

**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, 2008, and 2007**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 10, 2009

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) 2008, 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, 2008, and 2007, 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.

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

Sincerely,

A handwritten signature in black ink that reads "Charles J. Willoughby". The signature is written in a cursive style with a large, stylized initial "C".

Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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FYs 2008 and 2007 UDC'S Financial Statements and
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April 10, 2009
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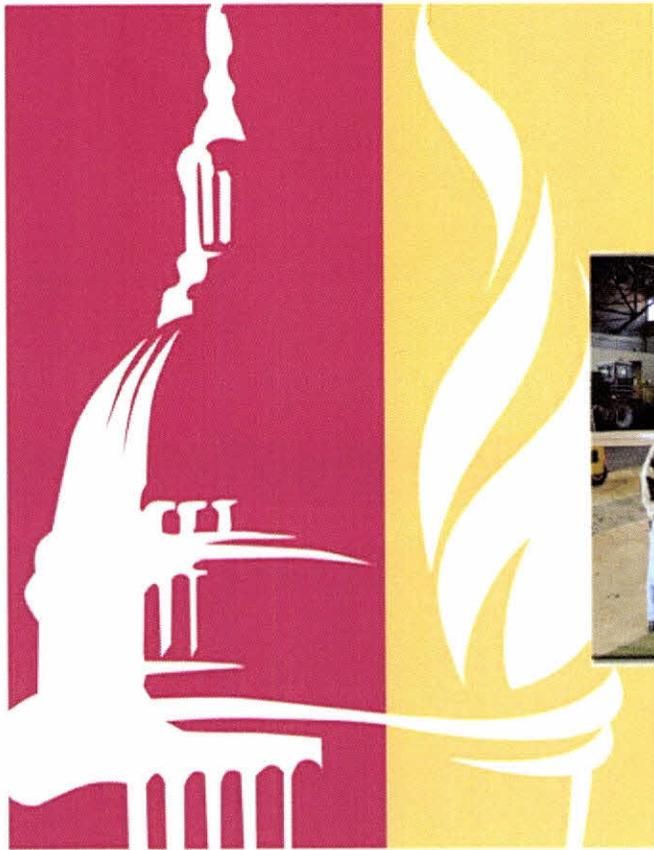
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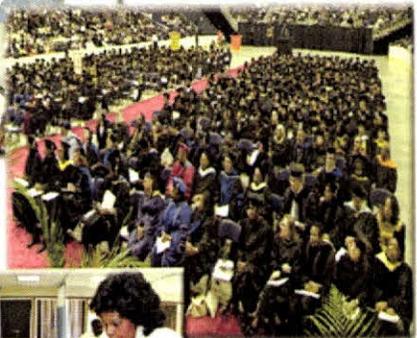
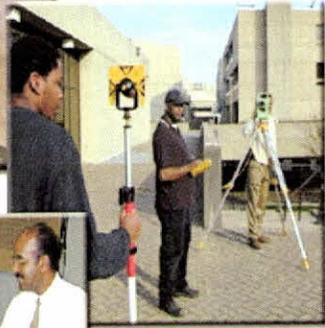
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Financial Statements
For Years Ended
September 30, 2008 and 2007



UNIVERSITY OF
THE DISTRICT
OF COLUMBIA



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

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Table of Contents

	Page
Members of the Board of Trustees	<i>iii</i>
Finance Staff	<i>iv</i>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-7
Basic Financial Statements:	
Statements of Net Assets	8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to the Financial Statements	11-27

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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, 2008 and 2007, 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, 2008 and 2007, 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 February 25, 2009, 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 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.

The management's discussion and analysis on pages 2 through 7 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
February 25, 2009

BDO Seidman, LLP

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis
Years Ended September 30, 2008 and 2007

This Management Discussion and Analysis provides a narrative overview and analysis of the financial activities of the University of the District of Columbia (the University) for the financial years ended September 30, 2008 and 2007. This discussion and analysis should be read in conjunction with the basic financial statements and the related note disclosures. 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, net of related debt, 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 contracts which are available for expenditure, but 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* present the revenues earned and expenses incurred during the year, both operating and non-operating. These Statements also reconcile the amount of beginning net assets to the amount of ending net assets as presented in the *Statements of Net Assets*.

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 University. Non-operating 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, appropriations from the District of Columbia Government (The District) are non-operating revenues because they are provided by the District to the University and the District Council does not directly receive commensurate goods and/or 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, capital and related financing, and investing activities. The Statements reconcile 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, 2008 and 2007

Financial Highlights

Condensed Financial Information

Table 1 – Condensed Statements of Net Assets as of September 30, 2008, 2007 and 2006 (\$000)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 52,105	\$ 47,275	\$ 44,982
Noncurrent assets:			
Investments and notes receivable, net of allowance	31,358	39,210	34,520
Capital assets, net of depreciation	68,048	63,736	65,374
Other	297	299	59
Total assets	<u>151,808</u>	<u>150,520</u>	<u>144,935</u>
Liabilities:			
Current liabilities	34,178	45,177	40,283
Noncurrent liabilities	11,326	1,539	2,016
Total liabilities	<u>45,504</u>	<u>46,716</u>	<u>42,299</u>
Net assets:			
Invested in capital assets	68,048	63,736	65,374
Restricted for nonexpendable endowments	7,242	7,242	7,242
Restricted for expendable grants and contracts	305	472	298
Unrestricted	30,709	32,354	29,722
Total net assets	<u>\$ 106,304</u>	<u>\$ 103,804</u>	<u>\$ 102,636</u>

The increase of approximately \$2.5 million (2.4%) in total net assets (shown in Table 1) from 2007 to 2008 is largely attributed to an increase in capital improvements and other educational services provided to the students and citizens of the District of Columbia. The increase of 1.3 million (0.9%) in total assets is primarily as a result of increases of \$4.8 million in current assets and \$4.3 million in capital assets, net of depreciation and \$7.8 million decrease in investments and notes receivable due to economic crisis that began in 2008. The approximately \$1.2 million or 2.6% decrease in total liabilities, is due primarily to a \$7.8 million decrease in litigation contingencies, \$1.8 million decrease in accrued vacation and \$9.8 million increase in "Due to the District of Columbia". The decrease in unrestricted net assets of \$1.6 million or 5.1% is mainly due to the decline in the market and the net decrease in investment income and other non-operating revenues not appropriated or designated for other purposes.

From 2006 to 2007 the \$1.2 million increase in total net assets was due primarily to appropriations received from the District for funding the University's operating budget of \$2.8 million. The appropriation from the District was partly offset by a loss from operating activities of approximately \$1.7 million. The approximately \$5.6 million increase (2006 to 2007) in total assets was primarily due to revenues earned from investments that were reinvested. The approximately \$4.4 million increase in total liabilities, was due primarily to salary increases approved in 2007 and paid in 2008. The increase in unrestricted net assets of \$2.6 million (8.9%) was mainly due to net increase in tuition and fees, investment income and other non-operating revenues not appropriated or designated for other purposes.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis
Years Ended September 30, 2008 and 2007

Table 2 – Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended September 30, 2008, 2007 and 2006 (\$000)

	2008	2007	2006
Operating revenues:			
Tuition and fees	\$ 17,916	\$ 15,169	\$ 14,199
Federal, District and private grants and contracts	24,777	27,266	26,648
Auxiliary enterprises and other sales and services	3,032	2,846	3,200
Other	1,866	2,482	1,814
Total operating revenues	47,591	47,763	45,861
Less operating expenses	109,984	119,389	110,702
Net assets used in operating activities	(62,393)	(71,626)	(64,841)
Nonoperating revenues:			
District of Columbia appropriations	62,770	62,636	61,267
Investment income	(7,497)	6,870	3,425
Other	1,688	452	541
Total	56,961	69,958	65,233
(Decrease) increase in net assets before capital appropriations	(5,432)	(1,668)	392
Capital appropriations	7,932	2,836	4,182
Increase in net assets	2,500	1,168	4,574
Net assets, beginning of year	103,804	102,636	98,062
Net assets, end of year	\$ 106,304	\$ 103,804	\$ 102,636

The decrease in operating revenues of approximately \$0.2 million (0.4%) from 2007 to 2008 is largely due to an increase in out of state student enrollment offset by decreases in contracts and grants of \$2.5 million as a result of fewer District grants awarded to the University and fewer programs. The increases in tuition and fees are prorated to reflect 1/3 as earned revenues for 2008 and 2/3 as deferred revenues, to be earned in 2009. The 18.6% net decrease in total non-operating revenues is a result of a 0.2% increase in University appropriations and 209.1% decrease in investment income due to the decline in the market and the decrease in investment income. Other non-operating revenues increased as gifts for scholarships increased by 273.4%. Capital appropriations increased by 179.7% due to increased funding received from the District.

The increase in operating revenues of approximately \$1.9 million or 4.1% from 2006 to 2007, was largely due to an increase in tuition and fees revenues 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 effective for the Fall 2007 semester. The slight increase in Federal, District and private grants and contracts revenues was due to increases in the programs budget authority, and new programs funded.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis

Years Ended September 30, 2008 and 2007

The 7.2% net increase in total non-operating revenues was as a result of 2.2% increase in the District appropriations and 100.6% increase in investment income due to 35.0% increase in short-term earnings, and 65.0% increase in the long-term earnings. Other non-operating revenues declined as gifts for scholarships decreased by 16.5%. Capital appropriations decreased by 32.2% due to reduced funding received from the District.

Table 3 - Expenses by Function for the Years Ended September 30, 2008 and 2007

(\$000)

	FY 2008		FY 2007		Increase/(Decrease)	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent
Instruction	\$ 39,107	36%	\$ 45,463	38%	\$ (6,356)	-14%
Research	5,006	5	3,783	3	1,223	32
Public service	3,375	3	3,762	3	(387)	(10)
Academic support	18,113	16	13,534	11	4,579	34
Student services	8,719	8	8,353	7	366	4
Institutional support	3,816	3	20,214	17	(16,398)	(81)
Operations and maintenance	14,313	13	9,410	8	4,903	52
Scholarships and fellowships	6,512	6	5,388	5	1,124	21
Auxiliary operations	5,713	5	4,309	4	1,404	33
Depreciation	5,310	5	5,173	4	137	3
Total expense by function	<u>\$ 109,984</u>	<u>100%</u>	<u>\$ 119,389</u>	<u>100%</u>	<u>\$ (9,405)</u>	<u>-8%</u>

The approximate \$9.4 million decrease in functional activity from FY 2007 to FY 2008 is represented by a 39% decrease in academic affairs, 5% decrease in agency financial operations, 90% decrease in agency management programs, 18% increase in executive direction, 10% increase in student affairs, 3% increase in university advancement and a 1% decrease in depreciation. On a natural basis 48% of the decrease can be attributed to personnel costs and 52% can be attributed to other costs.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
 Management's Discussion and Analysis
 Years Ended September 30, 2008 and 2007

Table 4 - Expenses by Function for the Years Ended September 30, 2007 and 2006

(\$000)

	FY 2007		FY 2006		Increase/(Decrease)	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent
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)
Total expense by function	\$ 119,389	100%	\$ 110,702	100%	\$ 8,687	8%

The approximate \$8.7 million increase in functional activity from FY 2006 to FY 2007 is the result of 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 areas and a 10% decrease in depreciation. On a natural basis 66% of the increase can be attributed to personnel costs and 34% can be attributed to other costs.

Enrollment

The University operates an open admissions policy. The total official student enrollment for the Fall 2008 Semester is 5,595 representing a decrease of 0.3% compared to the Fall 2007 enrollment of 5,612. The total official student enrollment for the Fall of 2007 was 5,612 which represented a 3% decrease compared to the total enrollment of 5,772 for the Fall 2006 Semester. In Fall 2008, District residents comprised 61% and 42% of the University's total undergraduate and graduate enrollment, respectively. Comparatively, in the Fall 2007 Semester, District residents accounted for 66% and 44% of the University's total undergraduate and graduate enrollment, respectively. Also, in the Fall 2006 Semester, University residents accounted for 62% and 48% of the University's total undergraduate and graduate enrollment, respectively. Full-time equivalent enrollments were 4,014 in Fall 2008, 3,861 in Fall 2007 and 3,664 in Fall 2006. Total tuition and fees revenue grew from \$14.2 million in FY 2006 to nearly \$15.2 million in FY 2007 to nearly \$17.9 million in FY 2008.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis
Years Ended September 30, 2008 and 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 \$39.2 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 5 - University of the District of Columbia Capital Projects (\$000)

Renovate Academic Laboratories & Classrooms - Bldg 44	\$ 10,898
Renovate Building 52	8,995
Renovation of Classrooms-Bldgs. 32,42,38,39,41,46 & 47	7,791
Renovation of Plaza Deck & Parking Garage	5,650
Renovate Bldg. 39, A & C Levels & Bldg. 41 Level	2,600
Repair Concrete Stairs & Pathways	1,100
Renovation of Bldg. 47 Gymnasium (Design)	600
Renovation of Bldg. 46 East Auditorium(Design)	500
Replacement of Energy Management System	400
Upgrade Parking Garage & Campus Electrical Lighting Systems	372
Concept Design of New Student Center	364
Total Capital Improvement Program - Projects	\$ 39,270

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. In 2009, the University plans to expand its Community College component into a branch of the institution. The College will be managed by a Chief Executive Officer reporting to the President. The impact to the financial statements will be minimal in 2009.

Administrators are seeking to identify a site to house the College in 2010. The University plans to fund the initial start-up with funds from its existing fund balance and tuition increases.

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, Washington, D.C. 20008.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Statements of Net Assets

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 41,273,634	\$ 35,550,632
Accounts receivables, net of allowance of \$8,838,002 and \$7,831,991 in 2008 and 2007, respectively	5,761,956	6,243,879
Grants receivable, net of allowance of \$129,064 and \$128,890 in 2008 and 2007, respectively	4,895,591	3,323,287
Receivable from the District of Columbia	-	2,037,335
Accrued interest receivable	48,995	54,023
Other current assets	<u>124,566</u>	<u>65,408</u>
Total current assets	<u>52,104,742</u>	<u>47,274,564</u>
Non-current assets:		
Investments (Note 4)	31,103,452	39,065,200
Notes receivable, net of allowance of \$1,447,914 and \$1,450,141 in 2008 and 2007, respectively	255,104	144,599
Capital assets, net (Note 5)	68,047,778	63,736,460
Other	<u>297,313</u>	<u>299,114</u>
Total non-current assets	<u>99,703,647</u>	<u>103,245,373</u>
Total assets	<u>\$ 151,808,389</u>	<u>\$ 150,519,937</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 8,727,224	\$ 8,617,327
Accrued payroll	9,665,765	12,313,817
Litigation contingencies (Note 7)	3,460,000	11,266,212
Accrued leave	2,914,043	4,734,181
Deferred revenue	8,097,326	7,474,034
Other current liabilities	<u>1,314,303</u>	<u>771,022</u>
Total current liabilities	<u>34,178,661</u>	<u>45,176,593</u>
Non-current liabilities:		
Refundable advances	463,596	466,192
Due to the District of Columbia	9,852,163	-
Other	<u>1,010,032</u>	<u>1,072,880</u>
Total non-current liabilities	<u>11,325,791</u>	<u>1,539,072</u>
Total liabilities	<u>45,504,452</u>	<u>46,715,665</u>
NET ASSETS		
Investment in capital assets (Note 5)	68,047,778	63,736,460
Restricted for:		
Non-expendable endowments	7,241,706	7,241,706
Expendable grants and contracts	304,877	472,324
Unrestricted	<u>30,709,576</u>	<u>32,353,782</u>
Total net assets	<u>106,303,937</u>	<u>103,804,272</u>
Total liabilities and net assets	<u>\$ 151,808,389</u>	<u>\$ 150,519,937</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007
REVENUES		
Operating Revenues:		
Student tuition and fees, net of scholarships and discounts of \$2,278,545 and \$3,886,809 in 2008 and 2007, respectively	\$ 17,915,688	\$ 15,168,793
Federal grants and contracts	15,895,664	15,464,906
Local grants and contracts	8,062,079	11,149,878
Non-governmental grants and contracts	819,530	651,922
Sales and services of educational departments	1,399,006	1,470,728
Auxiliary enterprises:		
Athletics division	1,334,735	1,195,005
Child development center	69,536	61,063
Cable Television	228,437	118,736
Other operating revenues	1,866,581	2,482,203
Total operating revenues	47,591,256	47,763,234
EXPENSES		
Operating Expenses:		
Salaries	54,100,509	62,106,458
Benefits	10,890,408	13,639,639
Scholarships and fellowships	11,151,627	8,678,802
Contractual services	17,099,047	19,219,989
Utilities	6,546,592	5,752,366
Supplies and other services	4,886,289	4,819,144
Depreciation	5,310,011	5,172,762
Total operating expenses	109,984,483	119,389,160
Operating loss	(62,393,227)	(71,625,926)
NONOPERATING REVENUES		
District of Columbia appropriations	62,769,786	62,635,554
Investment income	(7,496,638)	6,870,200
Gifts for scholarships	1,687,652	452,495
Total nonoperating revenues	56,960,800	69,958,249
Loss before capital appropriations	(5,432,427)	(1,667,677)
Capital appropriations	7,932,092	2,836,057
Change in net assets	2,499,665	1,168,380
NET ASSETS		
Net assets, beginning of year	103,804,272	102,635,892
Net assets, end of year	\$ 106,303,937	\$ 103,804,272

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Statements of Cash Flows

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 18,839,994	\$ 15,878,524
Grants and contracts	23,385,878	28,140,942
Payments to vendors	(28,481,190)	(27,943,636)
Payments to employees	(77,265,318)	(73,473,144)
Other receipts (payments)	4,290,992	(3,851,045)
Net cash used in operating activities	<u>(59,229,644)</u>	<u>(61,248,359)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
District of Columbia appropriations	62,769,786	62,635,554
Change in advances to District of Columbia	2,037,335	2,306,492
Gifts for scholarships	1,687,652	452,495
Net cash provided by noncapital financing activities	<u>66,494,773</u>	<u>65,394,541</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(1,658,402)</u>	<u>(1,339,075)</u>
Net cash used in capital and related financing activities	<u>(1,658,402)</u>	<u>(1,339,075)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales/maturities of long-term investments	14,900,169	3,287,835
Interest on investments	2,604,326	3,304,781
Purchase of investments	<u>(17,388,220)</u>	<u>(4,253,957)</u>
Net cash provided by investing activities	<u>116,275</u>	<u>2,338,659</u>
Net increase in cash and cash equivalents	5,723,002	5,145,766
Cash and cash equivalents, beginning of year	35,550,632	30,404,866
Cash and cash equivalents, end of year	<u>\$ 41,273,634</u>	<u>\$ 35,550,632</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	(62,393,227)	(71,625,926)
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation	5,310,010	5,172,762
Bad debt expense	916,013	424,613
Change in:		
Accounts receivable	(434,088)	(725,210)
Grants receivable	(1,572,304)	805,370
Other current assets	(59,158)	41,761
Other non-current assets	1,801	(240,208)
Notes receivable	(110,505)	(6,525)
Accounts payable and accrued liabilities	(10,344,367)	2,068,292
Deferred revenue	946,321	1,079,192
Other current liabilities	480,431	223,439
Refundable advances	(2,596)	11,734
Accrued leave	(1,820,138)	1,522,347
Due to the District of Columbia	9,852,163	-
Net cash used in operating activities	<u>\$ (59,229,644)</u>	<u>\$ (61,248,359)</u>
NON-CASH TRANSACTIONS:		
Capital contributions	<u>\$ 7,932,092</u>	<u>\$ 2,836,057</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

INDEX TO THE NOTES TO THE BASIC FINANCIAL STATEMENTS

INDEX TO THE NOTES TO THE BASIC FINANCIAL STATEMENTS.....	11
NOTE 1: BACKGROUND AND HISTORY OF THE UNIVERSITY OF THE DISTRICT OF COLUMBIA	12
NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	12
A. FINANCIAL REPORTING ENTITY	12
B. MEASUREMENT FOCUS AND BASIS OF PRESENTATION.....	13
C. APPLICATION OF ACCOUNTING STANDARDS	14
D. SERVICES PROVIDED BY THE DISTRICT	14
E. FUND ACCOUNTING.....	14
F. CURRENT AND NONCURRENT.....	14
G. OPERATING AND NON-OPERATING REVENUES AND EXPENSES.....	14
H. CASH AND CASH EQUIVALENTS.....	14
I. RECEIVABLES.....	15
J. INVESTMENTS.....	15
K. CAPITAL ASSETS AND DEPRECIATION	15
L. COMPENSATED ABSENCE	15
M. DEFERRED REVENUE.....	16
N. INCOME TAX STATUS.....	16
O. USE OF ESTIMATES	16
P. SCHOLARSHIP ALLOWANCES	17
Q. NEW ACCOUNTING STANDARDS ADOPTED	17
R. PENDING CHANGES IN ACCOUNTING PRINCIPLES	17
S. POST-EMPLOYMENT BENEFITS.....	18
T. OTHER POST-EMPLOYMENT BENEFIT (OPEB).....	18
U. RECLASSIFICATIONS	18
NOTE 3: CASH AND CASH EQUIVALENTS.....	19
NOTE 4: INVESTMENTS	20
A. INVESTMENTS AUTHORIZED	20
B. CONCENTRATION RISK.....	20
C. INTEREST RATE RISK.....	20
D. CREDIT RISK	21
E. CUSTODIAL CREDIT RISK.....	21
F. FOREIGN CURRENCY RISK.....	21
G. INVESTMENTS IN DERIVATIVES.....	21
NOTE 5: CAPITAL ASSETS	23
NOTE 6: RETIREMENT PROGRAMS.....	24
A. DEFINED BENEFIT PENSION PLANS	24
B. DEFINED CONTRIBUTION PENSION PLANS	24
C. DEFERRED COMPENSATION PLANS.....	24
NOTE 7: COMMITMENTS AND CONTIGENCIES.....	25
A. RISK MANAGEMENT	25
B. GRANTS AND CONTRACTS.....	25
C. OCCUPANCY	25
D. LITIGATION	25
E. LEASE COMMITMENTS.....	26
NOTE 8: SUBSEQUENT EVENTS	26
A. SANCTIONS BY THE NATIONAL COLLEGIATE ATHLETIC ASSOCIATION (NCAA).....	26
B. DECLINE IN INVESTMENT VALUES.....	27

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

NOTE 1: BACKGROUND AND HISTORY OF THE UNIVERSITY OF THE DISTRICT OF COLUMBIA

The University of the District of Columbia (UDC) traces its roots to 1851 and the Miner Normal School. Land grant status was awarded in 1968. In 1977 the District of Columbia Teachers College, the Federal City College, and the Washington Technical Institute were consolidated into the University of the District of Columbia. The University currently offers 75 undergraduate and graduate academic degree programs through the College of Arts and Sciences; School of Business and Public Administration; School of Engineering and Applied Sciences; and the David A. Clarke School of Law. In addition, UDC offers a variety of practical, nonacademic educational programs and training through the Division of Community Outreach and Extension Services (COES).

The University is 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.

The University is located on a 21.8-acre site and includes ten buildings (the Van Ness Campus). Jurisdiction was assigned to the University by the United States General Services Administration (GSA) to be utilized for educational purposes. The estimated value of the Van Ness site has not been recorded in the financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental colleges and universities. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting standards. The significant accounting policies followed by the University are summarized below:

A. FINANCIAL REPORTING ENTITY

Governmental Generally Accepted Accounting Principles (GGAAP) in the United States defines a financial reporting entity as a body that consists of a primary government and its component units. The University of the District of Columbia is a component unit of the Government of the District of Columbia (the District).

The criteria used to determine if an organization is to be included as a component unit within the University's reporting entity are as follows:

- Either the entity is a legally separate entity or the University holds the corporate powers of the organization.
- The University appoints a voting majority of the organization's board.
- The University is able to impose its will on the organization.

The University is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the organization.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

University of the District of Columbia (UDC) Foundation. Based on the application of the aforementioned criteria, the UDC Foundation is deemed to be a component unit of the University. However, the financial activities of the UDC Foundation are insignificant. Accordingly, there is no separate disclosure in the financial statements for the UDC Foundation.

B. MEASUREMENT FOCUS AND BASIS OF PRESENTATION

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

Measurement Focus

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the accompanying comparative financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included in the statement of net assets. Net assets of the University funds are segregated into investment in capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets.

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, net of related debt – 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, 2008 and 2007, the University had no 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.

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 expense.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

C. APPLICATION OF ACCOUNTING STANDARDS

The University has the option to apply all FASB pronouncements issued after November 30, 1989, except for instances in which a pronouncement of the FASB conflicts with pronouncements of the GASB. The University has elected to not apply FASB pronouncements issued after November 30, 1989.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

D. 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 receives 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.

E. 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.

F. 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.

G. OPERATING AND NON-OPERATING REVENUES AND EXPENSES

Operating revenues and expenses are generally associated with those activities that relate directly to the core activities of instruction, research, and public service that form the essence of the University's mission (e.g. tuition and fees, federal and private grants and contracts, auxiliary income). Included in non-operating revenues are University appropriations, investment and endowment income and gifts for scholarships. GASB Statement #34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments specifically defines District appropriations as non-operating revenues.

H. CASH AND CASH EQUIVALENTS

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

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

I. 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 has not been met in this instance, a corresponding amount is recognized as deferred revenue.

J. INVESTMENTS

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 is 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.

K. 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. 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 is presented in **Table 1**:

Table 1 - Estimated Useful Lives (by Asset Category)

<u>Category</u>	<u>Depreciation/Amortization period</u>
Equipment, Furniture, and Fixtures	5 years
Library books	5 years
Buildings and improvements	50 years

L. COMPENSATED ABSENCE

Benefit Accumulation Policies

The University's policy allows employees to accumulate unused sick leave, with no maximum limitation. 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.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

In accordance with the provisions of the DCMR, Title 8, when an administrative or 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.

Accrual

In accordance with GASB Statement No. 16, the University reports a liability for compensated absences that are strictly limited to leave that:

- Is attributable to services already rendered; and
- Is not contingent on a specific event (such as illness) that is outside the control of the employer and employee, except as noted below:

As a matter of University policy, the University is liable for 10% of unused accumulated sick leave upon retirement of eligible employees as described above. This policy eliminates the contingency on a future event outside the control of both the employer and employee. Consequently, the University recognized the sick leave liability for this category of employees using the vesting method to measure such liability.

Other than as noted above, the University does not record a liability for accumulated rights to receive sick pay benefits. At the time of retirement, unused sick leave can be used to determine employees' years of service. One month would be added to the years and months of service of employees who have accumulated 22 days of sick leave in the Civil Service Retirement System and in the District Retirement Program. Expenses for such sick leave are not accrued because it is considered in connection with calculating pension cost.

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. The University records vacation as an expense and related liability as the benefit accrues to employees. Also, accumulated annual leave of the employees of the University is recorded as an expense and liability as the benefit accrues to employees based on salary rates and accumulated leave hours.

M. DEFERRED REVENUE

Tuition and fees revenues, as well as program revenues are shown as deferred revenues when they relate to future financial periods because the earning process has not been completed.

N. 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, 2008 and 2007.

O. 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, 2008 and 2007

P. 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 net of tuition and fees revenues in the statements of revenues, expenses, and changes in net assets.

Q. NEW ACCOUNTING STANDARDS ADOPTED

Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions – Issued in July 2004, this statement requires systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The Government of the District of Columbia is legally responsible for contributions to OPEB plans that cover the employees of the University. Consequently, the University complies with all the applicable provisions of this Statement for measurement and recognition of expense, liabilities and assets, note disclosures, and Required Supplementary Information (RSI) as required by paragraph 32 of this Statement.

Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues – Issued in September 2006, this Statement requires that certain transfers of receivables or the rights to future revenues to another entity be treated as either a sale, or a collateralized borrowing resulting in a liability. The implementation of this Statement is effective for financial statements for periods beginning after December 15, 2006, the University's fiscal year 2008. The University did not engage in any sales or pledges of receivables and future revenues as of September 30, 2008. The University received \$7.9 million of intra-entity transfers during the current year from the District of Columbia to fund their capital improvement program

Statement No. 50, Pension Disclosure – Issued in May 2007, this statement amends GASB Statements No. 25 and 27, changing the financial reporting requirements for pensions to more closely conform with those for other post-employment benefits. The statement is effective for both pension plans and employers for fiscal periods beginning after June 15, 2007 which is the University's fiscal year 2008. The Government of the District of Columbia is legally responsible for the retirement of the employees of the University. Consequently, the University complies with all the applicable provisions of this Statement for measurement and recognition of expense, liabilities and assets, note disclosures, and Required Supplementary Information (RSI).

R. PENDING CHANGES IN ACCOUNTING PRINCIPLES

Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations – Issued in November 2006 this Statement specifies the accounting and financial reporting appropriate for pollution remediation obligations. The implementation of this Statement is effective for financial statements for periods beginning after December 2007, the University's fiscal year 2009.

Statement No. 51, Accounting and Financial Reporting for Intangible Assets – Issued in June 2007 this standard establishes accounting and financial reporting requirements for intangible assets such as easements, patents and trademarks, and computer software. The requirements are mandated to be effective for financial statements for periods beginning after June 15, 2009, the University's fiscal year 2010. Retroactive implementation is only required for intangible assets acquired in fiscal years ending after June 30, 1980.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

Statement No. 52, Land and Other Real Estates Held as Investments by Endowments – Issued in November 2007 this statement requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for similar investments. This Statement is effective for financial statements for periods beginning after June 15, 2008, the University's fiscal year 2009

Statement No. 53, Accounting and Financial Reporting for Derivative Instruments – Issued in June 2008, this statement requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009, the University's fiscal year 2010. Earlier application is encouraged.

The University is in the process of assessing the impact of these new accounting standards and will present its financial statements in accordance with GASB Statements Nos. 49 and 52 for the year ended September 30, 2009 and in accordance with Nos. 51 and 53 for the year ended September 30, 2010.

S. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, employees may receive post-retirement health care and life insurance benefits. As of September 30, 2008, there were 74 pre-87 (Civil Service) and 1,092 post-87 (DC Defined Contribution) employees who are eligible for such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the Federal Government and the University has no liability for this cost. Pursuant to the D.C. Code 1-622 employees hired after September 30, 1987, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The University therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The University does not record a liability for its portion of the costs of post-retirement benefits but rather records such cost as expenses/expenditures when premiums are paid.

T. OTHER POST-EMPLOYMENT BENEFIT (OPEB)

The University provides health and life insurance benefits to retirees first employed by the University after September 30, 1987. The expense of providing such benefits to employees hired prior to October 1, 1987 is defrayed by the federal government and the University has no liability for those employees. The University pays 75% of the cost of health insurance, for eligible retirees, their spouse and dependent(s). In addition, the University pays 33% of the cost of life insurance depending on the election coverage for eligible retirees. The University has recognized \$55,630 for post-retirement health premiums paid during fiscal year 2008 and as of September 30, 2008, there were twelve (12) retirees that received these benefits. The District which is legally responsible for the contributions to OPEB plans has conducted an actuarial study of its obligations under the Plan and has begun funding the annual required contribution (ARC) in fiscal year 2008.

U. RECLASSIFICATIONS

Certain reclassifications have been made to the 2007 financial statements to conform to the current year presentation.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

NOTE 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 the funds 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 University's appropriation. Restricted cash represents cash held for the Department of Education Perkins loan program at the University as well as state restricted funds.

The University's cash and cash equivalents at September 30, 2008 and 2007 are reflected in **Table 2**:

**Table 2 - University Cash and Cash Equivalents -
Unrestricted and Restricted**

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents:		
Unrestricted	\$ 40,414,214	\$ 34,464,109
Restricted	859,420	1,086,523
Total cash and cash equivalents	<u>\$ 41,273,634</u>	<u>\$ 35,550,632</u>

The University's cash and cash equivalents indicated above which consist of the following at September 30, 2008 and 2007 are reflected in **Table 3**:

Table 3 - University Cash and Cash Equivalents

	<u>2008</u>	<u>2007</u>
Cash and demand deposits	\$ 41,073,444	\$ 35,350,442
Certificates of deposit	200,190	200,190
Total cash and cash equivalents	<u>\$ 41,273,634</u>	<u>\$ 35,550,632</u>

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

As of September 30, 2008 and 2007, the bank balances of cash on deposit were \$41,275,104 and \$35,552,212, respectively of which \$301,726 and \$398,730 were insured and collateralized in accordance with District policies.

NOTE 4: INVESTMENTS

Approximately \$14.2 million in investments are held by the JP Morgan Trust Company (Morgan) and \$16.8 million by Sanford C. Bernstein and Company (Bernstein) at September 30, 2008. At September 30, 2007, approximately \$17.2 million investments were held by the JP Morgan Trust Company, and \$21.8 million by Sanford C. Bernstein and Company.

A. 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 is comprised of the Chief Financial Officer, two members of the board of trustees and two alternates from the board of trustees. The committee serves to select the Investment Manager(s) and to review fund performance and investment objectives and 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. Other safe bonds (per the Office of the Comptroller General) 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 University, the University's board of trustees and its management. The University has an endowment fund investment and spending policy (ISP) for these funds.

B. 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. 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. As of September 30, 2008, the University held no individual investments with a value greater than 5.0% of the total investments.

C. 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, 2008, was 4.5 years for Bernstein investments and 2.51 years for the Morgan investments. At September 30, 2007 the average duration for which the bonds were held was 4.65 years for Bernstein investments and 2.12 years for the Morgan investments. The ISP states that fixed income investments must be readily marketable and may not include illiquid securities.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

D. CREDIT RISK

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The University invests in obligations of corporations, government notes and bonds, government agency securities and money market instruments. The University is exposed to credit risk on its fixed income holdings.

Credit risk is measured by the average quality of the fixed income securities held, which at September 30, 2008 and 2007 was "AA" for all fixed income securities. The investment policy of the University states that no more than ten (10) percent of the total amount of the endowment invested in fixed income securities may be invested in securities rated below 'A'. As of September 30, 2008, 12.6% was invested in fixed income securities rated below 'A'.

E. CUSTODIAL CREDIT RISK

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter-party, the University would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the University, and are held by either (a) the counter-party or (b) the counter-party's trust department or agent but not in the University's name.

F. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The ISP states that the asset allocation will maintain a maximum of 20% of its value in international equities and no more than 40% of the international component of the portfolio may be invested in a single foreign country. As of September 30, 2008 and 2007, 8.5% and 11%, respectively, was invested in international securities.

G. INVESTMENTS IN DERIVATIVES

The University's investment portfolio does not include any outright purchase of derivatives. Some derivatives exposure exists through the JPM Multistate Fund II managed by Morgan investments. The ISP authorizes 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, 2008 and 2007, 3% and 8.3% of investments were held in alternative investments.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

The University's investments at September 30, 2008 and 2007 are summarized in **Table 4**:

Table 4 - Summary of University Investments

	<u>2008</u>	<u>2007</u>
Unrestricted, noncurrent investments	\$ 23,861,746	\$ 31,823,494
Non-expendable, endowment investments	7,241,706	7,241,706
Total investments	<u>\$ 31,103,452</u>	<u>\$ 39,065,200</u>

University investments held at September 30, 2008:

	<u>Cost</u>	<u>Fair Market Value</u>
Fixed income	\$ 10,463,657	\$ 9,866,404
Equities and other investments	19,967,868	16,793,178
Real estate trust or partnership	907,821	986,014
International investments	2,658,492	2,642,542
Alternative investments	600,000	815,314
	<u>\$ 34,597,838</u>	<u>\$ 31,103,452</u>

University investments held at September 30, 2007:

	<u>Cost</u>	<u>Fair Market 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 OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements
Years Ended September 30, 2008 and 2007

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2008, is summarized in **Table 5** below:

Table 5 - Capital Assets activity for the year ended September 30, 2008

	Balance at September 30, 2007	Additions	Disposals	Adjustments	Balance at September 30, 2008
Capital assets subject to depreciation:					
Equipment, Furniture, and Fixtures	\$ 7,430,263	\$ 949,847	\$ (222,962)	\$ 30,834	\$ 8,187,982
Library books	19,266,209	708,555	-	-	19,974,764
Buildings and improvements	140,771,942	7,932,092	-	-	148,704,034
Total historic cost	167,468,414	9,590,494	(222,962)	30,834	176,866,780
Less: accumulated depreciation	(111,263,498)	(5,310,010)	222,962	-	(116,350,546)
Subtotal, Depreciable Capital Assets, Net	56,204,916	4,280,484	-	30,834	60,516,234
Capital assets not subject to depreciation:					
Land	7,531,544	-	-	-	7,531,544
Capital Assets, net	\$ 63,736,460	\$ 4,280,484	\$ -	\$ 30,834	\$ 68,047,778

Capital assets activity for the year ended September 30, 2007, is summarized in **Table 6** below:

Table 6 - Capital Assets activity for the year ended September 30, 2007

	Balance at September 30, 2006	Additions	Disposals	Adjustments	Balance at September 30, 2007
Capital assets subject to depreciation:					
Equipment, Furniture, and Fixtures	\$ 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

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

NOTE 6: RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

The University's full-time employees receive pension benefits either through the federally administered Civil Service Retirement System, District Retirement Systems or the University's Retirement Programs.

The University's Retirement Programs

The University offers four retirement plans to its eligible Educational Service and District Service employees. Eligible employees include faculty, administrative and wage grade staff of the University.

The four retirement plans are:

1. Teachers Insurance Annuity Association / College Retirement Equities Fund (TIAA/CREF)
2. Teachers Salary Act (TSA)
3. District Retirement Program
4. Civil Service Retirement System (CSRS)

Eligible Educational Service employees may participate in a contributory pension and retirement plan administered by TIAA/CREF. Under this plan, an employee may 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 7% for continuing full-time faculty hired after August 16, 2003. In addition, the University contributes 7% of the annual salary for administrative staff. Contributions are transferable to other eligible plans. Total payroll for all employees was approximately \$64.9 million of which employees with total payroll of approximately \$27.5 million were covered under the plan. The pension cost for the years ended September 30, 2008 and 2007 was \$4,308,149 and \$3,960,171, respectively. Generally, employees are fully vested in both their contributions and in the University's contributions. Approximately 782 employees were covered by this plan during the year.

B. DEFINED CONTRIBUTION PENSION PLANS

Career service employees hired on or after October 1, 1987, are covered by the defined contribution pension plan of the District's Retirement System. A non-contributory plan, the University contributes an amount equal to 5% of these employees' salaries to the plan. For the years ended September 30, 2008 and 2007, the University's contributions were \$61,839 and \$51,341, respectively.

For career service employees hired prior to October 1987, the University contributes 7% of these employees' salaries to the Civil Service Retirement System (CSRS). For the years ended September 30, 2008 and 2007, these contributions totaled \$213,482 and \$222,164, 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 Teachers Salary Act (Retirement System). Under this defined benefit plan, eligible employees contribute 7% of the employee's base salary. The University's contributions in fiscal years 2008 and 2007, totaled \$13,643 and \$13,111, respectively.

C. DEFERRED COMPENSATION PLANS

Internal Revenue Code Section 403 Plan

The University sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the University Retirement Program. The University does not contribute to this plan and has no liability to the plan. Contributions vest immediately and are not assets of the University.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

Internal Revenue Code Section 457 Plan

The University offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Contributions are not assets of the University.

NOTE 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 risk 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 year 2008. The University has no dormitory facilities for its student athletes and therefore contracts out these services. Since the value of the occupancy costs is not estimable, they are not recorded in the financial statements. 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 \$3.3 million as of September 30, 2008.

D. LITIGATION

At September 30, 2008 and 2007, 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, affecting 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

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

have been followed. A significant portion of this liability was paid during the year ended September 30, 2008. At September 30, 2008 and 2007 the liability (as reported as part of litigation contingencies), is estimated to be \$550,000 and \$7.9 million, respectively.

The University is also a party to a number of other legal actions. Liabilities have been accrued for these cases amounting to approximately \$2.9 million and \$3.3 million for fiscal years 2008 and 2007, 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 2008, the University ended a lease agreement with American University and entered into a lease agreement with Enclave Apartments to lease space for the Athletic Department. The University also leased equipment from various companies. Total rental expense during the years ended September 30, 2008 and 2007, for all operating leases was \$3,464,002 and \$1,363,216, respectively.

The future annual minimum lease payments under non-cancelable operating lease agreements as of September 30, 2008 that have an initial or remaining lease term in excess of one year are shown in **Table 7**:

Table 7 - Lease Commitments

<u>Year ending September 30,</u>	
2009	\$ 3,885,789
2010	2,912,193
2011	2,044,944
2012	1,870,820
Total	<u><u>\$ 10,713,746</u></u>

NOTE 8: SUBSEQUENT EVENTS

A. SANCTIONS BY THE NATIONAL COLLEGIATE ATHLETIC ASSOCIATION (NCAA)

On October 29, 2008, the National Collegiate Athletic Association (NCAA) levied numerous sanctions on the University. The Committee determined that the University allowed 248 athletes and two prospective athletes to practice or compete from the 2000-2001 through 2003-2004 academic years while ineligible. The University acknowledged it did not have policies in place to properly monitor the student-athletes and failed to accurately report information relating to violations. The penalties include five-years of probation, cancellation of seasons for certain sports, a one-year post-season ban in all sports, forfeiture of wins in select sports, a reduction of scholarships and a reduction in recruiting activities. Most of the violations occurred in 2000-2004 academic years, and some of the harshest penalties have already been self-implemented by the University. The University's five-year's probation started on Wednesday, October 29, 2008 and runs through October 28, 2013. The penalties are not expected to have a material effect on the financial position of the University.

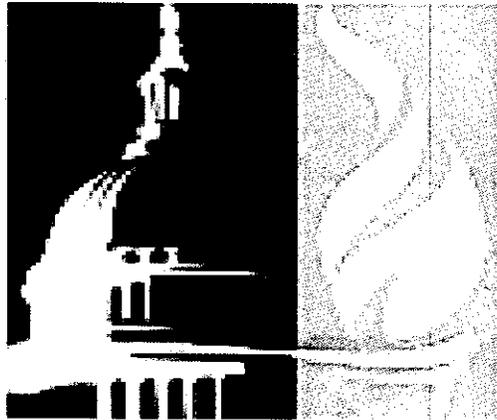
UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2008 and 2007

B. DECLINE IN INVESTMENT VALUES

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system triggered significant events and substantial volatility in world financial markets and the banking system that have had a significant negative impact on foreign and domestic financial markets. As a result, the University's investment portfolio has incurred a significant decline in fair value of \$6 million or 18.6% since September 30, 2008. However, because the values of the University's individual investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.



UNIVERSITY OF
THE DISTRICT
OF COLUMBIA



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