activities	<u>(50,073,369)</u>	<u>(47,993,427)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
District of Columbia appropriations	51,580,602	50,861,263
Change in advances from District	(1,693,677)	(1,577,506)
Gifts for scholarships	677,595	707,643
Other noncapital financing activities	<u>-</u>	<u>101,475</u>
Net cash provided by noncapital financing activities	<u>50,564,520</u>	<u>50,092,875</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	<u>(1,754,550)</u>	<u>(1,466,662)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales/maturities of long-term investments	13,220,154	8,304,431
Interest on investments	1,143,089	650,220
Purchase of investments	<u>(11,475,090)</u>	<u>(12,677,881)</u>
Net cash provided by (used in) investing activities	<u>2,888,153</u>	<u>(3,723,230)</u>
Net increase (decrease) in cash and cash equivalents	1,624,754	(3,090,444)
Cash and cash equivalents, beginning of year	16,408,322	19,498,766
Cash and cash equivalents, ending of year	\$ <u><u>18,033,076</u></u>	\$ <u><u>16,408,322</u></u>
<b>Reconciliation of Operating Loss to</b>		
<b>Net Cash Used in Operating Activities:</b>	\$ (50,846,539)	(54,295,468)
Operating loss		
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,350,211	5,130,059
Bad debt expense	439,590	396,880
Change in:		
Accounts receivable	(663,964)	2,493,528
Grants receivable	(2,119,652)	155,473
Other current assets	(75,878)	(79,443)
Other noncurrent assets	(250,292)	(1,950)
Notes receivable	-	(84,196)
Accounts payable and accrued payroll	(2,334,697)	(1,921,467)
Deferred revenue	127,337	102,642
Other current liabilities	(287,815)	870,708
Refundable advances	115,741	(233,602)
Accrued annual leave	<u>472,589</u>	<u>(526,591)</u>
Net cash used in operating activities	\$ <u><u>(50,073,369)</u></u>	<u><u>(47,993,427)</u></u>
<b>NON-CASH TRANSACTIONS:</b>		
Loss on disposals	\$ <u><u>44,133</u></u>	\$ <u><u>-</u></u>
Capital appropriations	\$ <u><u>5,598,743</u></u>	\$ <u><u>8,011,773</u></u>

*See accompanying notes to the financial statements.*

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

### (1) Summary of Significant Accounting Policies

#### (a) *Financial Reporting Entity*

As defined by Generally Accepted Accounting Principles (GAAP) in the United States of America as applicable to governmental entities, the financial reporting entity includes both the primary government and all of its component units. The University of the District of Columbia (the University) is a component unit of the Government of the District of Columbia (the District) and the University has no component units that require disclosure in the financial statements.

Established in 1976 under a land grant from the federal government, the University is a public institution of higher education providing services primarily to residents of the District. The University is a legally separate entity governed by a board of trustees consisting of 11 members appointed by the District's Mayor, three members elected by the alumni, and one member elected by the student body.

#### (b) *Basis of Presentation*

The accompanying comparative financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting and are presented in accordance with GAAP applicable to governmental colleges and universities.

The University follows the "business-type activities" reporting requirements of **GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*** that provides a comprehensive look at the University's financial activities and requires that resources be classified for accounting and reporting purposes into three net asset categories depending on the presence or absence of externally imposed restrictions.

The three required net asset categories are as follows:

***Invested in capital assets*** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. As of September 30, 2005 and 2004, the University had no such debt outstanding.

***Restricted*** - Consisting of (1) restricted nonexpendable net assets, which are subject to externally imposed stipulations that the University maintains them permanently, and (2) restricted expendable net assets, the use of which is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

***Unrestricted*** - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of trustees or may otherwise be limited by contractual agreements with outside parties.

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

Tuition revenues are recognized ratably as they are earned over the academic semester to which they relate. Tuition and fees earned related to the portion of the academic semester falling after the fiscal year end are reported as deferred revenue. Expenses are recognized as incurred. The University records grant revenue for intergovernmental grants to the extent that costs have been incurred in accordance with the terms of the grant agreements. Indirect costs recovered are based on predetermined rates by type of expenditure.

**(c) *Services Provided by the District***

The District provides certain central administrative services and pays disability and unemployment benefits on behalf of the University's employees. The University does not reimburse the District for these expenses.

The University is provided maintenance, administrative services, and leasing arrangements through other District agencies. The charges for such interagency services are included as expenses in the basic financial statements.

**(d) *Fund Accounting***

For the purposes of financial reporting, the University is considered to be a single enterprise fund.

However, for internal accounting purposes, and to ensure observance of limitations and restrictions placed on the use of the resources available to the University, accounts are maintained in accordance with the principles of fund accounting. Fund accounting principles require classifying resources for accounting purposes into funds that are in accordance with activities or objectives specified.

**(e) *Current and Noncurrent***

Current assets are used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or consumed during a normal operating cycle of business usually one year or less, without interfering with normal business operations. Current liabilities are defined as obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities.

**(f) *Cash and Cash Equivalents***

Cash and cash equivalents include short-term investments, which include highly liquid investments with an original maturity of three months or less when purchased, saving and checking accounts and certificates of deposit. In addition, the University has cash on deposit with the District's Office of Finance and Treasury.

**(g) *Receivables***

Receivables relate to transactions involving student tuition and fee billings, student loans, and grants and contracts. Receivables have been recognized for students registered and billed for semesters to be held subsequent to year end. Since the revenue recognition criteria have not been met, a corresponding amount is recognized as deferred revenue.

## UNIVERSITY OF THE DISTRICT OF COLUMBIA

### Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

**(h) Investments**

Investments have an original maturity of three months or more and are stated at fair value. Fair value is established as readily determinable current market value for equity and other debt securities.

**(i) Capital Assets and Depreciation**

Land, buildings, furniture, fixtures, and equipment are stated at cost at the date of acquisition, estimated historical cost if actual cost records are not available or fair market value at the date of donation in the case of gifts. The University capitalizes equipment that has a value or cost of \$5,000 or more at the date of acquisition and an expected useful life of three or more years. Items which are particularly sensitive to conversion to personal use, such as computers and other similar items, are also inventoried. The dollar threshold for tracking such items is \$1,000.

Capital assets are depreciated or amortized using the straight-line method over the estimated useful lives of the assets. A summary of useful lives follows:

Category	Depreciation/amortization period
Buildings and improvements	50 years
Leasehold improvements	Lesser of 10 years or lease term
Computers	5 years
Equipment	5 years
Library books and microfilm	5 years

**(j) Compensated Absences**

The University accrues a liability for annual and sick leave based on salary rates and accumulated leave hours at September 30. Administrative and other non-faculty University employees earn annual and sick leave during the year at varying accrual rates, depending on the employee's classification and years of service. Generally, administrative and other non-faculty employees may carry a maximum of 240 hours of annual leave beyond December 31 of each calendar year. Carryover of annual leave in excess of 240 hours is permitted with the approval of appropriate University officials. The accrued annual leave balance is payable to administrative and other non-faculty employees upon termination of employment.

In accordance with the provisions of the Faculty Personnel Policies as amended in 2005, when an administrative, faculty or other non-faculty University employee retires at sixty (60) years of age or older, or upon total disability or death, the employee or the deceased estate is entitled to receive a lump sum payment equal to ten percent (10%) of the unused accumulated sick leave computed at the employee's current base rate of pay. For all other employees, accrued sick leave is only available for use in periods of illness and does not vest.

**(k) Deferred Revenue**

Tuition and fee revenues earned and relating to future financial periods have been deferred.

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

**(l) *Operating Component***

Financial statement operating components include all transactions and other events that are not defined as capital and related financing, noncapital financing or investing activities.

All revenues from programmatic sources (i.e., tuition and fees, federal and private grants and contracts, and auxiliary income) are considered to be operating revenues. Included in nonoperating revenues are District appropriations, investment and endowment income and gifts for scholarships.

**(m) *Income Tax Status***

As an independent agency of the District, the University is exempt from federal income taxes. Accordingly, no provision for income taxes has been made; however, the University is subject to federal income taxes on net unrelated business income, if any, under the provisions of Section 511 of the Internal Revenue Code.

**(n) *Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from management's estimates.

**(o) *Reclassifications***

Certain amounts in the 2004 financial statements have been reclassified to conform with the current year financial statement presentation.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

**(2) Cash and Cash Equivalents**

The District requires that all cash be deposited with the District Treasurer, except for endowment funds.

Accordingly, the University participates in the District's pooled cash program whereby certain cash balances not needed for immediate disbursements are pooled with that of other District agencies and used to purchase current investments. D.C. Code 47-341 authorizes the District to invest directly or through repurchase agreements in obligations of the United States or its agencies, which are backed by the full faith and credit of the United States government. Such investments are considered to be short-term investments because they are readily convertible into cash and may be held for not more than 91 days after purchase. The University also maintains other cash and investment accounts under its direct control.

The D.C. Postsecondary Education Fund bank account is the depository for all gifts and contributions, funds in receipt of services rendered, institutional fees, fines and collections other than tuition, and all other monies made available to the University other than that included in the annual operating, capital and educational improvement funds appropriated by Congress. These funds are administered by the University's board of trustees to supplement the District's appropriation for the further advancement of the University's mission.

The University's cash and cash equivalents at September 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents:		
Unrestricted	\$ 17,147,192	\$ 15,486,499
Restricted	885,884	921,823
Total cash and cash equivalents	<u>\$ 18,033,076</u>	<u>\$ 16,408,322</u>

The University's cash and cash equivalents consist of the following at September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Cash and demand deposits	\$ 17,832,886	\$ 16,208,132
Certificates of deposit	200,190	200,190
Total cash and cash equivalents	<u>\$ 18,033,076</u>	<u>\$ 16,408,322</u>

As of September 30, 2005 and 2004, the bank balances of cash on deposit were \$336,703 and \$379,943, respectively, of which all were insured and collateralized in accordance with District Government policies.

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

### (3) Investments

Approximately \$14.5 million in investments is held by the JP Morgan Trust Company (Morgan) and \$17.5 million by Sanford C. Bernstein and Company (Bernstein) at September 30, 2005. At September 30, 2004, approximately \$12.7 million in investments was held by the JP Morgan Trust Company (Morgan), and \$15.0 million by Sanford C. Bernstein and Company (Bernstein).

- *Investments Authorized* – Under Mayor’s Order 99-195, the University’s Investment Advisory Committee was established to develop investment policies for the Land-Grant Endowment funds. This committee, comprised of the Chief Financial Officer, two members of the board of trustees and two alternates from the board of trustees, serves to select the Investment Manager, review fund performance at least annually and review objectives and investment policies at least annually.

Under the terms of Section 4 of the First Morrill Act, 7 USC-304, Land-Grant Endowment funds may only be invested in U.S. Treasury bonds, state bonds, or “other safe” bonds. Following the guidance of the Office of the Comptroller General, other safe bonds include industrial (corporate) bonds rated A or better by one of the leading rating services.

Under Section 108(b) of the DC Public Education Act, DC Code Section 38-1108, the University may invest non-Land-Grant Endowment funds in equity-based securities if approved by the Chief Financial Officer of the District, the University’s board of trustees and its management. The University has an endowment fund investment and spending policy (ISP) for these funds.

- *Concentration Risk* - Concentration risk is the risk of loss to the University attributed to the magnitude of the University’s investment in a single issuer. As of September 30, 2005 the University held no individual investments with a value greater than 5.0% of total investments. The ISP states that no single investment may exceed 5% of the market value of an investment manager’s portfolio on an ongoing basis without written approval of the Chair of the Investment Committee.
- *Interest Rate Risk* - The University is exposed to interest rate risk on its corporate bonds held. Interest rate risk is measured by the average duration for which bonds are held, which at September 30, 2005 was 4.3 years for Bernstein investments and 2.77 years for JP Morgan investments. At September 30, 2004 the interest rate risk was 4.21 years for Bernstein investments and 1.6 years for JP Morgan investments. The ISP states that fixed income investments must be readily marketable and may not include illiquid securities.
- *Credit Risk* - The University invests in obligations of corporations, government notes and bonds, government agency securities and money market instruments. As of September 30, 2005, the average maturity of these holdings did not exceed 7 years. The University is exposed to credit risk on its bond holdings. Credit risk is measured by the average quality of the bonds held, which at September 30, 2005 and 2004 was AA for bonds held by both Bernstein and JP Morgan. The ISP states that generally fixed income investments must be rated no lower than A by a nationally recognized rating agency, without prior approval of the Chair of the Investment Committee. At no time may more than 10% of the endowment investments be invested in securities below A.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

- *Custodial Risk* - Custodial risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, an entity will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. Investments held by Bernstein and Morgan are fully covered by the insurance. The ISP does not directly address custodial risk.
- *Foreign Currency Risk* - Investments held by Bernstein and Morgan include shares in emerging markets and 'international' portfolios and are subject to foreign taxes. The ISP states that the endowment asset allocation will maintain a minimum of 10% and a maximum of 20% of its value in international equities and that no more than 40% of the international component of the portfolio may be invested in a single foreign country.
- *Investments in Derivatives* - The University's investment portfolio does not include any outright purchase of derivatives. However, the University's hedge fund, managed by JP Morgan investments, from time to time may use derivatives such as options and forwards and the risk may be high, low or zero depending upon the manager. The ISP authorizes alternative investments in private equity funds, buy-out funds, and hedge funds. No more than 3% of the total market value of the endowment may be invested with any single fund manager in the alternative asset class.

The University's investments at September 30, 2005 and 2004 are as follows:

	<b>2005</b>	<b>2004</b>
Unrestricted, noncurrent investments	\$ 24,848,500	\$ 20,657,454
Non-expendable, endowment investments	7,241,706	7,241,706
Total investments	<u>\$ 32,090,206</u>	<u>\$ 27,899,160</u>

University investments held at September 30, 2005:

	<b>Cost</b>	<b>Fair value</b>
Government notes, bonds and agency securities	\$ 3,439,124	\$ 3,336,032
Corporate bonds	2,113,006	2,071,770
Corporate stock	19,342,218	24,459,306
Mortgage backed securities	1,813,052	1,794,739
Money market instruments	432,729	428,358
Total investments	<u>\$ 27,140,129</u>	<u>\$ 32,090,206</u>

University investments held at September 30, 2004:

	<b>Cost</b>	<b>Fair value</b>
Government notes, bonds and agency securities	\$ 2,038,296	\$ 2,041,125
Corporate bonds	3,678,577	3,752,760
Corporate stock	17,317,698	20,272,968
Mortgage backed securities	116,294	116,867
Money market instruments	1,707,036	1,715,440
Total investments	<u>\$ 24,857,901</u>	<u>\$ 27,899,160</u>

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

**(4) Capital Assets**

Capital assets activity for the year ended September 30, 2005, is summarized below:

	<b>Balance at September 30, 2004</b>	<b>Additions</b>	<b>Disposals</b>	<b>Adjustments</b>	<b>Balance at September 30, 2005</b>
Capital assets subject to depreciation:					
Equipment and machinery	\$ 7,591,760	534,026	(44,133)	68,514	8,150,167
Library books	16,206,981	1,161,357	-	(49,871)	17,318,467
Buildings and improvements	128,105,724	5,598,743	-	49,861	133,754,328
Total historic cost	151,904,465	7,294,126	(44,133)	68,504	159,222,962
Less accumulated depreciation	(96,079,684)	(5,350,211)	-	322,515	(101,107,380)
Subtotal, Depreciable Capital Assets, Net	55,824,781	1,943,915	(44,133)	391,019	58,115,582
Capital assets not subject to depreciation:					
Land	7,531,544	-	-	-	7,531,544
Capital Assets, net	\$ 63,356,325	1,943,915	(44,133)	391,019	65,647,126

Capital assets activity for the year ended September 30, 2004, is summarized below:

	<b>Balance at September 30, 2003</b>	<b>Additions</b>	<b>Adjustments</b>	<b>Balance at September 30, 2004</b>
Capital assets subject to depreciation:				
Equipment and machinery	\$ 7,854,673	563,889	(826,802)	7,591,760
Library books	14,472,164	902,772	832,045	16,206,981
Buildings and improvements	120,156,576	8,011,773	(62,625)	128,105,724
Total historic cost	142,483,413	9,478,434	(57,382)	151,904,465
Less accumulated depreciation	(91,678,986)	(5,130,059)	729,361	(96,079,684)
Subtotal, Depreciable Capital Assets, Net	50,804,427	4,348,375	671,979	55,824,781
Capital assets not subject to depreciation:				
Land	7,531,544	-	-	7,531,544
Capital Assets, Net	\$ 58,335,971	4,348,375	671,979	63,356,325

## UNIVERSITY OF THE DISTRICT OF COLUMBIA

### Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

#### *Van Ness Campus*

The Van Ness Campus (VNC) is located on a 21.8-acre site. Jurisdiction was assigned to the University by the United States General Services Administration (GSA) to be utilized for development in accordance with the VNC Master Plan. At September 30, 2005 and 2004, the estimated value of the VNC site was \$20 million. This value has not been recorded in the financial statements.

The VNC Master Plan provides for facility development needs of approximately 1,234,000 square feet of facilities. As of September 30, 2005, VNC consisted of ten buildings constructed for the University's use.

#### **(5) Retirement Plans**

The University offers four retirement plans to its eligible Education Service and District Service employees. Eligible employees include both faculty and administrative staff of the University. Eligible Education Service employees may participate in a contributory pension and retirement plan administered by the Teachers' Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). Under this plan, the employee has the option to contribute a minimum of 5% of his/her base salary. In addition, the University contributes 7% for continuing full-time faculty hired on or after August 16, 2003. Contributions are transferable to other eligible plans. Total payroll for all employees was approximately \$61.6 million of which \$46.4 million was covered under the plan. The pension cost for the years ended September 30, 2005, 2004 and 2003 was approximately \$3,521,455, \$3,546,000 and \$3,258,000, respectively. Generally, employees are fully vested in both their contributions and in the University's contributions. Approximately 652 employees were covered by this plan during the year.

Career service employees hired on or after October 1, 1987, are covered by the defined contribution pension plan of the District Retirement System. The University contributes 5% of these employees' salaries to the plan. This plan is noncontributory and thus, employees cannot contribute to the plan. For the years ended September 30, 2005, 2004 and 2003, the University's contributions were \$42,946, \$36,900, and \$34,100, respectively.

For career service employees hired prior to October 1987, the University contributes 8.5% of these employees' salaries to the Civil Service Retirement System (CSRS). For the years ended September 30, 2005, 2004 and 2003, the University's contributions totaled approximately \$220,438, \$233,800 and \$232,600, respectively. A portion of this amount was paid to the U. S. Office of Personnel Management, which is responsible for administering this system and disbursing the benefits there under.

Three employees of the University are covered under the District Teachers' Retirement System. Under this separate defined benefit plan, both the employee and the University contribute 7% of the employee's base salary. The University's contributions in fiscal years 2005, 2004 and 2003, totaled \$29,880, \$34,076 and \$29,632, respectively.

During fiscal year 2004, the University Board of Trustees authorized the University to implement a Faculty Retirement Incentive Plan consistent with the available funding provided from the District. In accordance with this plan, eligible members retired in both fiscal year 2004 and fiscal year 2005. In order to be eligible for the Plan, a faculty member had to be a regular, full-time employee of the University with at least twenty (20) years of creditable service at the University on or before the date of retirement and at least sixty (60) years of age on or before the date of retirement. Employees who retired received various benefits, the most significant of which was the retirement financial incentive payment equaling one full year of the faculty member's annual rate of pay on the date of retirement. Of the 139 faculty members who met the eligibility requirements, 5 faculty members retired between January 1, 2005 and September

## UNIVERSITY OF THE DISTRICT OF COLUMBIA

### Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

30, 2005, (FY 2005) in comparison to 34 faculty members that retired between January 1, 2004 and August 15, 2004, (FY 2004). The total amount expended was \$311,473 and \$2,461,568 during FY 2005 and FY 2004, respectively. To cover these costs, the District amended the University's budget allocation by the same amount.

#### (6) Commitments and Contingencies

##### (a) Risk Management

The University, as a component unit of the District, participates in the District's self-insurance activities. The District retains all risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The University is only responsible for making annual premium payments for student athletes. The District reports claims expenditures and liabilities when it is probable that loss has occurred and the amount of that loss can be reasonably estimated.

The District also records a liability for an estimate of claims that have been incurred but not reported. Assets are not set aside to finance claims. A disability compensation accrual for claims from injuries to employees also is recorded in the District's basic financial statements. The District, through a separate appropriation, pays all significant losses arising from a lack of commercially provided insurance.

##### (b) Grants and Contracts

The University receives a portion of its revenues from federal grants and contracts, which are to be used for stated purposes. These contracts and grants are subject to review and audit by government agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of contract and grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the University. Management of the University is of the opinion that no significant liability, if any, will result from the outcome of these audits.

##### (c) Occupancy

The University has the use of several buildings owned by the District and federal governments. The University incurred no occupancy costs in fiscal years 2005 and 2004 for the use of these buildings. The continued use of these facilities is subject to approval by the controlling District or federal agencies. Since the value of the occupancy costs is not estimable, they are not recorded in the financial statements.

##### (d) Litigation

At September 30, 2005 and 2004, there were various claims and law suits against the University. A labor union representing various employees, filed a grievance alleging that the University violated its agreement with the union by failing to pay all Educational Service employees their annual within-grade increase for fiscal year 1996.

As a result of arbitration, the University agreed to pay the union within-grade increases for 1996 and the related back pay due to employees. Payments satisfying this liability were made in the fiscal year ending September 30, 2003. As of September 30, 2005 and 2004, no further liability is reported in the University's financial statements as litigation contingencies for this matter.

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2005 and 2004

As part of the University's restructuring plan, the University dismissed approximately 100 unionized administrative staff employees in 1997. The University received approval from the District Financial Responsibility and Management Assistance Authority (the Authority) to modify its collective bargaining agreement which departure affected severance and certain other rights of the employees. The employee union, on behalf of its dismissed members, brought arbitration against the University seeking an order for the University to comply with the terms of the collective bargaining agreement. The arbitrator found that the terms of the agreement must be followed. At September 30, 2005 the liability (as reported as part of litigation contingencies), is estimated to be \$9.6 million, which is a revision of the \$8 million liability estimated as of September 30, 2004.

The University is also party to a number of other legal actions. Liabilities have been accrued for these sundry cases amounting to approximately \$2.6 million and \$4.0 million for fiscal years 2005 and 2004, respectively.

The accrued liability reported as litigation contingencies is based on estimates of the payments that will be made upon judgment or resolution of the claim.

(e) ***Lease Commitments***

The University leases certain equipment and facilities under operating leases expiring at various dates through September 2007. During fiscal year 2005, the University entered into an additional lease agreement with The American University to lease space for the Athletic Department. Total rental expense during the years ended September 30, 2005 and 2004, for all operating leases was \$373,044 and \$264,636 respectively. The following is a schedule by year of future annual minimum lease payments under operating lease agreements as of September 30, 2005 that have initial or remaining lease terms in excess of one year.

<u>Year ending September 30,</u>	
2006	\$ 942,920
2007	<u>797,493</u>
Total	<u>\$ 1,740,413</u>