



Basic Financial Statements
September 30, 2011 and 2010
(With Independent Auditors' Report Thereon)



A Component Unit of the Government of the District of Columbia

UNIVERSITY OF THE DISTRICT OF COLUMBIA
(A Component Unit of the Government of the District of Columbia)

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(Board member)

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Mary C. Thompson
Jerome Shelton



Dr. Allen Sessoms
(President, Ex-Officio)

UNIVERSITY OF THE DISTRICT OF COLUMBIA

Message from the President, Dr. Allen Sessoms



Friends,

It is my pleasure to greet you as the University of the District of Columbia continues solid progress in its positive transformation. This financial overview provides a look at what we have accomplished over the last year and what challenges remain.

I am happy to report that our physical renovations continue on schedule. Thanks to the Mayor and City Council, we have been able to capitalize on a \$212 million infusion of resources to help us do a number of things. The interior renovation of the Van Ness campus has been nothing short of stunning. Green spaces, sustainable lighting and recycled waterfalls are signature components of the largest green roof project under way in the District. We have just broken ground on a new student center, the first LEED Platinum facility of its kind in the nation. And work continues to upgrade our aging buildings and equipment system-wide.

We have engaged a first-ever efficiency initiative at the university. We are examining methods in which we can streamline and continue to deliver quality service in the most cost-effective ways possible. We have even created a website in order to let the public see how we are doing in that area.

Despite these tremendous accomplishments, many challenges remain. I am very proud to have been able to establish the UDC Community College with no additional funding. As the community college continues to experience overwhelming success and growth, it is imperative that we work together to fund the upgrades necessary to sustain the only public university system in our city.

We are building a truly great experience for our students. This literal ‘ground-up’ process is long overdue and will result in the University of the District of Columbia becoming the shining example of what public higher education can and should be for our nation. I invite you to see our progress and join our effort!

Sincerely,

A handwritten signature in black ink, appearing to read 'Allen L. Sessoms', written in a cursive style.

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

**DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER**



Anthony F. Pompa
Deputy Chief Financial Officer
Financial Operations and Systems



Dr. Natwar M. Gandhi
Chief Financial Officer



Mohamed A. Mohamed
Associate Chief Financial Officer
Government Operations Cluster

**UNIVERSITY OF THE DISTRICT OF COLUMBIA
FINANCE STAFF**

Ibrahim H. Koroma
Chief Financial Officer

Aniema Udofa
Controller

William C. Nelson
Director of Budget

David Garnett
Director of Student Accounts

Frank Schuetz
Deputy Controller

Ann Cole
Gil Francisco
Anthony Jiminez
Wanda Jones
Raamonda Massie
Wilma Raynor
Barbara Terry
Carol Wilson

Janis Simmons
Manager of Student Accounts

Max Fano
Alemu Hailemariam
Thanh Huynh
Uchenna Ijezie
Paul Johnson
Monica Lewis
Valencia Ledbetter
Robin Sharps
Daryl Vann
Fikre Wubie

Gloria Betts
Shantae Jones
Erick Myrick

Cashiers
Charice Gamble, Supervisor
Charrise Baylor
Michelle Mosby

Administrative Support
Valeria Conn

Program Systems
Benjamin DeSantis, Manager
Marie Nkumbe

Internal Audit
Krishna Saraiya



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Board of Trustees
University of the District of Columbia
Washington, DC 20008

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, 2011 and 2010, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, 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 the 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 audit.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

January 31, 2012

UNIVERSITY OF THE DISTRICT OF COLUMBIA
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis

September 30, 2011 and 2010

Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the University of the District of Columbia (the University) as of and for the fiscal years ended September 30, 2011 and 2010. 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 – an amendment of GASB Statement No. 34*. 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 four major categories. The first category, invested 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. Nonexpendable restricted net assets represent the endowment corpus from the federal government in lieu of land. The third category is expendable net assets. 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. The fourth category is unrestricted net assets, which are available to the University for any lawful purpose determined 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.

Operating revenues are received for goods and services provided 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, noncapital, capital and related financing activities 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. 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
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis

September 30, 2011 and 2010

Financial Highlights

Condensed Financial Information

Table 1 – Condensed Statements of Net Assets as of September 30, 2011, 2010 and 2009 (\$000):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 64,727	49,150	56,806
Noncurrent assets:			
Investments and notes receivable, net of allowance	33,899	35,995	33,868
Capital assets, net of depreciation	97,820	84,627	69,993
Other	296	296	296
Total assets	<u>\$ 196,742</u>	<u>170,068</u>	<u>160,963</u>
Liabilities:			
Current liabilities	\$ 77,469	77,642	58,221
Noncurrent liabilities	1,242	1,388	559
Total liabilities	<u>\$ 78,711</u>	<u>79,030</u>	<u>58,780</u>
Net assets:			
Invested in capital assets	\$ 97,820	84,626	69,993
Restricted for nonexpendable endowments	7,242	7,242	7,242
Expendable: grants and contracts	187	335	566
Unrestricted	12,782	(1,165)	24,382
Total net assets	<u>\$ 118,031</u>	<u>91,038</u>	<u>102,183</u>

The increase of approximately \$27 million (30%) in total net assets (shown in Table 1 above) from FY 2010 to FY 2011 is primarily attributed to extinguishment of amounts due to the District of Columbia of \$16.1 million and increases in capital appropriations. UDC's major renovation projects continued through FY 2011 for an increase in net capital assets of \$13.2 million (15.6%).

The decrease of approximately \$11 million (11%) in total net assets (shown in Table 1 above) from FY 2009 to FY 2010 is primarily attributed to an increase in expenditures related to operations of the Community College of the District of Columbia (CCDC), which began operations in the fall of 2009. In addition, there was a 21% increase in the purchase of capital assets primarily used to renovate building 52 and the plaza decks.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
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Management's Discussion and Analysis

September 30, 2011 and 2010

Table 2 – Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended September 30, 2011, 2010 and 2009 (\$000):

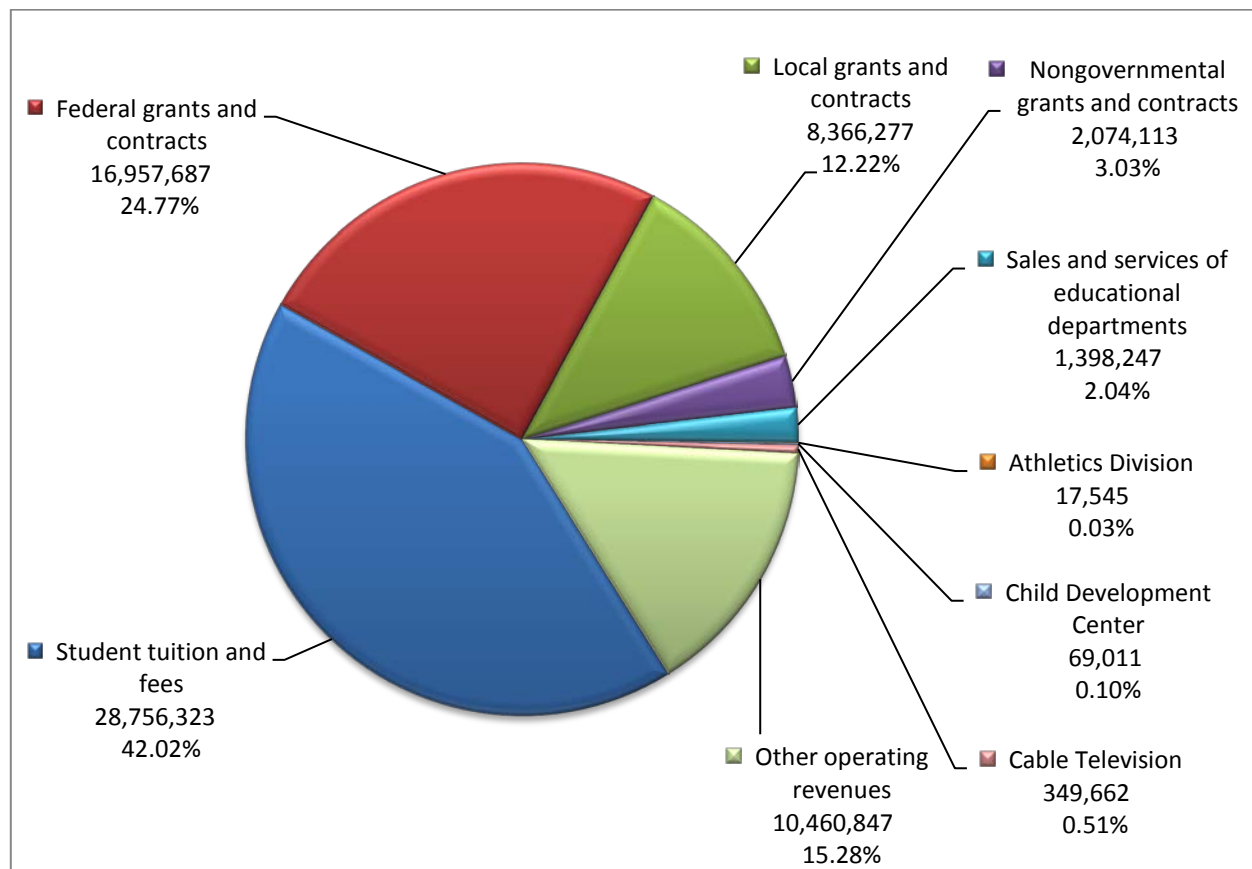
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Tuition and fees	\$ 28,756	26,696	19,388
Federal, District and private grants and contracts	27,398	24,229	29,109
Auxiliary enterprises and other sales and services	1,835	2,121	2,892
Other	<u>10,461</u>	<u>3,485</u>	<u>3,918</u>
Total operating revenues	68,450	56,531	55,307
Less: Operating expenses	<u>(152,640)</u>	<u>(141,266)</u>	<u>(130,611)</u>
Net assets used in operating activities	<u>(84,190)</u>	<u>(84,735)</u>	<u>(75,304)</u>
Non-operating revenues:			
District of Columbia appropriations	66,420	62,070	62,070
Investment income/(loss)	(935)	2,303	959
Other	<u>31,206</u>	<u>7,744</u>	<u>2,766</u>
Total non-operating revenues	<u>96,691</u>	<u>72,117</u>	<u>65,795</u>
Increase/(decrease) in net assets before capital appropriations	12,501	(12,618)	(9,509)
Capital appropriations	<u>14,493</u>	<u>1,472</u>	<u>5,388</u>
Increase/(decrease) in net assets	26,994	(11,146)	(4,121)
Net assets, beginning of year	<u>91,037</u>	<u>102,183</u>	<u>106,304</u>
Net assets, end of year	<u><u>\$ 118,031</u></u>	<u><u>91,037</u></u>	<u><u>102,183</u></u>

UNIVERSITY OF THE DISTRICT OF COLUMBIA
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis

September 30, 2011 and 2010

OPERATING REVENUES BY SOURCE
\$68 Million in Fiscal Year 2011



The increase in operating revenue of approximately \$11.9 million from FY 2010 to FY 2011 is primarily due to an increase in other operating revenue which increased by \$7 million due to prior year cost recovery transactions and recognition of earned revenue from deferred revenue from Building 52 rental. Non-operating revenue increased by approximately \$24.6 million primarily due to the extinguishment of amounts due to the District of Columbia of \$16.1 million and Pell grant awards of \$9 million.

The increase of \$6.3 million (9.6%) in total non-operating revenues from FY 2009 to FY 2010 consists of approximately \$1.3 million (140.4%) of investment income and increases in gift for scholarship activity. The increase in investment income is due to the net gain in the fair market value in fixed income, equities and international and alternative investments, net increase in dividends and interest earned.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
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Management's Discussion and Analysis

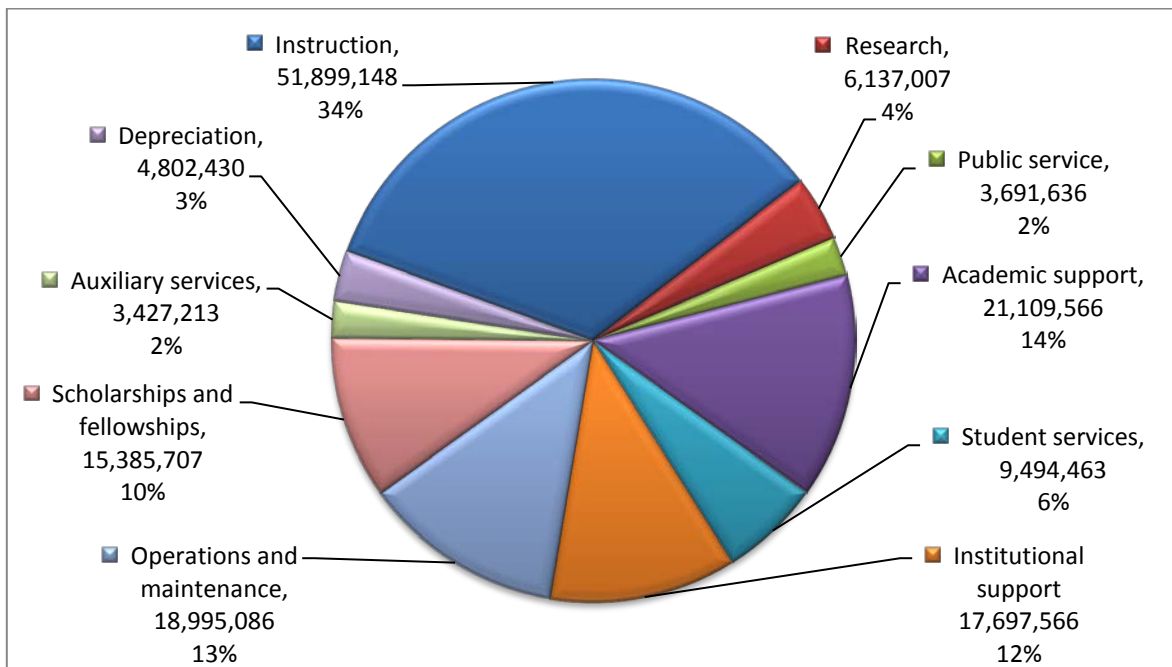
September 30, 2011 and 2010

Table 3 – Expenses by Function for the Years Ended September 30, 2011 and 2010 (\$000):

	FY 2011		FY 2010		Increase/(decrease)	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent change
Instruction	\$ 51,899	34%	\$ 39,654	28%	\$ 12,245	31%
Research	6,137	4	5,306	4	831	16
Public service	3,692	2	4,342	3	(650)	(15)
Academic support	21,110	14	20,139	14	971	5
Student services	9,494	6	10,019	7	(525)	(5)
Institutional support	17,698	12	18,834	13	(1,136)	(6)
Operations and maintenance	18,995	13	26,652	19	(7,657)	(29)
Scholarships and fellowships	15,386	10	6,116	4	9,270	152
Auxiliary operations	3,427	2	5,059	4	(1,632)	(32)
Depreciation	4,802	3	5,145	4	(343)	(7)
Total expense by function	<u>\$ 152,640</u>	<u>100%</u>	<u>\$ 141,266</u>	<u>100%</u>	<u>\$ 11,374</u>	<u>8%</u>

OPERATING EXPENSES BY FUNCTION

\$153 Million in Fiscal Year 2011



UNIVERSITY OF THE DISTRICT OF COLUMBIA
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Management's Discussion and Analysis

September 30, 2011 and 2010

The approximate \$11.4 million increase in expense by functional activities from FY 2010 to FY 2011 is represented by a 31% (\$12.2 million) increase in instruction expenses which is due to the first fully enrolled fiscal year of CCDC. The 152% (\$9.3 million) increase in scholarships and fellowships is primarily due to Pell grant awards. The 29% (\$7.7 million) decrease in operations and maintenance expenses is primarily due to reduced CCDC build out expenses in FY 2011 versus FY 2010 when operations commenced.

The approximate \$10.6 million increase in functional activity from FY 2009 to FY 2010 is represented by a 32% increase in academic support, a 59% increase in operations and maintenance, a 27% increase in auxiliary operations and a 37% decrease in scholarships and fellowships. The increases are largely attributable to expenditures related to CCDC which began operations in Fall 2009. The decrease in scholarships and fellowships is the result of a reduction in gifts, which is consistent with the economic downturn.

Table 4 – Expenses by Function for the Years Ended September 30, 2010 and 2009 (\$000):

	FY 2010		FY 2009		Increase/(decrease)	
	Percent of		Percent of		Percent	
	Amount	total	Amount	total	Amount	change
Instruction	\$ 39,654	28%	\$ 41,506	32%	\$ (1,852)	(4)%
Research	5,306	4	5,440	4	(134)	(2)
Public service	4,342	3	3,689	3	653	18
Academic support	20,139	14	15,259	12	4,880	32
Student services	10,019	7	8,981	7	1,038	11
Institutional support	18,834	13	19,645	15	(811)	(4)
Operations and maintenance	26,652	19	16,712	13	9,940	59
Scholarships and fellowships	6,116	4	9,733	7	(3,617)	(37)
Auxiliary operations	5,059	4	3,970	3	1,089	27
Depreciation	5,145	4	5,676	4	(531)	(9)
Total expense by function	<u>\$ 141,266</u>	<u>100%</u>	<u>\$ 130,611</u>	<u>100%</u>	<u>\$ 10,655</u>	<u>8%</u>

Enrollment

The University maintains an open admissions policy. The total official student enrollment for the Fall 2011 semester is 5,286 students, representing a decrease of 9.7% compared to the Fall 2010 enrollment of 5,855 students. During Fall 2011, the student body comprised of 60.86% District residents, 9.61% Metro area residents and 29.53% nonresidents. In Fall 2011, District students comprised 63.31% and 42.68% of the University's total undergraduate and graduate enrollment, respectively. Comparatively, in the Fall 2010 Semester, District students accounted for 67.63% and 66.91% of the University's total undergraduate and graduate enrollment, respectively. Full time equivalent enrollments are 3,658 for Fall 2011 and 3,976 for Fall 2010. Total tuition and fee revenue increased by \$2.1 million, from \$26.7 million in FY 2010 to \$28.8 million in FY 2011 due to law school tuition increases in Fall 2010.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis

September 30, 2011 and 2010

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 \$114.8 million, for fiscal year 2007 through fiscal year 2011, 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.

The following represent capital projects in the District's Capital Improvement Program as shown in Table 5 below:

Table 5 – University of the District of Columbia Capital Projects Budget (\$000):

Renovation of Van Ness Campus	\$ 88,917
Renovate Plaza Deck & Parking Garage	7,614
Capital – Backus Site Development	4,000
New Student Center PAYGO	3,800
Green Roof PAYGO	2,200
Renovate Student Service Center – Bldg. 39, Level A	1,350
Renovate Campus Natatorium, Bldg 47	1,200
Renovate Concrete Stairs, Pways & Dways	1,020
Capital – Management Support Costs	800
Renovate Child Care Development Center- Bldg 41, Level A	704
Update Campus Master Plan	631
Replace Windows, Bldg 38	540
Renovate Security Dept. – Bldg 39, Level C	450
Upgrade Parking Garage & Plaza Lighting	430
Replace Energy Management System	380
Renovate Building 38 Finance Division	315
Capital – ADA Compliance	150
Capital – Bldg 32, Level C	100
Capital – Renovate EPA Lab – Bldg 42	100
Renovate Auditorium, Bldg 46, Level E	50
Revonation & Modernization – Building 52	40
Total Capital Improvement Program – Projects	\$ <u>114,791</u>

UNIVERSITY OF THE DISTRICT OF COLUMBIA
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis

September 30, 2011 and 2010

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 appropriations from the District provide over 50% of the University's total funding and are 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 ongoing operational needs. In 2009, the University expanded its Community College component into a branch of the institution. The CCDC is managed by a Chief Executive Officer reporting to the President. The impact to the financial statements is minimal in 2011 and 2010. Administrators identified a site at 801 N. Capitol Street, NE, Washington, DC 20002, to house CCDC until 2027. The University funded the initial start-up with funds from its existing fund balance and with tuition increases.

Requests for Information

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 38, Washington, D.C. 20008.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
(A Component Unit of the Government of the District of Columbia)
Statements of Net Assets
September 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents (note 3)	\$ 24,390,088	25,145,491
Accounts receivable, net (note 4)	3,981,629	10,735,024
Grants and contracts receivable, net (note 4)	16,992,864	6,915,575
Receivable from the District of Columbia	19,114,148	5,030,315
Accrued interest receivable	27,198	29,688
Other current assets	221,131	1,294,238
Total current assets	<u>64,727,058</u>	<u>49,150,331</u>
Noncurrent assets:		
Investments (note 5)	33,002,132	34,854,556
Notes receivable, net (note 4)	896,790	1,140,900
Capital assets, net (note 6)	97,819,906	84,626,677
Long-term receivables	295,714	295,813
Total noncurrent assets	<u>132,014,542</u>	<u>120,917,946</u>
Total assets	<u>196,741,600</u>	<u>170,068,277</u>
Liabilities		
Current liabilities:		
Accounts payable	11,671,520	12,184,557
Accrued payroll	4,344,629	10,127,230
Litigation contingencies (note 9)	2,699,800	3,140,500
Accrued leave	3,719,824	4,675,872
Deferred revenue	8,637,801	15,496,221
Due to the District of Columbia	45,228,273	30,082,203
Other current liabilities	1,167,002	1,935,757
Total current liabilities	<u>77,468,849</u>	<u>77,642,340</u>
Noncurrent liabilities:		
Refundable advances	1,241,415	1,388,061
Total noncurrent liabilities	<u>1,241,415</u>	<u>1,388,061</u>
Total liabilities	<u>78,710,264</u>	<u>79,030,401</u>
Net Assets		
Invested in capital assets	97,819,906	84,626,677
Restricted:		
Nonexpendable endowments	7,241,706	7,241,706
Expendable:		
Grants and contracts	187,032	334,745
Unrestricted	12,782,692	(1,165,252)
Total net assets	<u>\$ 118,031,336</u>	<u>91,037,876</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
(A Component Unit of the Government of the District of Columbia)
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Operating revenues:		
Student tuition and fees, net of scholarships and discounts (note 4)	\$ 28,756,323	26,696,199
Federal grants and contracts	16,957,687	12,567,830
Local grants and contracts	8,366,277	10,509,085
Nongovernmental grants and contracts	2,074,113	1,152,147
Sales and services of educational departments	1,398,247	1,211,387
Auxiliary enterprise:		
Athletics Division	17,546	493,105
Child Development Center	69,011	163,571
Cable television	349,661	253,125
Other operating revenues	10,460,847	3,484,786
Total operating revenues	<u>68,449,712</u>	<u>56,531,235</u>
Expenses:		
Operating expenses:		
Salaries	73,886,428	69,147,535
Benefits	14,363,779	17,267,227
Scholarships and fellowships	19,723,529	12,596,514
Contractual services, supplies and other	28,304,968	27,346,492
Utilities and other	11,558,688	9,763,169
Depreciation	4,802,430	5,145,141
Total operating expenses	<u>152,639,822</u>	<u>141,266,078</u>
Operating loss	<u>(84,190,110)</u>	<u>(84,734,843)</u>
Non operating revenues:		
District of Columbia appropriations	66,420,000	62,070,000
Investment income/(loss)	(935,107)	2,303,190
Gifts for scholarships	1,359,744	2,894,314
Federal non-operating grants	13,766,856	4,850,063
Extinguishment of Due to the District of Columbia (note 8)	16,079,280	—
Net non operating revenues	<u>96,690,773</u>	<u>72,117,567</u>
Income/(loss) before other revenues, expenses, gains, or losses	12,500,663	(12,617,276)
Capital appropriations	14,492,797	1,472,569
Change in net assets	<u>26,993,460</u>	<u>(11,144,707)</u>
Net assets:		
Net assets, beginning	91,037,876	102,182,583
Net assets, ending	<u>\$ 118,031,336</u>	<u>91,037,876</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
(A Component Unit of the Government of the District of Columbia)

Statements of Cash Flows

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Tuition and fees	\$ 28,762,735	27,324,931
Grants and contracts	17,209,352	24,212,569
Payments to vendors	(38,209,386)	(32,210,296)
Payments to employees	(95,429,556)	(85,710,545)
Other receipts	23,125,941	670,086
Net cash used by operating activities	<u>(64,540,914)</u>	<u>(65,713,255)</u>
Cash flows from non-capital financing activities:		
District of Columbia appropriations - operating	66,420,000	62,070,000
Change in advances to/from District of Columbia	(848,981)	(3,717,263)
Gifts for scholarships	1,359,744	2,894,314
Direct Loan receipts	16,982,257	—
Direct Loan payments	(16,982,257)	—
Federal Pell grant	13,766,856	4,849,977.00
Net cash provided by noncapital financing activities	<u>80,697,619</u>	<u>66,097,028</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(17,995,659)	(18,305,274)
Capital appropriations	1,741,566	—
Net cash used by capital and related financing activities	<u>(16,254,093)</u>	<u>(18,305,274)</u>
Cash flows from investing activities:		
Proceeds from sales/maturities of long-term investments	12,663,959	8,923,464
Investment Income	(935,107)	1,115,143
Purchase of investments	(12,386,867)	(9,073,594)
Net cash provided/(used) by investing activities	<u>(658,015)</u>	<u>965,013</u>
Net decrease in cash and cash equivalents	(755,403)	(16,956,488)
Cash and cash equivalents, beginning	25,145,491	42,101,979
Cash and cash equivalents, ending	\$ <u>24,390,088</u>	<u>25,145,491</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (84,190,110)	(84,734,843)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	4,802,430	5,145,141
Bad debt expense	1,094,202	—
Change in:		
Accounts receivable	6,753,395	(4,137,884)
Grants receivable	(10,077,289)	(371,473)
Other current assets	1,073,107	(1,080,119)
Other noncurrent assets	99	400
Notes receivable	244,110	(784,073)
Accounts payable and accrued liabilities	(6,736,338)	5,507,614
Deferred revenue	(6,858,420)	5,121,597
Other current liabilities	(768,755)	80,145
Refundable advances	(146,646)	829,110
Accrued leave	(956,049)	1,176,088
Due to District of Columbia	31,225,350	7,535,042
Net cash used by operating activities	<u>\$ (64,540,914)</u>	<u>(65,713,255)</u>
Noncash transactions:		
Loss on disposal of capital assets	—	(60,805)
Capital contributions	—	1,534,819

See accompanying notes to basic financial statements.

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(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).

The University is governed by a board of trustees consisting of 15 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.

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 District of Columbia (the District or DC) 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 preparation and continuous lifelong learning. This new institution provides new opportunities to DC citizens, employers, the University, and the District of Columbia. The CCDC is located at 801 N. Capitol Street, NE, Washington, DC 20002.

(2) Summary of Significant Accounting Policies

The financial statements of the University are prepared in conformity with U.S. generally accepted accounting principles (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*

GAAP defines a financial reporting entity as a body that consists of a primary government and its component units. The University is a discretely presented component unit of the Government of the District of Columbia because it meets the following criteria:

- The District holds the corporate powers of the University.
- The District appoints a voting majority of the University's board.
- The District is able to impose its will on the University.
- The University has the potential to impose a financial burden on, or provide financial benefit to the District.

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- The University is fiscally dependent on the District.
- It would be misleading to exclude the University from the District's financial statements.

The University of the District of Columbia Foundation and David A. Clarke Law School Foundation: Based on the application of the aforementioned criteria, the Foundations are deemed to be component units of the University. However, the financial activities of the Foundations are insignificant to the University's reporting entity, taken as a whole. Accordingly, there are no separate disclosures in the financial statements for the Foundations.

(b) *Measurement Focus and Basis of Accounting*

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 and basis of accounting.

The University is considered to be a special-purpose government engaged only in business-type activities and 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 – an amendment of GASB Statement No. 34*, 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. 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 are segregated into four net asset categories depending on the presence or absence of externally imposed restrictions as follows:

Invested 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, 2011 and 2010, the University had no debt outstanding.

Restricted – Consists of net assets restricted for nonexpendable endowments, which are subject to externally imposed stipulations that the University maintains them permanently.

Expendable – Consists of 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.

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Tuition and fees revenues are recognized ratably as 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 are 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 not to 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 Classifications*

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 business cycle 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 Nonoperating 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 nonoperating revenues are University appropriations, investment and endowment income and gifts for scholarships. GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an*

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amendment of GASB Statement No. 34, specifically defines District appropriations as nonoperating revenues. Expenses are recognized as incurred.

(h) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the District Treasury, and all highly liquid investments with an original maturity of three months or less; except those deposits and investments representing endowments.

(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 fair market value or cost of \$5,000 or more at the date of acquisition and an expected useful life of three (3) 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)

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

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(I) *Compensated Absences*

Benefit Accumulation Policies

The University's policy allows employees to accumulate unused sick leave, with no maximum limitation. Generally, administrative and other nonfaculty 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 nonfaculty employees upon termination of employment.

In accordance with the provisions of the District of Columbia Municipal Regulations (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

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 nonfaculty 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 annual leave 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.

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(m) *Deferred Revenue*

Tuition and fee revenues, as well as program revenues are shown as deferred revenues when related 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, 2011 and 2010.

(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 by 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) *Post-Employment Benefits*

In addition to the pension benefits described in Note 7, employees may receive post-retirement health care and life insurance benefits. Seventy-four pre-1987 (Civil Service) and 1,092 post-1987 (DC Defined Contribution) employees 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's portion of post-employment benefits is insignificant; therefore, the University does not record a liability for the costs of post-retirement benefits but rather records such costs as expenses/expenditures when premiums are paid.

(r) *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

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for those employees. The University pays 72% 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 \$83,573 and \$77,791 for post-retirement health premiums paid during fiscal year 2011 and 2010, respectively. Eleven (11) retirees and eleven (11) retirees received post-retirement health benefits during fiscal years ended September 30, 2011 and 2010, respectively. The District which is legally responsible for the contributions to OPEB plans conducted an actuarial study of its obligations under the Plan and funded the annual required contribution (ARC) beginning in fiscal year 2008.

(s) ***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year presentation.

(3) Cash and Cash Equivalents

The District requires that all cash be deposited with the District Treasurer except for endowment and miscellaneous income funds which are deposited in a postsecondary education fund bank account. However, in FY11 the University implemented a new accounting system which made it necessary to have the University's own bank accounts. 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.

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The University's cash and cash equivalents at September 30, 2011 and 2010 are reflected in Table 2:

Table 2 – Unrestricted and restricted cash and cash equivalents at September 30, 2011 and 2010

	2011	2010
Cash and cash equivalents:		
Unrestricted:		
Wachovia	\$ 193,763	–
Bank of America	22,078,318	23,982,935
JP Morgan	864,268	15,897
Independence Bank	100,251	100,190
Industrial Bank	100,000	100,000
SC Bernstein	116,168	108,023
Subtotal unrestricted	<u>23,452,768</u>	<u>24,307,045</u>
Restricted:		
Bank of America	649,894	649,894
US Bank	244,146	145,272
SC Bernstein	43,280	43,280
Subtotal restricted	<u>937,320</u>	<u>838,446</u>
Total cash and cash equivalents	<u><u>\$ 24,390,088</u></u>	<u><u>25,145,491</u></u>

The University's cash and cash equivalents indicated above consist of the following at September 30, 2011 and 2010, are reflected in Table 3:

Table 3 – Summary of cash and cash equivalents at September 30, 2011 and 2010

	2011	2010
Cash and demand deposits:		
Wachovia	\$ 193,763	–
Bank of America	22,728,212	24,632,829
JP Morgan	864,268	15,897
US Bank	244,146	145,272
SC Bernstein	159,448	151,303
Subtotal cash and demand deposits	<u>24,189,837</u>	<u>24,945,301</u>
Certificates of deposit:		
Independence Bank	100,251	100,190
Industrial Bank	100,000	100,000
Subtotal certificates of deposit	<u>200,251</u>	<u>200,190</u>
Total cash and cash equivalents	<u><u>\$ 24,390,088</u></u>	<u><u>25,145,491</u></u>

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As of September 30, 2011 and 2010, the bank balances of cash on deposit were \$24,390,088 and \$25,145,491, respectively with no material reconciling differences noted. As of July 2010, the FDIC standard insurance amount of \$250,000 per depositor became permanent and is retroactive to January 1, 2008. Currently the Bank of America account has a balance that exceeds the insured amount and the University is exposed to high risk for the uninsured balance.

(4) Receivables and Revenue Adjustments

The student tuition and fees balance of \$28,756,323 and \$26,696,199 are net of scholarships and discounts of \$597,094 and \$1,447,830 in fiscal years 2011 and 2010, respectively.

The accounts receivable balance of \$3,981,629 and \$10,735,024 are net of allowance for doubtful accounts of \$5,361,766 and \$4,647,402 in fiscal years 2011 and 2010, respectively.

The grants receivable balance of \$16,992,864 and \$6,915,575 are net of allowance for doubtful accounts of \$129,065 and \$129,065 in fiscal years 2011 and 2010, respectively.

The notes receivable balance of \$896,790 and \$1,140,900 are net of allowance for uncollectable accounts of \$824,012 and \$644,023 in fiscal years 2011 and 2010, respectively.

(5) Investments

Approximately \$15.7 million in investments are held by the JP Morgan Trust Company (Morgan) and \$17.3 million by Sanford C. Bernstein and Company (Bernstein) at September 30, 2011. Approximately \$16.8 million in investments were held by the JP Morgan Trust Company (Morgan) and \$18.0 million by Sanford C. Bernstein and Company (Bernstein) at September 30, 2010.

(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

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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, 2011, the University held no individual investment with a value greater than 5.0% of the total investments of the fund manager's portfolio.

(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, 2011, was 4.87 years for Bernstein investments and 3.85 years for the Morgan investments. At September 30, 2010, the average duration of bonds held was 3.92 years for Bernstein investments and 2.25 years for the Morgan investments. The ISP states that fixed income investments must be readily marketable and may not include illiquid securities.

(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, 2011 and 2010, were "AAA" and "AA," respectively for all fixed income securities. The investment policy of the University states that no more than 10% of the total amount of the endowment invested in fixed income securities may be invested in securities rated below 'A.' The 10% investment rating rule pertains only to separately managed accounts. Presently, the portfolio is invested in mutual funds, which are not subject to the 10% limitation.

(e) Custodial Credit Risk

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, 2011 and 2010, 16.8% and 18.5%, respectively, was invested in international securities.

(g) Derivative and Alternative Investments

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 3% of the total market value of the endowment may be invested

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with any single fund manager in the alternative asset class. As of September 30, 2011 and 2010, 5.0% and 3% of investments, respectively, were held in alternative investments.

The University's investments at September 30, 2011 and 2010, are summarized in Table 4:

Table 4 – Summary of University Investments

	Fair market value	
	2011	2010
Unrestricted, noncurrent investments	\$ 25,760,426	27,612,850
Nonexpendable, endowment investments	7,241,706	7,241,706
Total investments at fair market value	<u>\$ 33,002,132</u>	<u>34,854,556</u>

University investments held at September 30, 2011:

	Cost	Fair market value
	2011	2011
Fixed income	\$ 10,236,106	10,725,564
Equities and other investments	16,334,118	15,073,790
Alternative investments:		
Hedge funds	600,000	866,676
Real estate trust or partnership	300,063	275,268
Hard assets	297,665	521,598
International investments	6,722,247	5,539,236
	<u>\$ 34,490,199</u>	<u>33,002,132</u>

University investments held at September 30, 2010:

	Cost	Fair market value
	2010	2010
Fixed income	\$ 10,370,638	10,868,484
Equities and other investments	16,161,986	16,536,547
Alternative investments:		
Hedge funds	600,000	805,526
Real estate trust or partnership	430,213	209,560
International investments	6,127,626	6,434,439
	<u>\$ 33,690,463</u>	<u>34,854,556</u>

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(6) Capital Assets

Capital assets activity for the year ended September 30, 2011, is summarized in Table 5 below:

Table 5 – Capital assets activity for the year ended September 30, 2011

	Balance at September 30, 2010	Additions	Disposals/ Transfers	Balance at September 30, 2011
Capital assets subject to depreciation:				
Furniture, fixtures and equipment	\$ 8,792,139	3,052,875	(343,019)	11,501,995
Library books	21,265,218	226,389	–	21,491,607
Buildings and improvements	163,408,239	4,007,256	8,489,237	175,904,732
Total historic cost	193,465,596	7,286,520	8,146,218	208,898,334
Less accumulated depreciation	(126,649,604)	(4,802,430)	343,019	(131,109,015)
Subtotal, depreciable capital assets, net	66,815,992	2,484,090	8,489,237	77,789,319
Capital assets not subject to depreciation:				
Land	7,531,544	–	–	7,531,544
Construction in progress	10,279,141	10,709,139	(8,489,237)	12,499,043
Capital assets, net	\$ 84,626,677	13,193,229	–	97,819,906

During 2011, \$8.5 million of CIP balance was completed and transferred to fixed assets. In 2011, UDC began receiving cash appropriations for capital expenditures. In prior years, the District paid directly for these expenditures.

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Capital assets activity for the year ended September 30, 2010, is summarized in Table 6 below:

Table 6 – Capital Assets activity for the year ended September 30, 2010

	Balance at September 30, 2009	Additions	Disposals/ Transfers	Balance at September 30, 2010
Capital assets subject to depreciation:				
Furniture, fixtures and equipment	\$ 8,359,925	537,042	(104,828)	8,792,139
Library books	20,687,293	577,925	–	21,265,218
Buildings and improvements	154,092,340	9,315,899	–	163,408,239
Total historic cost	183,139,558	10,430,866	(104,828)	193,465,596
Less accumulated depreciation	(121,548,486)	(5,145,141)	44,023	(126,649,604)
Subtotal, depreciable capital assets, net	61,591,072	5,285,725	(60,805)	66,815,992
Capital assets not subject to depreciation:				
Land	7,531,544	–	–	7,531,544
Construction in progress	869,914	9,409,227	–	10,279,141
Capital assets, net	\$ 69,992,530	14,694,952	(60,805)	84,626,677

(7) The University's Retirement Programs

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 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)

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(a) *Defined Pension Plans*

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 \$73.9 million, of which employees with total payroll of approximately \$55.3 million were covered under the plan. The pension cost for the years ended September 30, 2011 and 2010, was \$4,663,537 and \$4,471,210, respectively. Generally, employees are fully vested immediately after start of contribution in both their contributions and in the University's contributions. Approximately 722 employees were covered by this plan during the year.

(b) *Defined Contribution Pension Plans (401(a))*

The University will contribute an amount equal to 5% of annual base salary to a pension account in the employee's name, beginning with the first pay period following completion of one year of creditable service. Contributions are made each pay period based on the employee's pre-tax base salary (excluding overtime, holiday, and Sunday compensation).

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 noncontributory plan, the University contributes an amount equal to 5% of these employees' salaries to the plan. For the years ended September 30, 2011 and 2010, the University's contributions were \$101,027 and \$6,116, 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, 2011 and 2010, these contributions totaled \$122,442 and \$83,370, 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.

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.

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(8) Extinguishment of Due to the District of Columbia

In fiscal year 2010, the University gained procurement autonomy from the District. Due to legislative issues, the University did not receive funding to cover its capital expenditures in fiscal year 2010. As a result, \$16.1 million was recorded by the University as a payable to the District. In fiscal year 2011, the funding issue was resolved and the District agreed to extinguish the \$16.1 million payable owed by the University.

(9) 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 athletic injury insurance. 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 \$3.8 million and \$4.4 million as of September 30, 2011 and 2010, respectively. The University has no dormitory facilities for its student athletes and therefore contracts out these services.

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(d) *Litigation*

The University is a party to a number of legal actions. Liabilities have been accrued for these cases amounting to approximately \$2.7 million and \$3.1 million for fiscal years 2011 and 2010, 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. As of September 30, 2011 and 2010, various claims and law suits against the University were settled and the University made settlement payments in the amount of \$339,300 and \$546,500, respectively.

The University President's employment contract included \$1 million life insurance policy. In FY11, insurance company terminated the President's \$1 million life insurance policy with a non-renewable clause. In the event of premature death, the University is liable for \$1 million. Management has elected not to create a one million dollar reserve for a contingent liability as of September 30, 2011.

(e) *Lease Commitments*

The University leases certain equipment and facilities under operating leases expiring at various dates through September 2016 and beyond. During fiscal year 2011, the University had a lease agreement with ArchStone Van Ness to lease space for the Athletic Department. The University also leased equipment from various companies. Total rental expense during the years ended September 30, 2011 and 2010, for all operating leases was \$4,274,605 and \$4,578,091, respectively.

The future annual minimum lease payments under non-cancelable operating lease agreements as of September 30, 2011, that have an initial or remaining lease term in excess of one year are shown in Table 7:

Table 7 – Operating Lease Commitments

Year ending September 30:	
2012	\$ 2,182,010
2013	1,846,422
2014	4,471,487
2015	2,638,248
2016	2,814,014
Beyond	36,749,155
Total	<u>\$ 50,701,336</u>

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