

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

**UNIVERSITY OF THE  
DISTRICT OF COLUMBIA**

**Financial Statements and Management's  
Discussion and Analysis  
Fiscal Years Ended September 30, 2007, and 2006**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

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

Inspector General



June 6, 2008

The Honorable Adrian M. Fenty  
Mayor of the District of Columbia  
Mayor's Correspondence Unit, Suite 316  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

The Honorable Vincent C. Gray  
Chairman  
Council of the District of Columbia  
1350 Pennsylvania Avenue, N.W., Suite 504  
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) 2007, BDO Seidman, LLP (BDO Seidman) submitted the enclosed final report on the University of the District of Columbia (UDC).

BDO Seidman opined that the basic financial statements present fairly, in all material respects, the financial position of UDC for the years ended September 30, 2007, and 2006, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. We will issue the report on UDC's internal control under separate cover.

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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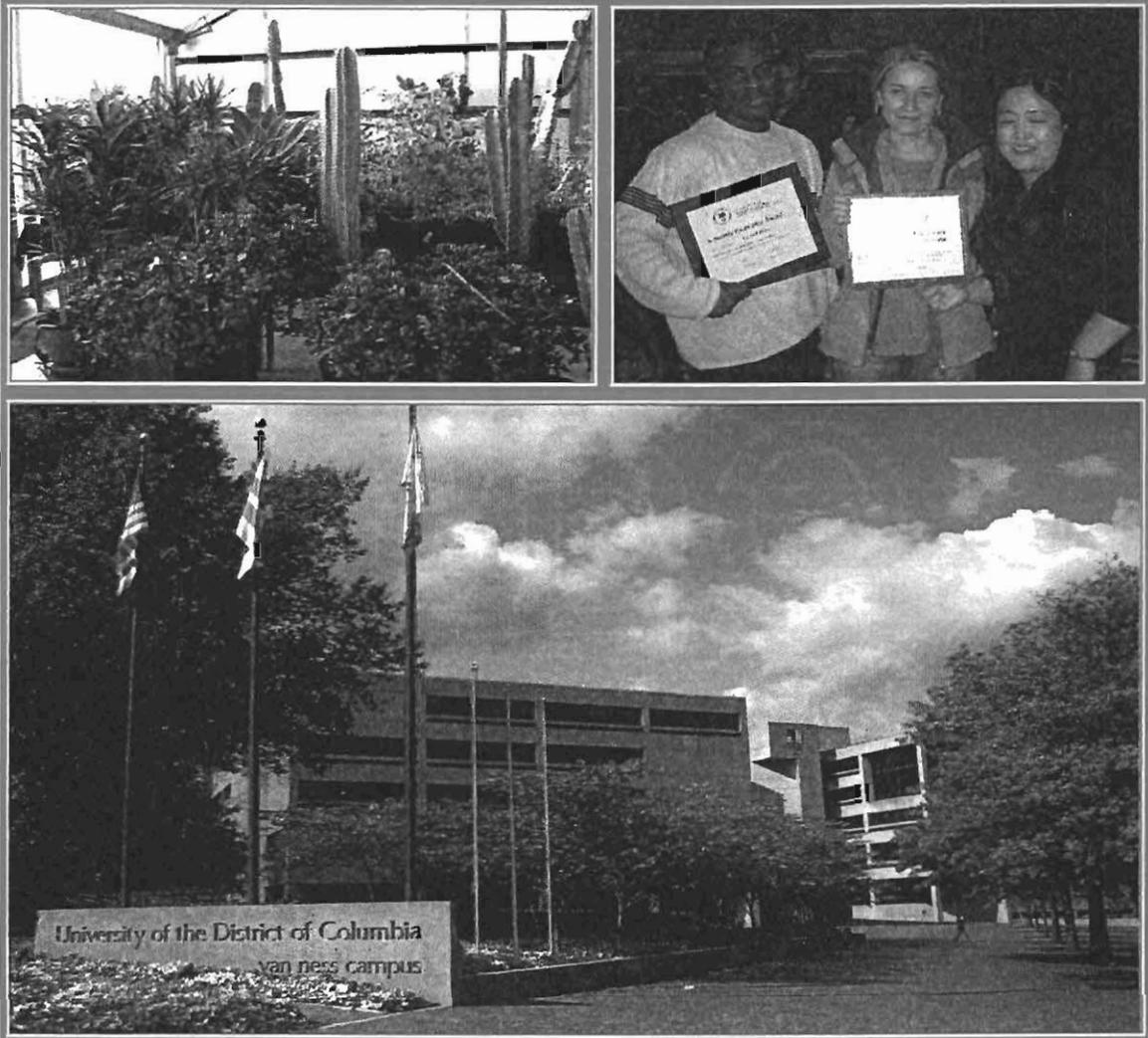
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**University of the District of Columbia**



UNIVERSITY OF  
THE DISTRICT  
OF COLUMBIA



**September 30, 2007 and 2006**

**Financial Statements and Management's Discussion and Analysis  
(With Independent Auditor's Report Thereon)**

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

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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, 2007 and 2006, 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 audits 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, 2007 and 2006, and the changes in its net assets 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 April 15, 2008, 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 audits.

Management's Discussion and Analysis on pages 2 through 9 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.

Washington, DC  
April 15, 2008

*BDO Seidman, LLP*

## UNIVERSITY OF THE DISTRICT OF COLUMBIA

### Management's Discussion and Analysis

Years Ended September 30, 2007 and 2006

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, 2007 and 2006. 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 *Statements 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, investments in capital assets represents the equity in property, plant and equipment owned and or controlled by the University. The University does not have any debt liabilities. 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 grantors and from contracts and are available for expenditure but which have not been obligated as of the reporting date. 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 decided by the Board of Trustees of the University.

The *Statements 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 *Statements of Net Assets* described above.

Generally speaking, operating revenues are received for providing goods and services to the various customers, students and other constituents 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 set by the Board of Trustees. For example, State appropriations are nonoperating revenues because they are provided by the Legislature to the University. The Legislature does not directly receive commensurate goods and services for those revenues.

The *Statements 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 and related 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 *Statements of Net Assets*, described above. These statements also reconcile the operating loss as shown on the *Statements of Revenues, Expenses, and Changes in Net Assets* to the net cash used in operating activities.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2007 and 2006

**Financial Highlights**

**Condensed Financial Information**

*Table 1 – Condensed Statements of Net Assets as of September 30, 2007 and 2006 (Dollars in rounded thousands)*

	<u>2007</u>	<u>2006</u>	<u>Percent Change</u>
Assets:			
Current assets	\$ 47,275	\$ 44,982	5.1%
Noncurrent assets:			
Investments and notes receivable, net of allowance	39,210	34,520	13.6%
Capital assets, net of depreciation	63,736	65,374	-2.5%
Other	299	59	406.8%
Total assets	<u>150,520</u>	<u>144,935</u>	3.9%
Liabilities:			
Current liabilities	45,177	40,283	12.1%
Noncurrent liabilities	1,539	2,016	-23.7%
Total liabilities	<u>46,716</u>	<u>42,299</u>	10.4%
Net assets:			
Invested in capital assets	63,736	65,374	-2.5%
Restricted for nonexpendable endowments	7,242	7,242	0.0%
Restricted for expendable grants and contracts	472	298	58.4%
Unrestricted	32,354	29,722	8.9%
Total net assets	<u>\$ 103,804</u>	<u>\$ 102,636</u>	1.1%

The increase in total net assets shown in Table 1 of approximately \$1.2 million or 1% from 2006 to 2007 is due primarily to appropriations received from the District of Columbia Council for funding the University's operating budget of \$2.8 million, partly offset by a loss from operating activities of approximately \$1.7 million. The approximately \$5.6 million increase in total assets is primarily due to revenues earned from investments that were reinvested. The approximately \$4.4 million increase in total liabilities, is due primarily to salary increases approved in the current fiscal year, which are to be paid in 2008. The increase in unrestricted net assets of \$2.6 million or 8.9% is mainly due to net increase in tuition and fees, investment income and other nonoperating revenues not appropriated or designated for other purposes. Increases in unrestricted net assets are particularly important because they can be used for the University's priority projects and other operating requirements.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2007 and 2006

*Table 2 – Condensed Statements of Net Assets as of September 30, 2006 and 2005 (Dollars in rounded thousands)*

	<u>2006</u>	<u>2005</u>	<u>Percent Change</u>
Assets:			
Current assets	\$ 44,982	\$ 29,013	55.0%
Noncurrent assets:			
Investments and notes receivable, net of allowance	34,520	32,501	6.2%
Capital assets, net of depreciation	65,374	65,647	-0.4%
Other	59	421	-86.0%
Total assets	<u>144,935</u>	<u>127,582</u>	13.6%
Liabilities:			
Current liabilities	40,283	28,956	39.1%
Noncurrent liabilities	2,016	564	257.4%
Total liabilities	<u>42,299</u>	<u>29,520</u>	43.3%
Net assets:			
Invested in capital assets	65,374	65,647	-0.4%
Restricted for nonexpendable 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	<u>\$ 102,636</u>	<u>\$ 98,062</u>	4.7%

The increase in total net assets shown in Table 2 of \$4.6 million or 4.7% from 2005 to 2006 is primarily the result of appropriations received from the District of Columbia Council and the Congress of the United States for the University's operating budget and capital improvement renovations as part of the District's Capital Improvement Program that will be spent in future fiscal years. The 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. The increase in the appropriation to the University was mostly offset by increases in the cost of providing educational services to students, employees and citizens of the District of Columbia (the District). The increase in unrestricted net assets of \$4.8 million or 19.3% is mainly due to the increase in tuition and fees and auxiliary enterprises, and other sales and services not appropriated or designated for other purposes. Increases in unrestricted net assets are particularly important because they can be used for University priority projects and other operating requirements.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2007 and 2006

*Table 3 – Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended September 30, 2007 and 2006 (Dollars in rounded thousands)*

	<u>2007</u>	<u>2006</u>	<u>Percent Change</u>
Operating revenues:			
Tuition and fees	\$ 15,169	\$ 14,199	6.8%
Federal, District and private grants and contracts	27,266	26,648	2.3%
Auxiliary enterprises and other sales and services	2,846	3,200	-11.1%
Other	2,482	1,814	36.8%
Total operating revenues	<u>47,763</u>	<u>45,861</u>	4.1%
Less operating expenses	<u>119,389</u>	<u>110,702</u>	7.8%
Net assets used in operating activities	<u>(71,626)</u>	<u>(64,841)</u>	10.5%
Nonoperating revenues:			
District of Columbia appropriations	62,636	61,267	2.2%
Investment income	6,870	3,425	100.6%
Other	452	541	-16.5%
Total	<u>69,958</u>	<u>65,233</u>	7.2%
(Decrease) increase in net assets before capital appropriations	<u>(1,668)</u>	392	-525.5%
Capital appropriations	<u>2,836</u>	<u>4,182</u>	-32.2%
Increase in net assets	<u>1,168</u>	<u>4,574</u>	-74.5%
Net assets, beginning of year	<u>102,636</u>	<u>98,062</u>	4.7%
Net assets, end of year	<u>\$ 103,804</u>	<u>\$ 102,636</u>	1.1%

The increase in operating revenues of approximately \$1.9 million or 4.1% from 2006 to 2007, shown in Table 3, is largely due to an increase in tuition and fees revenue and an increase in Federal, District and private grants and contracts. In 2007, the Board of Trustees approved tuition and fee rate increases for the undergraduate, graduate and law school programs. The increases were effective for the fall 2007 semester. The increases are prorated to reflect 1/3 as earned revenues for 2007 and 2/3 as deferred revenues, to be earned in 2008. The slight increase in Federal, District and private grants and contracts revenues is due to increases in program budgets and new programs funded. The 7.2% net increase in total nonoperating revenues is a result of a 2.2% increase in District appropriations and 100.6% increase in investment income due to 35.0% increase in short-term earnings and 65.0% increase in long-term earnings. Other nonoperating revenues declined as gifts for scholarships decreased by 16.5%. Capital appropriations decreased by 32.2% due to reduced funding received from the District.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2007 and 2006

*Table 4 – Condensed Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended September 30, 2006 and 2005 (Dollars in rounded thousands)*

	<u>2006</u>	<u>2005</u>	<u>Percent Change</u>
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	<u>1,814</u>	<u>2,396</u>	-24.3%
Total operating revenues	45,861	43,573	5.3%
Less operating expenses	<u>110,702</u>	<u>94,419</u>	17.2%
Net assets used in operating activities	<u>(64,841)</u>	<u>(50,846)</u>	27.5%
Nonoperating revenues:			
District of Columbia appropriations	61,267	51,581	18.8%
Investment income	3,425	3,991	-14.2%
Other	<u>541</u>	<u>677</u>	-20.1%
Total	<u>65,233</u>	<u>56,249</u>	16.0%
Increase in net assets before capital contributions	392	5,403	-92.7%
Capital appropriations	<u>4,182</u>	<u>5,598</u>	-25.3%
Increase in net assets	4,574	11,001	-58.4%
Net assets, beginning of year	<u>98,062</u>	<u>87,061</u>	12.6%
Net assets, end of year	<u>\$ 102,636</u>	<u>\$ 98,062</u>	4.7%

The increase in operating revenues of \$2.3 million or 5.3% from 2005 to 2006, shown in Table 4, is largely due to an increase in tuition and fees revenues and an increase in 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 were effective for the fall 2006 semester. The increases are prorated to reflect 1/3 as revenues for 2006, and 2/3 as deferred revenue, to be earned in 2007. The increase in grants and contract revenues is due to an increase in the programs budget authority, and funding of new programs. The 16.0% net increase in total nonoperating revenues is a result of 18.8% increase in the District appropriations offset by 14.2% decrease in investment income due to 32.4% increase in long-term earnings, which is partly offset by 32.8% decrease in the short-term earnings. Other nonoperating revenues declined as gifts for scholarships decreased by 16.5%. Capital appropriations decreased by 25.3% due to reduced funding received from the District.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Management's Discussion and Analysis

Years Ended September 30, 2007 and 2006

*Table 5 - Expenses by Function for the Years Ended September 30, 2007 and 2006 (Dollars in rounded thousands)*

	FY 2007		FY 2006		Increase/(Decrease)	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent change
Instruction	\$ 45,463	38%	\$ 40,256	36%	\$ 5,207	13%
Research	3,783	3	4,181	4	(398)	(10)
Public service	3,762	3	2,803	3	959	34
Academic support	13,534	11	15,383	14	(1,849)	(12)
Student services	8,353	7	7,449	7	904	12
Institutional support	20,214	17	17,306	16	2,908	17
Operations and maintenance	9,410	8	8,811	8	599	7
Scholarships and fellowships	5,388	5	5,306	5	82	2
Auxiliary operations	4,309	4	3,482	2	827	24
Depreciation	5,173	4	5,725	5	(552)	(10)
	<u>\$ 119,389</u>	<u>100%</u>	<u>\$ 110,702</u>	<u>100%</u>	<u>\$ 8,687</u>	<u>8%</u>

The approximate \$8.7 million increase in functional activity from FY 2006 to FY 2007 is represented by a 25% increase in academic affairs, 15% increase in agency financial operations, 32% increase in agency management programs, 23% increase in executive direction, 13% increase in student affairs, 2% increase in university advancement and a 10% decrease in depreciation. On a natural basis 66% of the increase can be attributed personnel costs and 34% can be attributed to other costs.

*Table 6 - 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
	<u>\$ 110,702</u>	<u>100%</u>	<u>\$ 94,419</u>	<u>100%</u>	<u>\$ 16,283</u>	<u>17%</u>

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.

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Management's Discussion and Analysis

Years Ended September 30, 2007 and 2006

### Enrollment

The University operates under an open admissions policy. The official student enrollment for the Fall 2007 Semester was 5,612 which represented a decrease of 3% compared to the total enrollment for the Fall 2006 Semester. The official student enrollment for the Fall of 2006 was 5,772 which represented an increase of 3% compared to the total enrollment for the Fall 2005 Semester. In Fall 2007, District residents comprised 66% and 44% of the University's total undergraduate and graduate enrollment, respectively. Comparatively, in the Fall 2006 Semester, District residents accounted for 62% and 48% of the University's total undergraduate and graduate enrollment, respectively. Also, 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 were 3,861 in Fall 2007, 3,664 in Fall 2006 and 3,296 in Fall 2005.

Full time equivalent enrollment levels at the University have increased over the last three years with total tuition and fees revenue growing from \$13.1 million in FY2005 to \$14.2 million in FY 2006 to nearly \$15.2 million in FY 2007.

### 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 improvement plan totaling \$31.3 million, for the fiscal year 2007 through fiscal year 2012 to be financed through funding sources provided by the District. The execution of the University's capital improvement plan is contingent upon sufficient funding being received from the District, since the University has no separate long-term borrowing authority.

*Table 7 – 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
	<hr/>
	\$ 31,270

## UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis

Years Ended September 30, 2007 and 2006

### **New Accounting Pronouncements - GASB Statement No. 45**

In July 2004, GASB issued Statement 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 Other Post Employment Benefits 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 when the University will implement this Statement.

### **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's appropriation, tuition revenues, grants received, contracts earned, and gifts received. 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 is able to obtain 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 management's 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, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 35,550,632	\$ 30,404,866
Accounts receivables, net of allowance of \$7,831,991 and \$7,587,377 in 2007 and 2006, respectively	6,243,879	5,943,282
Grants receivable, net of allowance of \$128,890 and \$129,065 in 2007 and 2006, respectively	3,323,287	4,128,657
Receivable from the District of Columbia	2,037,335	4,343,827
Accrued interest receivable	54,023	53,719
Other current assets	<u>65,408</u>	<u>107,169</u>
Total current assets	<u>47,274,564</u>	<u>44,981,520</u>
Noncurrent assets:		
Investments (Note 3)	39,065,200	34,381,980
Notes receivable, net of allowance of \$1,450,141 and \$1,458,131 in 2007 and 2006, respectively	144,599	138,074
Capital assets, net (Note 4)	63,736,460	65,374,493
Other	<u>299,114</u>	<u>58,906</u>
Total noncurrent assets	<u>103,245,373</u>	<u>99,953,453</u>
Total assets	<u>150,519,937</u>	<u>144,934,973</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	8,617,327	7,299,643
Accrued payroll	12,313,817	9,999,423
Litigation contingencies (Note 6d)	11,266,212	12,830,000
Accrued leave	4,734,181	3,211,834
Deferred revenue	7,474,034	6,394,842
Other current liabilities	<u>771,022</u>	<u>547,583</u>
Total current liabilities	<u>45,176,593</u>	<u>40,283,325</u>
Noncurrent liabilities:		
Refundable advances	466,192	454,458
Due to District of Columbia	<u>1,072,880</u>	<u>1,561,298</u>
Total noncurrent liabilities	<u>1,539,072</u>	<u>2,015,756</u>
Total liabilities	<u>46,715,665</u>	<u>42,299,081</u>
<b>NET ASSETS</b>		
Investments in capital assets (Note 4)	63,736,460	65,374,493
Restricted for:		
Nonexpendable endowments	7,241,706	7,241,706
Expendable grants and contracts	472,324	297,497
Unrestricted	<u>32,353,782</u>	<u>29,722,196</u>
Total net assets	\$ <u>103,804,272</u>	\$ <u>102,635,892</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, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>		
Operating Revenues:		
Student tuition and fees, net of scholarships and discounts of \$3,886,809 and \$827,786 in 2007 and 2006, respectively	\$ 15,168,793	\$ 14,198,885
Federal grants and contracts	15,464,906	15,954,473
Local grants and contracts	11,149,878	9,869,169
Nongovernmental grants and contracts	651,922	824,597
Sales and services of educational departments	1,470,728	1,831,548
Auxiliary enterprise:		
Athletics division	1,195,005	1,036,085
Child development center	61,063	48,145
Cable television	118,736	283,784
Other operating revenues	<u>2,482,203</u>	<u>1,814,373</u>
Total operating revenues	<u>47,763,234</u>	<u>45,861,059</u>
<b>EXPENSES</b>		
Operating Expenses:		
Salaries	62,106,458	55,792,998
Benefits	13,639,639	12,297,147
Scholarships and fellowships	8,678,802	8,683,459
Contractual services	19,219,989	17,345,728
Utilities	5,752,366	3,722,307
Supplies and other services	4,819,144	7,136,148
Depreciation	<u>5,172,762</u>	<u>5,724,350</u>
Total operating expenses	<u>119,389,160</u>	<u>110,702,137</u>
Operating loss	<u>(71,625,926)</u>	<u>(64,841,078)</u>
<b>NONOPERATING REVENUES</b>		
District of Columbia appropriations	62,635,554	61,266,493
Investment income	6,870,200	3,425,207
Gifts for scholarships	<u>452,495</u>	<u>541,358</u>
Total nonoperating revenues	<u>69,958,249</u>	<u>65,233,058</u>
(Loss) income before capital appropriations	<u>(1,667,677)</u>	391,980
Capital appropriations	<u>2,836,057</u>	<u>4,181,557</u>
Increase in net assets	1,168,380	4,573,537
<b>NET ASSETS</b>		
Net assets, beginning of year	<u>102,635,892</u>	<u>98,062,355</u>
Net assets, end of year	<u>\$ 103,804,272</u>	<u>\$ 102,635,892</u>

*See accompanying notes to the financial statements.*

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

**Statements of Cash Flows**

**Years Ended September 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 15,878,524	\$ 14,790,691
Grants and contracts	28,140,942	26,832,485
Payments to vendors	(27,943,636)	(26,543,706)
Payments to employees	(73,473,144)	(60,013,246)
Other payments	<u>(3,851,045)</u>	<u>(3,179,178)</u>
Net cash used in operating activities	<u>(61,248,359)</u>	<u>(48,112,954)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
District of Columbia appropriations	62,635,554	61,266,493
Change in advances to/(from) District of Columbia	2,306,492	1,182,643
Gifts for scholarships	<u>452,495</u>	<u>541,358</u>
Net cash provided by noncapital financing activities	<u>65,394,541</u>	<u>62,990,494</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	<u>(1,339,075)</u>	<u>(1,786,112)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales/maturities of long-term investments	3,287,835	6,472,099
Interest on investments	3,304,781	851,967
Purchase of investments	<u>(4,253,957)</u>	<u>(8,043,704)</u>
Net cash provided by (used in) investing activities	<u>2,338,659</u>	<u>(719,638)</u>
Net increase in cash and cash equivalents	5,145,766	12,371,790
Cash and cash equivalents, beginning of year	<u>30,404,866</u>	<u>18,033,076</u>
Cash and cash equivalents, end of year	\$ <u>35,550,632</u>	\$ <u>30,404,866</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>		
Operating loss	\$ (71,625,926)	\$ (64,841,078)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,172,762	5,724,350
Bad debt expense	424,613	53,552
Change in:		
Accounts receivable	(725,210)	(964,523)
Grants receivable	805,370	(4,140)
Other current assets	41,761	66,153
Other noncurrent assets	(240,208)	362,417
Notes receivable	(6,525)	272,230
Accounts payable and accrued liabilities	2,068,292	8,799,149
Deferred revenue	1,079,192	1,691,161
Other current liabilities	223,439	(35,310)
Refundable advances	11,734	(108,989)
Accrued annual leave	<u>1,522,347</u>	<u>872,074</u>
Net cash used in operating activities	\$ <u>(61,248,359)</u>	\$ <u>(48,112,954)</u>
<b>NON-CASH CAPITAL TRANSACTIONS</b>		
Loss on disposal of capital assets	\$ -	\$ 124,174
Capital contributions	\$ <u>2,836,057</u>	\$ <u>4,181,557</u>

*See accompanying notes to the financial statements.*

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

## (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 state and local 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 separate 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*** which 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:

***Investments in capital assets*** – Consists of 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, 2007 and 2006, the University had no such debt outstanding.

***Restricted*** - Consisting of (1) net assets restricted for nonexpendable endowments, 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*** – Consists of 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, 2007 and 2006

Tuition and fees revenues are recognized ratably as they are earned over the academic semester to which they relate. Tuition and fees related to the portion of the academic semester falling after the fiscal year end is 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 (BTA) 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, the Accounting Principles Board opinions and Accounting Research Bulletins, unless those pronouncements conflict with the 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 reimburses the District for a portion of the administrative costs based on a formula derived by the District.

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, which is usually one year or less. 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.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

(f) *Cash and Cash Equivalents*

Cash and cash equivalents 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 fees, student loans, and grants and contracts. Receivables have also been recognized for students registered and billed for semesters to be held subsequent to year end. Since the revenue recognition criteria will not be met in this instance, 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 equities and other debt securities. The fair value 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 investment income in the statements 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:

<u>Category</u>	<u>Depreciation/amortization period</u>
Buildings and improvements	50 years
Leasehold improvements	Lesser of lease term or 10 years
Computers	5 years
Equipments	5 years
Library books and microfilms	5 years

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

**(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 over 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's 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.

**(k) *Deferred Revenue***

Tuition and fees revenues, as well as program revenues are shown as deferred revenues when they relate to future financial periods.

**(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. The University did not have any unrelated business income, subject to income tax for the years ended September 30, 2007 and 2006.

**(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.

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

**(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 of the 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 statements of revenues, expenses, and changes in net assets.

**(2) New Accounting Pronouncements**

- (a) In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*. Other post-employment benefits (OPEB) include post-employment healthcare insurance, as well as other forms of post-employment benefits (for example, life insurance), when provided separately from a pension plan. The standards in this statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as, for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multi-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due, is not a trust fund.

As the University currently does not have a trust fund, and does not hold funds on behalf of another employer, the provisions of this Statement are not applicable for FY 2007. GASB 43 will be applicable to the University, once it establishes a trust fund in FY 2008 in conjunction with the related GASB Statement No. 45.

- (b) In July 2004, GASB issued Statement 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 Other Post Employment Benefits 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 when the University will implement this Statement.

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

**(3) 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 of America 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 District of Columbia Postsecondary Education Fund bank account is the depository for all gifts and contributions, funds for 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, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents:		
Unrestricted	\$ 34,464,109	\$ 29,299,472
Restricted	1,086,523	1,105,394
Total cash and cash equivalents	<u>\$ 35,550,632</u>	<u>\$ 30,404,866</u>

The University's cash and cash equivalents consist of the following at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash and demand deposits	\$ 35,350,442	\$ 30,204,676
Certificates of deposit	200,190	200,190
Total cash and cash equivalents	<u>\$ 35,550,632</u>	<u>\$ 30,404,866</u>

As of September 30, 2007 and 2006, the bank balances of cash on deposit were \$398,730 and \$380,751, respectively, all of which were insured and collateralized in accordance with the District Government's policies.

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

### Investments

Approximately \$17.2 million in investments is held by the JP Morgan Trust Company (Morgan) and \$21.8 million by Sanford C. Bernstein and Company (Bernstein) at September 30, 2007. At September 30, 2006, approximately \$15.5 million investments were held by the JP Morgan Trust Company, and \$18.9 million by Sanford C. Bernstein and Company.

- *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 investment. As of September 30, 2007 the University held no individual investments with a value greater than 5.0% of the 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, 2007, was 4.65 years for Bernstein investments and 2.12 years for the Morgan investments. At September 30, 2006 the average duration for which the bonds were held was 4.46 years for Bernstein investments and 1.88 years for the 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, 2007, 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, 2007 and 2006 was AA for bonds held by both Bernstein and Morgan. The ISP states that generally fixed income investments must not be made in any investment rated 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 total endowment investments be invested in securities noted below A. As of September 30, 2007 and 2006, 22% and 18.5%, respectively for Bernstein and 8.98% and 9.38% for Morgan, respectively, of the endowment funds were invested in securities rated below A.
- *Custodial Credit Risk* - Custodial credit 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

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

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. 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. As of September 30, 2007 and 2006, 11% and 6%, respectively, was invested in international securities.
- *Investments in Derivatives* - The University's investment portfolio does not include any outright purchase of derivatives. However, the University's hedge fund, managed by the Morgan investments, from time to time may use derivatives such as options and forwards and the risk may be high, low or none depending upon the manager. The ISP authorizes alternative investments in private equity funds, buy-out funds, and hedge funds. No more than 10% of the total market value of the endowment may be invested with any single fund manager in the alternative asset class. As of September 30, 2007 and 2006, 2% of investments were held in alternative investments.

The University's investments at September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Unrestricted, noncurrent investments	\$ 31,823,494	\$ 27,140,274
Non-expendable, endowment investments	7,241,706	7,241,706
Total investments	<u>\$ 39,065,200</u>	<u>\$ 34,381,980</u>

University investments held at September 30, 2007:

	<u>Cost</u>	<u>Fair value</u>
Fixed income	\$ 10,173,617	\$ 9,856,540
Equities and other investments	19,309,533	23,120,425
Real estate trust or partnership	662,992	1,126,289
International investments	2,169,556	4,133,794
Alternative investments	600,000	828,152
	<u>\$ 32,915,698</u>	<u>\$ 39,065,200</u>

University investments held at September 30, 2006

	<u>Cost</u>	<u>Fair value</u>
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
	<u>\$ 28,631,591</u>	<u>\$ 34,381,980</u>

**UNIVERSITY OF THE DISTRICT OF COLUMBIA**

Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

**(5) Capital Assets**

Capital assets activity for the year ended September 30, 2007, is summarized below:

	<b>Balance at September 30, 2006</b>	<b>Additions</b>	<b>Disposals</b>	<b>Adjustments</b>	<b>Balance at September 30, 2007</b>
Capital assets subject to depreciation:					
Equipment and machinery	\$8,196,478	\$636,373	(\$5,256)	(\$1,397,332)	\$7,430,263
Library books	17,318,467	702,701	-	1,245,041	19,266,209
Buildings and improvements	137,935,885	2,836,057	-	-	140,771,942
Total historic cost	163,450,830	4,175,131	(5,256)	(152,291)	167,468,414
Less accumulated depreciation	(105,607,881)	(5,172,762)	5,256	(488,111)	(111,263,498)
Subtotal, Depreciable Capital Assets, Net	57,842,949	(997,631)	-	(640,402)	56,204,916
Capital assets not subject to depreciation:					
Land	7,531,544	-	-	-	7,531,544
Capital Assets, net	\$65,374,493	(\$997,631)	\$ -	(\$640,402)	\$63,736,460

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

	<b>Balance at September 30, 2005</b>	<b>Additions</b>	<b>Disposals</b>	<b>Adjustments</b>	<b>Balance at September 30, 2006</b>
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

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

### *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, 2007, VNC consisted of ten buildings constructed for the University's use.

### **(6) 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 15% for continuing full-time faculty hired before August 16, 2003, and for employees hired after that date, the University contributes 7%. Contributions are transferable to other eligible plans. Total payroll for all employees was approximately \$74.2 million of which employees with total payroll of approximately \$60.3 million was covered under the plan. The pension cost for the years ended September 30, 2007 and 2006 was \$2,721,854 and \$3,286,948, respectively. Generally, employees are fully vested in both their contributions and in the University's contributions. Approximately 323 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's 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, 2007 and 2006, the University's contributions were \$51,341 and \$42,917, 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, 2007 and 2006, the University's contributions totaled \$222,164 and \$232,352, 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.

Two employees of the University are covered under the District Teachers' Retirement System. Under this defined benefit plan, both the employee and the University contribute 7% of the employee's base salary. The University's contributions in fiscal years 2007 and 2006, totaled \$13,111 and \$15,568, respectively.

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

### (7) 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 is also 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 certain stated purposes. These federal grants and contracts are subject to review and audit by government agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of the 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 uses several buildings owned by the District and federal governments. The University incurred no occupancy costs in fiscal years 2007 and 2006 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. The University has no dormitory facilities for its student athletes and therefore contracts out these services. Beginning in fiscal year 2007, the University began a campus wide renovation program that required the leasing of several privately owned buildings. The cost of these activities was \$1.1 million.

#### (d) *Litigation*

At September 30, 2007 and 2006, there were various claims and law suits 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's Financial Responsibility and Management Assistance Authority (the Authority) to modify its collective bargaining agreement, departure from which affected the severance pay and certain other rights of the dismissed employees. The employee's 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 decided that the terms of the agreement should have been followed. At September 30, 2007

# UNIVERSITY OF THE DISTRICT OF COLUMBIA

## Notes to the Financial Statements

Years Ended September 30, 2007 and 2006

and 2006 the liability (as reported as part of litigation contingencies), is estimated to be \$7.9 million and \$9.6 million, respectively.

The University is also a party to a number of other legal actions. Liabilities have been accrued for these sundry cases amounting to approximately \$3.3 million and \$3.2 million for fiscal years 2007 and 2006, 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 2012. During fiscal year 2005, the University entered into a lease agreement with The American University to lease space for the Athletic Department. Total rental expense during the years ended September 30, 2007 and 2006, for all operating leases was \$1,363,216 and \$1,028,213, respectively. The following is a schedule of future annual minimum lease payments under noncancelable operating lease agreements as of September 30, 2007 that have an initial or remaining lease term in excess of one year.

<u>Year ending September 30,</u>	
2008	\$ 4,133,689
2009	3,283,901
2010	2,398,074
2011	1,534,944
2012	<u>1,573,320</u>
Total	\$ <u>12,923,928</u>