GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Financial Statements, Management's Discussion and Analysis, and Independent Auditors' Report
Fiscal Years Ended September 30, 2006, and 2005

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 07-1-19GF **April 30, 2007**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

April 30, 2007

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
Mayor's Correspondence Unit, Suite 221
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

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

Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2006, BDO Seidman, LLP (BDO Seidman) submitted the enclosed final report on the University of the District of Columbia (UDC).

BDO Seidman opined that the financial statements present fairly, in all material respects, the financial position of UDC for the years ended September 30, 2006, and 2005, in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Accounting Standards*, BDO Seidman also has issued its report on consideration of the UDC's internal control over financial reporting and on its tests of the UDC's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters.

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

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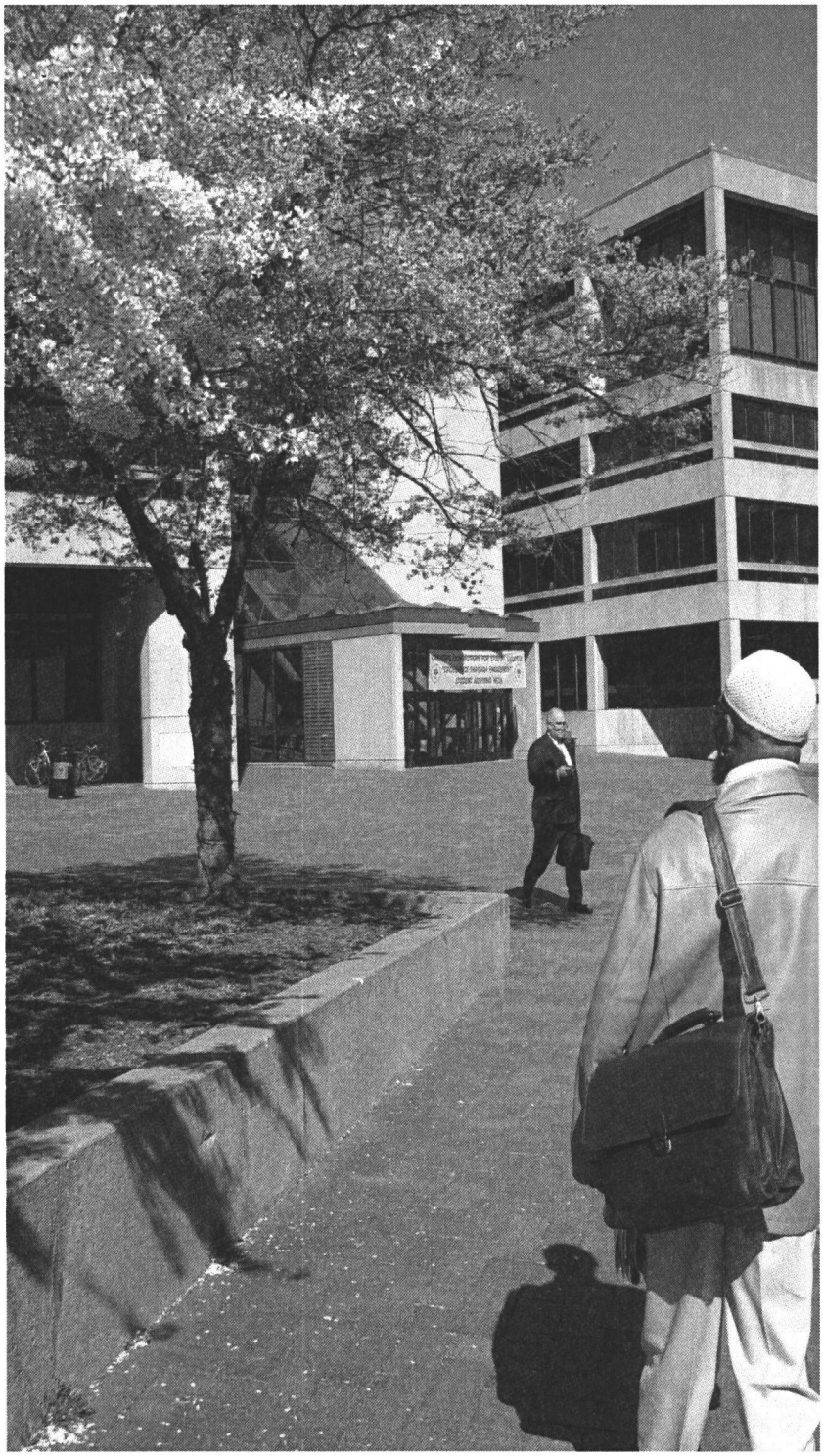

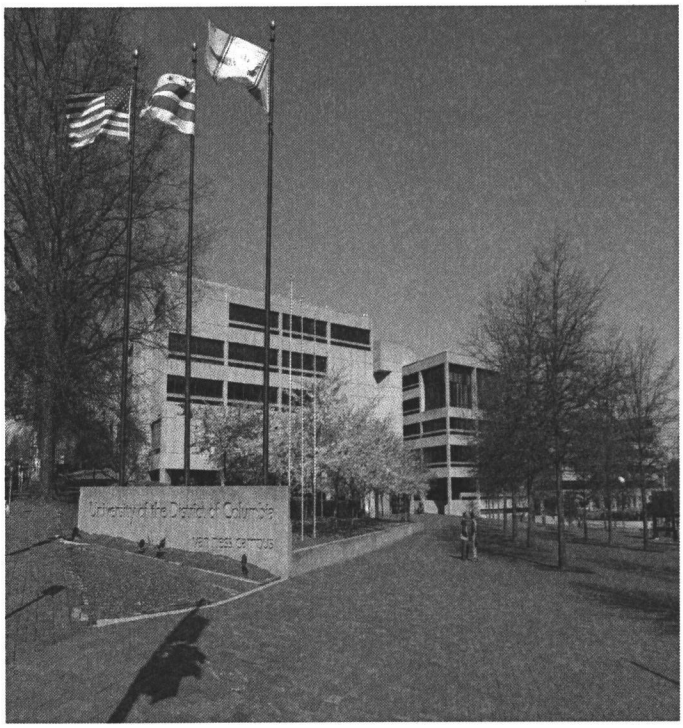

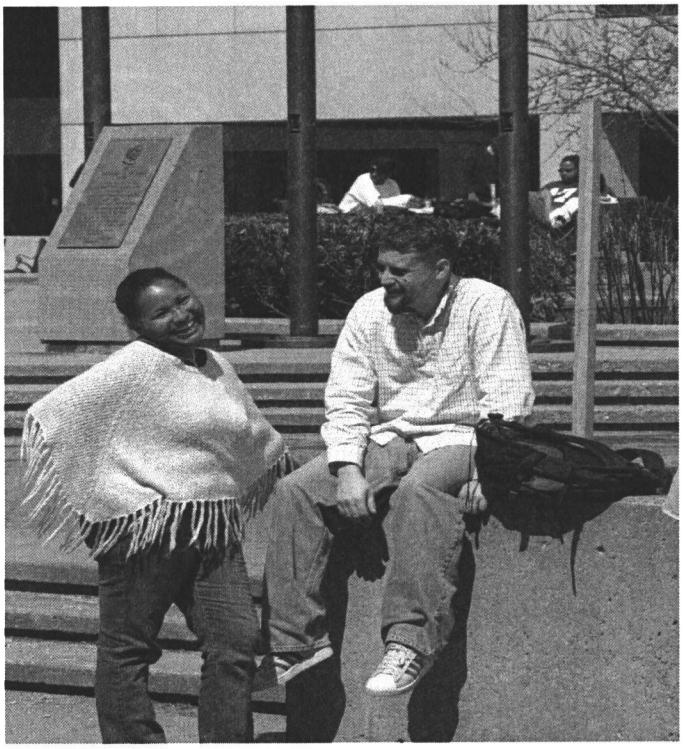

UNIVERSITY OF THE DISTRICT OF COLUMBIA

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Financial Statement and Management's Discussion and Analysis

September 30, 2006 and 2005

(With Independent Auditor's Report Thereon)

UNIVERSITY OF THE DISTRICT OF COLUMBIA

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BDO Seidman, LLP
Accountants and Consultants

1250 Connecticut Avenue NW, Suite 200
Washington, D.C. 20036
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Independent Auditors' Report

To the Board of Trustees
University of the District of Columbia
Washington, DC

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 years ended September 30, 2006 and 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 audits.

We conducted our audits 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 audits provide 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years 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 February 2, 2007, 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.

Management's Discussion and Analysis on pages 2 through 6 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.

BDO Seidman, LLP

Washington, DC
February 2, 2007

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis

Years Ended September 30, 2006 and 2005

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, 2006 and 2005. 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.

Net assets are presented in three major categories. The first category, invested in capital assets represents the equity in property, plant and equipment owned and or controlled by the University. The University does not participate in debt services. The campus resides on property owned by the federal government. The second category is restricted net assets, which are both expendable and nonexpendable. Expendable restricted net assets are funds received from the grantor and available for expenditure but have not been obligated as of the reporting period. Nonexpendable restricted net assets represent the endowment corpus from the federal government in lieu of land. The third category is unrestricted net assets, which are available to the University for any lawful purpose designated by the Board of Trustees 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.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid or accrued to acquire or produce the goods and services in return for the operating revenues and to carry out the mission of the Board of Trustees of the University. Nonoperating revenues are received from legislative and or investment sources in order to carry out the mission and goals of the Board of Trustees. For example, State appropriations are nonoperating revenues because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

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.

Financial Highlights

Condensed Financial Information

Table 1 – Condensed Statements of Net Assets as of September 30, 2006 and 2005 (Dollars in rounded thousands)

	2006	2005	Percent Change
Assets:			
Current assets	$ 44,982	$ 29,013	55.0%
Noncurrent assets:			
Investments and note receivable	34,520	32,501	6.2%
Capital assets, net of depreciation	65,374	65,647	-0.4%
Other	59	421	-86.0%
Total assets	144,935	127,582	13.6%
Liabilities:			
Current liabilities	40,283	28,956	39.1%
Noncurrent liabilities	2,016	564	257.4%
Total liabilities	42,299	29,520	43.3%
Net assets:			
Invested in capital assets	65,374	65,647	-0.4%
Restricted for endowments	7,242	7,242	0.0%
Restricted for expendable grants and contracts	298	249	19.7%
Unrestricted	29,722	24,924	19.3%
Total net assets	$ 102,636	$ 98,062	4.7%

The $17.4 million increase in total net assets shown in Table 1 of $4.6 million or 4.7% from 2005 to 2006 is primarily the result of money received from the District of Columbia Council and Congress of the United States for capital improvement renovations as part of the District's Capital Improvement Program that will be spent in future fiscal years. The remaining increase in total assets is primarily due to revenues collected to pay for expenses incurred but not yet paid. These expenses are reported in the $12.8 million increase in total liabilities. An increase in the appropriation to the University was mostly offset against increases in educational services to students, employees and citizens of the District of Columbia (the District).

Table 2 – Condensed Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended September 30, 2006 and 2005 (Dollars in rounded thousands)

	2006	2005	Percent Change
Operating revenues:			
Tuition and fees	$ 14,199	$ 13,152	8.0%
Federal, District and private grants and contracts	26,648	25,177	5.8%
Auxiliary enterprises and other sales and services	3,200	2,848	12.4%
Other	1,814	2,396	-24.3%
Total operating revenues	45,861	43,573	5.3%
Less operating expenses	110,702	94,419	17.2%
Net assets used in operating activities	(64,841)	(50,846)	27.5%
Nonoperating revenues:			
District of Columbia appropriations	61,267	51,581	18.8%
Investment income	3,425	3,991	-14.2%
Other	541	677	-20.1%
Total	65,233	56,249	16.0%
Increase in net assets before capital contributions	392	5,403	-92.7%
Capital contributions	4,182	5,598	-25.3%
Increase in net assets	4,574	11,001	-58.4%
Net assets, beginning of year	98,062	87,061	12.6%
Net assets, end of year	$ 102,636	$ 98,062	4.7%

The increase in operating revenues of $2.3 million or 5.3% from 2005 to 2006, shown in Table 2, is largely due to Tuition and fees revenue and Federal, District and private grants and contracts. The Board of Trustees approved tuition and fee rate increases for the undergraduate, graduate and law schools. The increases are effective as of the fall 2006 semester. The increases are prorated to reflect 1/3 as earned and collected and 2/3's as deferred revenue. The slight increase in grants and contract revenues is due to increases in programs budget authority and new programs funded.

Table 3 - Expenses by Function for the Years Ended September 30, 2006 and 2005 (Dollars in rounded thousands)

	FY 2006		FY 2005		Increase/(Decrease)	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent change
Instruction	$ 40,256	36%	$ 39,124	41%	$ 1,132	3%
Research	4,181	4	3,735	4	446	12
Public service	2,803	3	2,899	3	(96)	(3)
Academic support	15,383	14	9,857	11	5,526	56
Student services	7,449	7	7,292	8	157	2
Institutional support	17,306	16	10,393	11	6,913	67
Operations and maintenance	8,811	8	7,576	8	1,235	16
Scholarships and fellowships	5,306	5	5,144	5	162	3
Auxiliary operations	3,482	2	3,049	3	433	14
Depreciation	5,725	5	5,350	6	375	7
	$ 110,702	100%	$ 94,419	100%	$ 16,283	17%

The $16.3 million increase in functional activity from fiscal year 2005 to fiscal year 2006 is the result of a 50% increase in academic affairs, 44% increase in agency management programs, 5% increase in student affairs and 1% increase in university advancement areas. On a natural basis 37% of the increase can be attributed to personnel and 63% can be attributed to other costs.

Enrollment

The University operates under an open admissions policy. The official student enrollment for the Fall 2006 Semester was 5,772 which represented an increase of 3% compared to the total enrollment for the Fall 2005 Semester. District residents comprised 66% and 48% of the University's total undergraduate and graduate enrollment, respectively. Comparatively, in the Fall 2005 Semester, District residents accounted for 73% and 49% of the University's total undergraduate and graduate enrollment, respectively. Full-time equivalent enrollments during these same timeframes were 3,664 in Fall 2006 and 3,296 in Fall 2005.

Enrollment levels at the University have increased over the last three years with total tuition and fee revenue growing from $13 million to $14 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 have approved a 6-year capital plan totaling $31.3 million, over the fiscal year 2007 through fiscal year 2012 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.

Table 4 – University of the District of Columbia Capital Projects
(Dollars in rounded thousands)

Academic laboratories	$ 3,400
Stairs and pathways	600
Gymnasium	8,000
Building 44, fourth floor	1,180
Building 39, Building 41, A levels	5,200
Building 41, 2nd floor	3,490
Auditorium	6,700
Mechanical and electrical	1,500
Plaza deck and parking garage	1,200
	$ 31,270

New GASB Pronouncements – GASB Statement No. 45

In July 2004, GASB issued Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related assets and liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 45 does not become effective for the University until FY2008. The University plans to implement this Statement on or before the effective date.

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, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 30,404,866	$ 18,033,076
Accounts receivables, net of allowance of $7,587,377 and $7,443,825 in 2006 and 2005, respectively	5,943,282	5,032,312
Grants receivable, net of allowance of $129,065 in 2006 and 2005	4,128,657	4,124,517
Receivable from the District of Columbia	4,343,827	1,599,886
Accrued interest receivable	53,719	49,982
Other current assets	107,169	173,322
Total current assets	44,981,520	29,013,095
Noncurrent assets:		
Investments (Note 3)	34,381,980	32,090,206
Notes receivable, net of allowance of $1,458,131 and $1,565,319 in 2006 and 2005, respectively	138,074	410,304
Capital assets, net (Note 4)	65,374,493	65,647,126
Other	58,906	421,323
Total noncurrent assets	99,953,453	98,568,959
Total assets	144,934,973	127,582,054
LIABILITIES		
Current liabilities:		
Accounts payable	7,299,643	5,705,320
Accrued payroll	9,999,422	3,444,597
Litigation contingencies (Note 6d)	12,830,000	12,180,000
Accrued leave	3,211,834	2,339,760
Deferred revenue	6,394,842	4,703,681
Other current liabilities	547,583	582,893
Total current liabilities	40,283,324	28,956,251
Noncurrent liabilities:		
Refundable advances	454,458	563,448
Due to District of Columbia	1,561,298	-
Total noncurrent liabilities	2,015,756	563,448
Total liabilities	42,299,080	29,519,699
NET ASSETS		
Investment in capital assets (Note 4)	65,374,493	65,647,126
Restricted for:		
Nonexpendable endowments	7,241,706	7,241,706
Expendable grants and contracts	297,497	249,317
Unrestricted	29,722,196	24,924,206
Total net assets	$ 102,635,892	$ 98,062,355

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, 2006 and 2005

	2006	2005
REVENUES		
Operating Revenues:		
Student tuition and fees, net of scholarships and discounts of $827,786 and $994,878 in 2006 and 2005, respectively	$ 14,198,885	$ 13,151,713
Federal grants and contracts	15,954,473	14,577,876
Local grants and contracts	9,869,169	9,656,074
Nongovernmental grants and contracts	824,597	943,439
Sales and services of educational departments	1,831,548	1,799,566
Auxiliary enterprise:		
Athletics division	1,036,085	915,932
Child development center	48,145	33,120
Cable Television	283,784	99,575
Other operating revenues	1,814,373	2,395,600
Total operating revenues	45,861,059	43,572,895
EXPENSES		
Operating Expenses:		
Salaries	55,792,998	51,347,772
Benefits	12,297,147	10,686,819
Scholarships and fellowships	8,683,459	8,178,977
Contractual Services	17,345,728	10,617,342
Utilities	3,722,307	3,503,636
Supplies and other services	7,136,148	4,734,677
Depreciation	5,724,350	5,350,211
Total operating expenses	110,702,137	94,419,434
Operating loss	(64,841,078)	(50,846,539)
NONOPERATING REVENUES		
District of Columbia appropriations	61,266,493	51,580,602
Investment income	3,425,207	3,991,351
Gifts for scholarships	541,358	677,595
Total nonoperating revenues	65,233,058	56,249,548
Income before capital appropriations	391,980	5,403,009
Capital appropriations	4,181,557	5,598,743
Incease in net assets	4,573,537	11,001,752
NET ASSETS		
Net assets, beginning of year	98,062,355	87,060,603
Net assets, end of year	$ 102,635,892	$ 98,062,355

See accompanying notes to the financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Statements of Cash Flows

Years Ended September 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 14,790,691	$ 13,047,449
Grants and contracts	26,832,485	23,064,963
Payments to vendors	(26,543,706)	(19,258,191)
Payments to employees	(60,013,246)	(63,570,042)
Other payments	(3,179,178)	(3,357,549)
Net cash used in operating activities	(48,112,954)	(50,073,369)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
District of Columbia appropriations	61,266,493	51,580,602
Change in advances to/(from) District	1,182,643	(1,693,677)
Gifts for scholarships	541,358	677,595
Net cash provided by noncapital financing activities	62,990,494	50,564,520
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,786,112)	(1,754,550)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales/maturities of long-term investments	6,472,099	13,220,154
Interest on investments	851,967	1,143,089
Purchase of investments	(8,043,704)	(11,475,090)
Net cash (used in) provided by investing activities	(719,638)	2,888,153
Net increase in cash and cash equivalents	12,371,790	1,624,754
Cash and cash equivalents, beginning of year	18,033,076	16,408,322
Cash and cash equivalents, end of year	$ 30,404,866	$ 18,033,076
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	(64,841,078)	(50,846,539)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,724,350	5,350,211
Bad debt expense	53,552	439,590
Change in:		
Accounts receivable	(964,523)	(663,964)
Grants receivable	(4,140)	(2,119,652)
Other current assets	66,153	(75,878)
Other noncurrent assets	362,417	(250,292)
Notes receivable	272,230	-
Accounts payable and accrued liabilities	8,799,149	(2,334,697)
Deferred revenue	1,691,161	127,337
Other current liabilities	(35,310)	(287,815)
Refundable advances	(108,989)	115,741
Accrued annual leave	872,074	472,589
Net cash used in operating activities	$ (48,112,954)	(50,073,369)
NON-CASH CAPITAL TRANSACTIONS		
Loss on disposal of capital assets	$ 124,174	$ 44,133
Capital contributions	$ 4,181,557	$ 5,598,743

See accompanying notes to the financial statements.

(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, 2006 and 2005, 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.

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.

Universities engaged in business-type activities and reporting as BTAs follow GASB standards applicable to proprietary (enterprise) funds. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting"*, as amended by GASB Statement No. 29, *"The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities"* permits such entities to apply all those Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The University has chosen not to follow FASB Statements and Interpretations issued after November 30, 1989.

(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 specified activities or objectives.

(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.

(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. The fair values of the University's investments in limited partnerships are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners in the absence of readily ascertainable market values. Unrealized and realized gains and losses are included in the schedule of revenues, expenses and changes in net assets.

(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. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

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.

(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. It is the opinion of management that there is no unrelated business taxable income for the years ended September 30, 2006 and 2005.

(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) Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount that is paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid and scholarships awarded by the University are considered to be scholarship allowances. These allowances are netted against tuition and fees revenues in the statement of revenues, expenses, and changes in net assets.

(2) Cash and Cash Equivalents

The District requires that all cash be deposited with the District Treasurer, except for endowment and miscellaneous income 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, 2006 and 2005 are as follows:

	2006	2005
Cash and cash equivalents:		
Unrestricted	$ 29,299,472	$ 17,147,192
Restricted	1,105,394	885,884
Total cash and cash equivalents	$ 30,404,866	$ 18,033,076

The University's cash and cash equivalents consist of the following at September 30, 2006 and 2005:

	2006	2005
Cash and demand deposits	$ 30,204,676	$ 17,832,886
Certificates of deposit	200,190	200,190
Total cash and cash equivalents	$ 30,404,866	$ 18,033,076

As of September 30, 2006 and 2005, the bank balances of cash on deposit were $380,751 and $336,703, respectively, of which all were insured and collateralized in accordance with District Government policies.

(3) Investments

Approximately $15.5 million in investments is held by the JP Morgan Trust Company (Morgan) and $18.9 million by Sanford C. Bernstein and Company (Bernstein) at September 30, 2006. At September 30, 2005, approximately $14.5 million in investments was held by the JP Morgan Trust Company (Morgan), and $17.5 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, 2006 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, 2006 was 4.46 years for Bernstein investments and 1.88 years for JP Morgan investments. At September 30, 2005 the interest rate risk was 4.3 years for Bernstein investments and 2.77 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, 2006, 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, 2006 and 2005 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.
- *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 at year end are well below this threshold and risk is minimal.
- *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, 2006 and 2005 are as follows:

	2006	2005
Unrestricted, noncurrent investments	$ 27,140,274	$ 24,848,500
Non-expendable, endowment investments	7,241,706	7,241,706
Total investments	$ 34,381,980	$ 32,090,206

University investments held at September 30, 2006:

	Cost	Fair value
Fixed Income	$ 8,496,540	$ 8,264,139
Equities and Other Investments	16,993,980	20,489,396
Real Estate Trust or Partnership	698,702	1,213,767
International Investments	1,842,369	3,680,095
Alternative Investments	600,000	734,583
Total investments	$ 28,631,591	$ 34,381,980

University investments held at September 30, 2005:

	Cost	Fair value
Fixed Income	$ 8,003,053	$ 7,855,906
Equities and Other Investments	15,879,186	19,105,260
Real Estate Trust or Partnership	673,218	1,011,875
International Investments	1,984,673	3,441,818
Alternative Investments	600,000	675,347
Total investments	$ 27,140,130	$ 32,090,206

(4) Capital Assets

Capital assets activity for the year ended September 30, 2006, is summarized below:

		Balance at September 30, 2005	Additions	Disposals	Adjustments	Balance at September 30, 2006
Capital assets subject to depreciation:						
Equipment and machinery	$	8,150,167	$1,799,979	($1,619,671)	($133,997)	$8,196,478
Library books		17,318,467	-	-	-	17,318,467
Buildings and improvements		133,754,328	4,181,557	-	-	137,935,885
Total historic cost		159,222,962	5,981,536	(1,619,671)	(133,997)	163,450,830
Less accumulated depreciation		(101,107,380)	(5,724,350)	1,746,284	(522,435)	(105,607,881)
Subtotal, Depreciable Capital Assets, Net		58,115,582	257,186	126,613	(656,432)	57,842,949
Capital assets not subject to depreciation:						
Land		7,531,544	-	-	-	7,531,544
Capital Assets, net	$	65,647,126	$257,186	$126,613	($656,432)	$65,374,493

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

		Balance at September 30, 2004	Additions	Disposals	Adjustments	Balance at September 30, 2005
Capital assets subject to depreciation:						
Equipment and machinery	$	7,591,760	$534,026	($144,133)	$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	(144,133)	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	(144,133)	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	($144,133)	$391,019	$65,647,126

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. The estimated value of the VNC site 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, 2006, 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 $68.0 million of which $55.6 million was covered under the plan. The pension cost for the years ended September 30, 2006, 2005 and 2004 was approximately $3,286,948, $3,521,455 and $3,546,000, respectively. Generally, employees are fully vested in both their contributions and in the University's contributions. Approximately 559 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, 2006, 2005 and 2004, the University's contributions were $42,917, $42,946, and $36,900, 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, 2006, 2005 and 2004, the University's contributions totaled approximately $232,352, $220,438 and $233,800, 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 2006, 2005 and 2004, totaled $15,568, $29,880 and $34,076, 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 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. This program ended as of September 30, 2005.

(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 the federal government. The University incurred no occupancy costs in fiscal years 2006 and 2005 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, 2006 and 2005, there were various claims and lawsuits against the University.

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, 2006 and 2005, the liability (as reported as part of litigation contingencies), is estimated to be $9.6 million.

The University is also party to a number of other legal actions. Liabilities have been accrued for these sundry cases amounting to approximately $3.2 million and $2.6 million for fiscal years 2006 and 2005, 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 2008. 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, 2006 and 2005, for all operating leases was $1,028,213 and $373,044, respectively. The following is a schedule by year of future annual minimum lease payments under operating lease agreements as of September 30, 2006 that have initial or remaining lease terms in excess of one year.

Year ending September 30,		
2007	$	901,888
2008		901,888
Total	$	1,803,776

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
University of the District of Columbia
Washington, DC

We have audited the 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, 2006, and have issued our report thereon dated February 2, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Appendix A.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

We noted certain other matters involving internal control over financial reporting that we reported to management in a separate letter dated February 2, 2007. The status of prior year reportable conditions is presented in Appendix B.

BDO Seidman, LLP
Accountants and Consultants

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees and management of the University, the Mayor of the Government of the District of Columbia, the Council, the Inspector General of the District, District management and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Washington, DC
February 2, 2007

Appendix A

Reportable Conditions in Internal Controls Over Alternative Investments

I. Internal control on Alternative Investments

The University does not have sufficient controls over the valuation of its alternative investments.

There is an increased risk that the valuation of investments in the financial statements does not reflect the actual fair value of assets.

Recommendation

Since management is responsible for making fair value measurements and disclosures in the financial statements, management must establish an accounting and financial reporting process for fulfilling this responsibility that selects the appropriate valuation method, identifies and supports the assumptions used in making the valuation and monitoring these underlying assumptions. This responsibility cannot be assigned to the investment advisor. In other words, although the asset valuation is provided by the investment advisor on a monthly basis, management must establish controls that monitors and evaluates the valuation.

Some controls that management might consider fall under three general categories: initial due diligence procedures, ongoing monitoring and financial reporting.

Initial due diligence procedures to consider:

- Evaluate the investment strategy, process and portfolio by reviewing historical performance and attribution analysis and reviewing the funds valuation procedures
- Solicit information or perform reference checks regarding the investment team's management from knowledgeable third parties such as investment committee members, District of Columbia officials, consultants or competing investment managers
- Perform background checks on senior fund managers such as verifying biographical information and performing a press search
- Complete a formal investment memorandum/write up to document investment approval and review

Ongoing Monitoring Procedures to consider:

- Review fund communications including quarterly stockholder's letters, obtaining and reviewing audited financial statements of underlying investments and noting whether the opinion is unqualified, whether there was a change in auditor or change in valuation method
- Review of SAS 70 reports if available and ensuring user controls are in place at the investment advisor

- Perform an assessment of the reasonableness of the valuation provided by the fund manager by requesting and reviewing the valuation of portfolio holdings for reasonableness, requesting and viewing any changes in valuation policies, and comparing the value of the fund stated in the broker's statement as of the fund's year end to the value of the funds in its audited financial statements

- Monitor portfolio performance by comparing performance to publicly available data, reviewing portfolio holdings periodically and monitoring investment strategy changes

Financial reporting procedures to consider:

- Updating the listing of alternative investments grouped by fund or manager

- Reviewing the most recent audited financial statement of each fund noting the basis of accounting, summary of significant accounting policies and procedures pertaining to the valuation of investments, name of the auditing firm and type of opinion

- Perform and document an assessment of the risk of material misstatement of the financial statements related to the valuation of alternative investments

Management's Response

The University concurs with this finding. Alternative investments were first entered into in FY2003. They currently consist of a fund of hedge funds and a real estate investment fund which, in total, comprise about $1.2 million of the $34 million endowment.

With respect to entering into new alternative investment arrangements, the University will undertake the due diligence procedures described in this audit finding. No new alternative investments are being contemplated at this time.

With respect to ongoing monitoring procedures, BDO has recommended the following procedures: review fund communications and audited financial statements; review the SAS-70 report if available, perform a valuation by requesting and reviewing the valuation of the portfolio holdings for reasonableness, review for valuation policy changes, compare interim fund financial statements to the audited year end financial statements for any decline in value, monitor portfolio composition and monitor portfolio performance against any publicly available benchmarks.

The University will perform these procedures but it should be recognized that these are all after-the fact-procedures and they will not prevent an exposure to a sudden decline in alternative investment value. We will review the valuation procedures of the investment advisors through the procedures recommended by the auditors. With respect to financial reporting procedures, the University will perform the procedures recommended in the audit finding.

II. Preparation and Review of SOAR Journal Entries

During our testing of journal entries posted to the SOAR system, the University did not provide 7 journal vouchers for accrual of expenditures. The missing journal entries related to the accrual of expenditures at year end. There was no evidence that anyone supervised and reviewed the accrual of expenditures at year end.

Since the posting of unauthorized journal entries to SOAR could have a significant impact on the financial statements of the University, a system of internal controls surrounding the posting of journal entries is critical. Misstatements due to errors either unintentional or intentional due to fraud could be concealed if management does not have a process for reviewing journal entries posted to the system. There should be proper review and approval of journal vouchers before posting the entries to SOAR.

Recommendation

Although controls have been effectively designed in the accounts payable area, we recommend that the University revisit the process with current staffing resources in mind and ensure that the process is operating. Not having sufficient staff to perform the internal control procedures as designed, results in critical controls not being performed and exposing the University to the risk of misstatements in financial reporting.

Management response

Management concurs with this finding.

III. Duplicative Accruals

During substantive testing of contractual services, we noted one transaction amounting to $156,000 that was recorded twice. Transactions such as recording of revenue, expenditures, purchase of capital assets and recording of accrual should only be recorded once. The duplication of expenditures resulted from an error in reversing a check that was subsequently voided.

Recommendation

We recommend the accounting department review their existing process and control on voiding of checks. The expenses already recognized should be reversed properly to avoid double recording of expenses.

Management response

Management concurs with this finding.

Appendix B

Status of Prior Year Reportable Conditions

Nature of Comment	Type of Comment in FY 2005	Current Year Status
Preparation of interim financial statements – Non-GAAP statements	Reportable condition	Corrected in current year
Reconciliation between tuition databases and SOAR	Reportable condition	SIS+ report and the SOAR amounts are reconciled on a monthly basis. The prior year finding was corrected in current year.