

**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, 2009, and 2008**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 22, 2010

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) 2009, 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, 2009, and 2008, 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,


Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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Mayor Fenty and Chairman Gray
FYs 2009 and 2008 UDC'S Financial Statements and
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OIG No. 10-1-06GF – Final Report
February 22, 2010
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University of the District of Columbia Financial Report September 30, 2008 and 2009



UNIVERSITY OF THE DISTRICT OF COLUMBIA

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UNIVERSITY OF THE DISTRICT OF COLUMBIA
MESSAGE FROM THE PRESIDENT

President's State of the Institution Letter:

I am proud to present the following document, which details the state of the University System of the District of Columbia. I am sure you will agree with me that our System is stronger than ever and ready to take on the challenges of a new decade.

Now that my administration has completed its first year, we can look back on some tremendous accomplishments. In August, the Community College of the District of Columbia opened its doors to more than 1,600 eager students. It was an achievement that had been talked about for years, and we were able to make it a reality, thanks to the sheer determination of this administration and our Board of Trustees.

This institution is on the brink of becoming all it can be. If you are a student, you have seen the improvements made to the facility. More are coming. If you are part of our faculty and staff, you can feel the positive changes that are molding our University System into what will become the finest such institution in America. I am confident the "new" UDC will soar far into the 21st century.

We are moving at an unprecedented pace to review and upgrade our academic programs. An ambitious effort led by our Provost will analyze the strengths and weaknesses of each program and develop a path forward that makes sense for the future of UDC and our students.

We are also moving to upgrade our facilities and campus - to "green" our environment - to become a welcoming element in our neighborhood. As we do so, we are reaching out across the District. We are examining locations that will serve as homes for our School of Business, our Law School, and the Community College. A brand new, state-of-the-art Student Center will grace our campus soon, and student dorms will emerge in 2010. We are the District's State University, and we will be the public face of higher education across the region.

I invite you to share our vision for the future. Visit www.udc.edu, and click on the "Administration" tab. Then click on "Office of the President". There, you will find a presentation that explains in detail where we are and where we're going.

Thank you for your continued support, and I hope you'll join me in celebrating the "new" University System of the District of Columbia.

Very Truly Yours,



Allen L. Sessoms, Ph.D.
President, University System of the District of Columbia

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Chief Financial Officer



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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, 2009 and 2008, 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, 2009 and 2008, 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 January 12, 2010, 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 8 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
January 12, 2010

BDO Seidman, LLP

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis
Years Ended September 30, 2009 and 2008

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, 2009 and 2008. 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, 2009 and 2008

Financial Highlights

Condensed Financial Information

Table 1 – Condensed Statements of Net Assets as of September 30, 2009, 2008 and 2007 (\$000)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 56,806	\$ 52,105	\$ 47,275
Noncurrent assets:			
Investments and notes receivable, net of allowance	33,868	31,358	39,210
Capital assets, net of depreciation	69,993	68,048	63,736
Other	296	297	299
Total assets	<u>160,963</u>	<u>151,808</u>	<u>150,520</u>
Liabilities:			
Current liabilities	35,674	34,178	45,177
Noncurrent liabilities	23,106	11,326	1,539
Total liabilities	<u>58,780</u>	<u>45,504</u>	<u>46,716</u>
Net assets:			
Invested in capital assets	69,993	68,048	63,736
Restricted for nonexpendable endowments	7,242	7,242	7,242
Restricted for expendable grants and contracts	566	305	472
Unrestricted	24,382	30,709	32,354
Total net assets	<u>\$ 102,183</u>	<u>\$ 106,304</u>	<u>\$ 103,804</u>

The decrease of approximately \$4 million (4%) in total net assets (shown in Table 1) from 2008 to 2009 is largely attributed to a decrease in unrestricted funds. The increase of \$9 million (6%) in total assets is primarily a result of increases of \$4.7 million in current assets. The main increase in current assets is a result of \$1.3 million (100%) in receivable from the District of Columbia. The approximately \$13 million or 29% increase in total liabilities, is due primarily to a \$12.5 million increase in “Due to the District of Columbia” and \$.5 million increase in current liabilities from intra-governmental activities. The decrease in unrestricted net assets of \$6.3 million or 21% is mainly due to the increase in expense including bad debts write-off.

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 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.

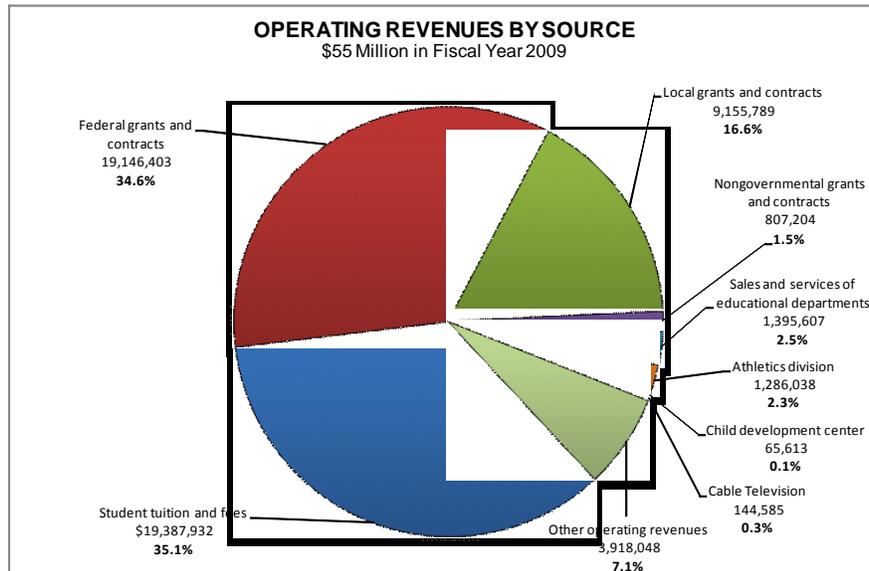
UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis

Years Ended September 30, 2009 and 2008

Table 2 – Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended September 30, 2009, 2008 and 2007 (\$000)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues:			
Tuition and fees	\$ 19,388	\$ 17,916	\$ 15,169
Federal, District and private grants and contracts	29,109	24,777	27,266
Auxiliary enterprises and other sales and services	2,892	3,032	2,846
Other	3,918	1,866	2,482
Total operating revenues	<u>55,307</u>	<u>47,591</u>	<u>47,763</u>
Less operating expenses	<u>130,611</u>	<u>109,984</u>	<u>119,389</u>
Net assets used in operating activities	<u>(75,304)</u>	<u>(62,393)</u>	<u>(71,626)</u>
Nonoperating revenues:			
District of Columbia appropriations	62,070	62,770	62,636
Investment income	959	(7,497)	6,870
Other	2,766	1,688	452
Total	<u>65,795</u>	<u>56,961</u>	<u>69,958</u>
Decrease in net assets before capital appropriations	<u>(9,509)</u>	<u>(5,432)</u>	<u>(1,668)</u>
Capital appropriations	<u>5,388</u>	<u>7,932</u>	<u>2,836</u>
(Decrease) increase in net assets	<u>(4,121)</u>	<u>2,500</u>	<u>1,168</u>
Net assets, beginning of year	<u>106,304</u>	<u>103,804</u>	<u>102,636</u>
Net assets, end of year	<u>\$ 102,183</u>	<u>\$ 106,304</u>	<u>\$ 103,804</u>



UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis

Years Ended September 30, 2009 and 2008

The increase in operating revenues of approximately \$7.7 million (16.2%) from 2008 to 2009 is largely due to an increase in tuition and fees of \$1.5 million authorized by the University Board of Trustees and in contracts and grants revenue increase of \$4.3 million. The increase in tuition and fees are prorated to reflect 1/3 as earned revenues for 2009 and 2/3 as deferred revenues, to be earned in 2010. The approximate \$8.8 million (16%) net increase in total non-operating revenues consists of approximately \$8.5 million (112.8%) in investment income. The increase in investment income is due to the net gain in the fair market value in fixed income, equities, international and alternative investments, net increase in dividends and interest earned. Capital appropriations decreased by 32.1% due to decreased funding received from the District.

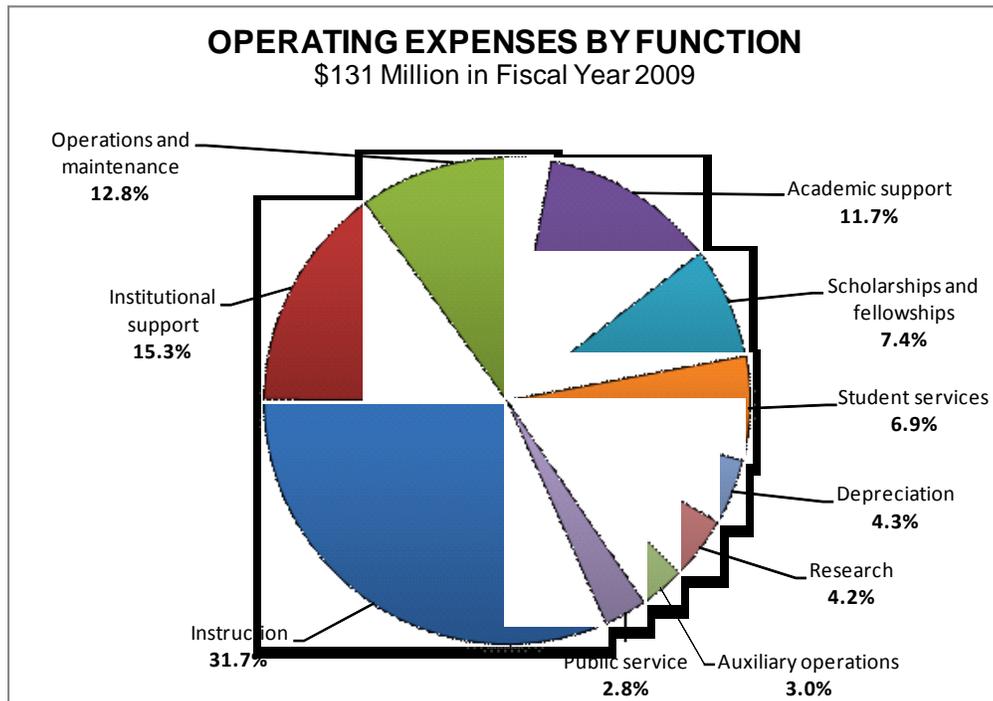
The decrease in operating revenues of approximately \$0.2 million (0.4%) from 2007 to 2008 is largely due to an increase in out of state student enrollment offset by decreases in contracts and grants of \$2.5 million as a result of fewer District grants awarded to the University and fewer programs. The 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.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis
 Years Ended September 30, 2009 and 2008

Table 3 - Expenses by Function for the Years Ended September 30, 2009 and 2008 (\$'000)

	FY 2009		FY 2008		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Instruction	\$ 41,506	32%	\$ 39,107	36%	\$ 2,399	6%
Research	5,440	4	5,006	5	434	9
Public service	3,689	3	3,375	3	314	9
Academic support	15,259	12	18,113	16	(2,854)	(16)
Student services	8,981	7	8,719	8	262	3
Institutional support	19,645	15	3,816	3	15,829	415
Operations and maintenance	16,712	13	14,313	13	2,399	17
Scholarships and fellowships	9,733	7	6,512	6	3,221	49
Auxiliary operations	3,970	3	5,713	5	(1,743)	(31)
Depreciation	5,676	4	5,310	5	366	7
Total expense by function	\$130,611	100%	\$109,984	100%	\$ 20,627	19%



UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis

Years Ended September 30, 2009 and 2008

The approximate \$20.6 million increase in functional activity from FY 2008 to FY 2009 is represented by a 22% increase in academic affairs, 14% increase in agency financial operations, 52% increase in agency management programs, 7% decrease in executive direction, 18% increase in student affairs, 0.3% decrease in university advancement and a 2% increase in depreciation. On a natural basis 61% of the increase can be attributed to personnel costs and 39% can be attributed to other costs.

Table 4 - 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 Change
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.

Enrollment

The University operates an open admissions policy. The total official student enrollment for the Fall 2009 Semester is 5,260 representing an increase of 6% compared to the Fall 2008 enrollment of 4,959. The enrollment increase is mainly due to commencement of the Community college. The total official student enrollment for the Fall of 2008 was 4,959 which represented a 12% decrease compared to the total enrollment of 5,612 for the Fall 2007 Semester. In Fall 2009, District students comprised 92% and 8% of the University's total undergraduate and graduate enrollment, respectively. Comparatively, in the Fall 2008 Semester, District students accounted for 90% and 10% of the University's total undergraduate and graduate enrollment, respectively. Full-time equivalent enrollments were 4,770 in Fall 2009, and 4,484 in Fall 2008. Total tuition and fees revenue increased by \$1.5 million in FY 2009, from \$17.9 million in FY 2008 to \$19.4 million in FY 2009.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Management's Discussion and Analysis
Years Ended September 30, 2009 and 2008

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 \$40.2 million, for the fiscal year 2007 through fiscal year 2011 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		4,650
Renovate Bldg. 39, A Level Design		4,265
Replacement of Energy Management System		400
Repair Concrete Stairs & Pathways		1,100
Renovation of Bldg. 47 Gymnasium (Design)		600
Renovation of Bldg. 46 East Auditorium(Design)		500
Upgrade Parking Garage & Campus Electrical Lighting Systems		1,000
Total Capital Improvement Program - Projects	\$	40,199

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 expanded its Community College component into a branch of the institution. The College is managed by a Chief Executive Officer reporting to the President. The impact to the financial statements is 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

September 30, 2009 and 2008

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 42,101,979	\$ 41,273,634
Accounts receivables, net of allowance (Note 4)	6,597,141	5,761,956
Grants receivable, net of allowance (Note 4)	6,544,102	4,895,591
Receivable from the District of Columbia	1,313,052	-
Accrued interest receivable	35,501	48,995
Other current assets (Prepays and Advances)	214,118	124,566
Total current assets	56,805,893	52,104,742
Non-current assets:		
Investments (Note 5)	33,511,924	31,103,452
Notes receivable, net of allowance (Note 4)	356,827	255,104
Capital assets, net (Note 6)	69,992,530	68,047,778
Other (Long Term Receivables)	296,214	297,313
Total noncurrent assets	104,157,495	99,703,647
Total assets	\$ 160,963,388	\$ 151,808,389
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 6,205,072	\$ 8,727,224
Accrued payroll	11,139,601	9,665,765
Litigation contingencies (Note 8)	2,600,000	3,460,000
Accrued leave	3,499,784	2,914,043
Deferred revenue	10,374,624	8,097,326
Other current liabilities (Bookstore vouchers, Student insurance and Unclaimed property)	1,855,612	1,314,303
Total current liabilities	35,674,693	34,178,661
Noncurrent liabilities:		
Refundable advances	558,951	463,596
Due to the District of Columbia	22,547,161	9,852,163
Other (Intra-District Advances)	-	1,010,032
Total noncurrent liabilities	23,106,112	11,325,791
Total liabilities	58,780,805	45,504,452
NET ASSETS		
Investment in capital assets (Note 6)	69,992,530	68,047,778
Restricted for:		
Nonexpendable endowments	7,241,706	7,241,706
Expendable grants and contracts	566,499	304,877
Unrestricted	24,381,848	30,709,576
Total net assets	102,182,583	106,303,937
Total liabilities and net assets	\$ 160,963,388	\$ 151,808,389

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, 2009 and 2008

	2009	2008
REVENUES		
Operating Revenues:		
Student tuition and fees, net of allowance (Note 4)	\$ 19,387,932	\$ 17,915,688
Federal grants and contracts	19,146,403	15,895,664
Local grants and contracts	9,155,789	8,062,079
Nongovernmental grants and contracts	807,204	819,530
Sales and services of educational departments	1,395,607	1,399,006
Auxiliary enterprise:		
Athletics division	1,286,038	1,334,735
Child development center	65,613	69,536
Cable Television	144,585	228,437
Other operating revenues	3,918,049	1,866,581
Total operating revenues	55,307,220	47,591,256
EXPENSES		
Operating Expenses:		
Salaries	65,949,486	54,100,509
Benefits	13,994,674	10,890,408
Scholarships and fellowships	14,240,303	11,151,627
Contractual Services	15,886,588	17,099,047
Utilities	9,476,110	6,546,592
Supplies and other services	5,388,151	4,886,289
Depreciation	5,675,737	5,310,011
Total operating expenses	130,611,049	109,984,483
Operating loss	(75,303,829)	(62,393,227)
NONOPERATING REVENUES		
District of Columbia appropriations	62,070,000	62,769,786
Investment income	958,561	(7,496,638)
Gifts for scholarships	1,895,694	1,687,652
Other nonoperating revenues	869,914	-
Total nonoperating revenues	65,794,169	56,960,800
Loss before capital appropriations	(9,509,660)	(5,432,427)
Capital appropriations	5,388,306	7,932,092
Change in net assets	(4,121,354)	2,499,665
NET ASSETS		
Net assets, beginning of year	106,303,937	103,804,272
Net assets, end of year	\$ 102,182,583	\$ 106,303,937

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Statements of Cash Flows

Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 20,555,749	\$ 18,839,994
Grants and contracts	27,735,183	23,385,878
Payments to vendors	(33,362,553)	(28,481,190)
Payments to employees	(78,744,584)	(77,265,318)
Other receipts	5,800,627	4,290,992
Net cash used in operating activities	<u>(58,015,578)</u>	<u>(59,229,644)</u>
CASH FLOWS FROM (USED IN) NONCAPITAL FINANCING ACTIVITIES		
District of Columbia appropriations	62,070,000	62,769,786
Change in advances to/from District	(1,313,052)	2,037,335
Gifts for scholarships	1,895,694	1,687,652
Net cash provided by noncapital financing activities	<u>62,652,642</u>	<u>66,494,773</u>
CASH FLOWS FROM (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(1,366,249)</u>	<u>(1,658,402)</u>
Net cash used in capital and related financing activities	<u>(1,366,249)</u>	<u>(1,658,402)</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Proceeds from sales/maturities of long-term investments	6,530,138	14,900,169
Interest on investments	845,148	2,604,326
Purchase of investments	<u>(9,817,755)</u>	<u>(17,388,220)</u>
Net cash provided (used) for investing activities	<u>(2,442,469)</u>	<u>116,275</u>
Net increase in cash and cash equivalents	828,345	5,723,002
Cash and cash equivalents, beginning of the year	41,273,634	35,550,632
Cash and cash equivalents, end of the year	<u>\$ 42,101,979</u>	<u>\$ 41,273,634</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating loss	\$ (75,303,829)	\$ (62,393,227)
Adjustments to reconcile operating income to net cash provided used in operating activities:		
Depreciation	5,675,737	5,310,010
Bad debt expense	5,356,531	916,013
Change in:		
Accounts receivable	(6,191,716)	(434,088)
Grants receivable	(1,648,511)	(1,572,304)
Other current assets	(89,552)	(59,158)
Other non-current assets	1,100	1,801
Notes receivable	(101,722)	(110,505)
Accounts payable and accrued liabilities	(1,908,316)	(10,344,367)
Deferred revenue	2,277,299	946,321
Other current liabilities	541,308	480,431
Refundable advances	95,355	(2,596)
Accrued leave	585,740	(1,820,138)
Due to District of Columbia	12,694,998	9,852,163
Net Cash used in operating activities	<u>\$ (58,015,578)</u>	<u>\$ (59,229,644)</u>
NON-CASH TRANSACTIONS:		
Loss on disposal of capital assets	<u>\$ 3,979</u>	<u>\$ -</u>
Capital contributions	<u>\$ 5,388,306</u>	<u>\$ 7,932,092</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

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UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

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

The University of the District of Columbia (the University) 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, the University offers a variety of practical, nonacademic educational programs and training through the Division of Community Outreach and Extension Services (COES).

In January 2009, The Board of Trustees approved the creation of a new University System, which now includes the University and the Community College of the District of Columbia (CCDC). Beginning in fall 2009, CCDC serves the City's residents by integrating workforce preparation, employability skill development, quality education and remediation, economic development and employer linkages, school-to-career training—providing a seamless transition from K-12 to adult education and literacy to college prep—and continuous lifelong learning. This new institution provides new opportunities to DC citizens, employers, the University, and the District of Columbia.

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 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:

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

- The entity is a legally separate entity.
- 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.

The University of the District of Columbia (UDC) and David A. Clarke Law School Foundations: Based on the application of the aforementioned criteria, the Foundations are deemed to be a component unit of the University. However, the financial activities of the Foundations are insignificant. Accordingly, there are no separate disclosures in the financial statements for the Foundations.

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 statements of net assets. 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, 2009 and 2008, 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.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

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. 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.

C. APPLICATION OF ACCOUNTING STANDARDS

The University has the option to apply all Financial Accounting Standards Board (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

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

No.34 Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments specifically define District appropriations as non-operating revenues. Expenses are recognized as incurred.

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.

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** below:

Table 1 - Estimated Useful Lives (by Asset Category)

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

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

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. 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.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

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, 2009 and 2008.

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.

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. 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. The implementation of this statement did not have a significant impact on the financial statements of the University.

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. The implementation of this statement did not have a significant impact on the financial statements of the University.

R. PENDING CHANGES IN ACCOUNTING PRINCIPLES

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

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

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.

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 financial statements in accordance with GASB Statements Nos. 51 and 53 for the year ending 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 2009 and as of September 30, 2009, 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 began funding the annual required contribution (ARC) in fiscal year 2008.

U. RECLASSIFICATIONS

Certain reclassifications have been made to the 2008 financial statements to conform to the current year presentation.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

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, 2009 and 2008 are reflected in **Table 2**:

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents:		
Unrestricted		
Bank of America	\$ 40,927,663	\$ 38,745,183
JP Morgan	154,759	1,374,385
Independence Bank	100,190	100,190
Industrial Bank	100,000	100,000
SC Bernstein	29,626	94,456
Subtotal Unrestricted	<u>41,312,238</u>	<u>40,414,214</u>
Restricted		
Bank of America	649,894	649,894
US Bank	100,236	106,603
SC Bernstein	39,611	102,923
Subtotal Restricted	<u>789,741</u>	<u>859,420</u>
Total cash and cash equivalents	<u>\$ 42,101,979</u>	<u>\$ 41,273,634</u>

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

The University's cash and cash equivalents indicated above which consist of the following at September 30, 2009 and 2008 are reflected in **Table 3**:

Table 3 - University Cash and Cash Equivalents

	2009	2008
Cash and demand deposits:		
Bank of America	\$ 41,577,557	\$ 39,395,077
JP Morgan	154,759	1,374,385
US Bank	100,236	106,603
SC Bernstein	69,237	197,379
Subtotal Cash and demand deposits	41,901,789	41,073,444
Certificates of deposit:		
Independence Bank	100,190	100,190
Industrial Bank	100,000	100,000
Subtotal Certificates of deposit	200,190	200,190
Total cash and cash equivalents	\$ 42,101,979	\$ 41,273,634

As of September 30, 2009 and 2008, the bank balances of cash on deposit were \$42,101,979 and \$41,273,634 of which \$774,423 and \$600,000, respectively were insured and collateralized. The FDIC standard insurance amount of \$250,000 per depositor is in effect through December 31, 2013; currently the University's Bank of America account has a balance that exceeds the insured amount.

NOTE 4: RECEIVABLES AND REVENUE ADJUSTMENTS

The student tuition and fees revenue balance of \$19,387,932 and \$17,915,688 are net of scholarships and discounts of \$402,000 and \$2,278,545 in fiscal years 2009 and 2008, respectively.

The accounts receivable balance of \$6,597,141 and \$5,761,956 are net of allowance for doubtful accounts of \$3,391,471 and \$8,838,002 in fiscal years 2009 and 2008, respectively.

The grants receivable balance of \$6,544,102 and \$4,895,591 are net of allowance for doubtful accounts of \$129,064 in fiscal years 2009 and 2008, respectively.

The notes receivable balance of \$356,827 and \$255,104 are net of allowance for uncollectable accounts of \$1,431,326 and \$1,447,914 in fiscal years 2009 and 2008, respectively.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

NOTE 5: INVESTMENTS

Approximately \$15.9 million in investments are held by the JP Morgan Trust Company (Morgan) and \$17.6 million by Sanford C. Bernstein and Company (Bernstein) at September 30, 2009. At September 30, 2008, approximately \$14.2 million investments were held by the JP Morgan Trust Company, and \$16.8 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, 2009, the University held no individual investments with a value greater than 5% 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, 2009, was 4.5 years for Bernstein investments and 2.25 years for the Morgan investments. At September 30, 2008 the average duration for which the bonds were held was 4.5 years for Bernstein investments and 2.51 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, 2009 and 2008

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, 2009 and 2008 were “AAA” and “AA” respectively 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, 2009, 20.19% 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. The University is not exposed to custodial credit risk.

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, 2009 and 2008, 16.8% and 8.5%, 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, 2009 and 2008, 3% of investments were held in alternative investments.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

The University's investments at September 30, 2009 and 2008 are summarized in **Table 4**:

Table 4 - Summary of University Investments

	2009	2008
Unrestricted, noncurrent investments	\$ 26,270,218	\$ 23,861,746
Non-expendable, endowment investments	7,241,706	7,241,706
Total investments	\$ 33,511,924	\$ 31,103,452

University investments held at September 30, 2009:

	Cost	Fair Market Value
Fixed income	\$ 9,296,591	\$ 9,362,500
Equities and other investments	19,629,887	19,346,821
Real estate trust or partnership	1,024,340	834,101
International investments	3,315,262	3,222,054
Alternative investments	600,000	746,448
	\$ 33,866,080	\$ 33,511,924

University investments held at September 30, 2008:

	Cost	Fair Market Value
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
	\$ 34,597,838	\$ 31,103,452

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

NOTE 6: CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2009, is summarized in **Table 5** below:

Table 5 - Capital assets activity for the year ended September 30, 2009

	Balance at September 30, 2008	Additions	Disposals	Adjustments	Balance at September 30, 2009
Capital assets subject to depreciation:					
Furniture, Fixtures and Equipment	\$ 8,187,982	\$ 653,719	\$ (481,776)	\$ -	\$ 8,359,925
Library books	19,974,764	712,529	-	-	20,687,293
Buildings and improvements	148,704,034	5,388,306	-	-	154,092,340
Total historic cost	176,866,780	6,754,554	(481,776)	-	183,139,558
Less accumulated depreciation	(116,350,546)	(5,675,737)	477,797	-	(121,548,486)
Subtotal, Depreciable Capital Assets, Net	60,516,234	1,078,817	(3,979)	-	61,591,072
Capital assets not subject to depreciation:					
Land	7,531,544	-	-	-	7,531,544
Construction in progress - CIP	-	869,914	-	-	869,914
Capital Assets, net	\$ 68,047,778	\$ 1,948,731	\$ (3,979)	\$ -	\$ 69,992,530

The estimated cost and date to complete Construction in progress – CIP is \$3.4 million by August 2011.

Capital assets activity for the year ended September 30, 2008, is summarized in **Table 6** below:

Table 6 - 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:					
Furniture, Fixtures and Equipment	\$ 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

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

NOTE 7: 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 prior to August 16, 2003, and 7% for continuing full-time faculty hired on or after August 16, 2003. In addition, the University contributes 7% of the annual salary for the law school faculty and administrative staff. Contributions are transferable to other eligible plans. Total payroll for all employees was approximately \$65.9 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, 2009 and 2008 was \$4,256,351 and \$4,308,149, respectively. Generally, employees are fully vested immediately after start of contribution in both their contributions and in the University's contributions. Approximately 795 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, 2009 and 2008, the University's contributions were \$82,979 and \$61,839, 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, 2009 and 2008, these contributions totaled \$183,915 and \$213,482, 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 2009 and 2008, totaled \$13,828 and \$13,643, respectively.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

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.

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 8: 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. 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 in 2008 and as of September 30, 2009 is \$3.8 million. 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.

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Notes to the Financial Statements

Years Ended September 30, 2009 and 2008

D. LITIGATION

At September 30, 2009 and 2008, 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 have been followed. A significant portion of this liability was paid during the year ended September 30, 2008. At September 30, 2009 and 2008 the liability (as reported as part of litigation contingencies), is estimated to be \$450,000 and \$550,000, respectively.

The University is also a party to a number of other legal actions. Liabilities have been accrued for these cases amounting to approximately \$2.6 million and \$2.9 million for fiscal years 2009 and 2008, 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 2009, the University had 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, 2009 and 2008, for all operating leases was \$3,982,356 and \$3,464,002, respectively.

The future annual minimum lease payments under non-cancelable operating lease agreements as of September 30, 2009 that have an initial or remaining lease term in excess of one year are shown in **Table 7**:

<u>Years ending September 30,</u>	
2010	\$ 3,342,076
2011	1,534,944
2012	1,573,320
Total	<u>\$ 6,450,340</u>



UNIVERSITY OF
THE DISTRICT
OF COLUMBIA



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