

BASIC FINANCIAL STATEMENTS
September 30, 2013 and 2012
(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)

Basic Financial Statements

September 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

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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, D.C. 20008

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

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, 2013 and 2012, and the changes in net position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 and 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2014 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* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

February 4, 2014

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

Management's Discussion and Analysis

September 30, 2013 and 2012

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, 2013 and 2012. This discussion and analysis should be read in conjunction with management's basic financial statements and the related note disclosures. The financial statements, disclosures, and management's 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*. During fiscal year 2013, the University implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 Position present the financial position of the University and include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the various categories of net position. Net Position is defined as assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, and represents the institutional equity of the University.

Net position is presented in three major categories. The first category, net investment in capital assets, represents the equity in property, plant and equipment owned and/or controlled by the University. The University does not have any debt related to its capital assets. The main University campus resides on property owned by the federal government. The second category is restricted net position. Nonexpendable restricted net position represents the endowment corpus from the federal government in lieu of land. Expendable restricted net positions are funds received from grantors and contracts which are available for expenditure, but have not been obligated as of the reporting date. The third category is unrestricted net position, which is 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 Position present the revenues earned and expenses incurred during the year, both operating and nonoperating. These statements also reconcile the amount of beginning net position to the amount of ending net position as presented in the Statements of Net Position.

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. Nonoperating revenues are received from legislative and/or investment sources in order to carry out the mission and goals set by the Board of Trustees. For example, appropriations from the District of Columbia Government (the District) are nonoperating 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 Position. These statements also

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reconcile the operating loss as shown on the Statements of Revenues, Expenses, and Changes in Net Position to the net cash used in operating activities.

Financial Highlights

Condensed Financial Information

Table 1 – Condensed Statements of Net Position as of September 30, 2013, 2012 and 2011 (\$000):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 48,257	47,217	64,727
Noncurrent assets:			
Investments and notes receivable, net of allowance	37,774	39,072	33,899
Capital assets, net of depreciation	137,481	120,691	97,820
Other	2,212	674	296
Total assets	<u>\$ 225,724</u>	<u>207,654</u>	<u>196,742</u>
Liabilities:			
Current liabilities	\$ 62,641	68,165	77,469
Noncurrent liabilities	984	1,262	1,242
Total liabilities	<u>\$ 63,625</u>	<u>69,427</u>	<u>78,711</u>
Net position:			
Net investment in capital assets	\$ 137,481	120,691	97,820
Nonexpendable restricted	7,568	7,568	7,568
Expendable restricted	3,774	1,705	1,475
Unrestricted	13,276	8,263	11,168
Total net position	<u>\$ 162,099</u>	<u>138,227</u>	<u>118,031</u>

The increase of approximately \$23.9 million (17%) in total net position (shown in Table 1 above), from FY 2012 to FY 2013 is mainly credited to the capital appropriation of \$19.9 million. The capital appropriations were used to fund ongoing renovation and construction on the main campus, notably \$8.6 million primarily for a new student center, \$2.8 million for the law school building and \$1.8 million on mechanic and electrical systems.

The increase of approximately \$20.2 million (17%) in total net position (shown in Table 1 above), from FY 2011 to FY 2012 is primarily attributed to increase in amounts invested in capital assets. UDC's capital appropriation revenue from the District increased by 80% due to the continued construction activities throughout the University's campus. During FY 2012 the University completed construction of the plaza deck.

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Table 2 – Condensed Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended September 30, 2013, 2012 and 2011 (\$000):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues:			
Tuition and fees	\$ 29,414	27,050	28,756
Federal, Local and private grants and contracts	23,278	26,061	27,398
Auxiliary enterprises and other sales and services	1,419	1,308	1,835
Other	2,331	2,330	10,461
Total operating revenues	<u>56,442</u>	<u>56,749</u>	<u>68,450</u>
Less operating expenses	<u>(141,338)</u>	<u>(147,034)</u>	<u>(152,640)</u>
Net position used in operating activities	<u>(84,896)</u>	<u>(90,285)</u>	<u>(84,190)</u>
Nonoperating revenues:			
District of Columbia appropriations	75,405	67,362	66,420
Investment income/(loss)	2,715	5,387	(935)
Other gifts/grants	10,689	11,696	31,206
Total nonoperating revenues	<u>88,809</u>	<u>84,445</u>	<u>96,691</u>
Increase/(decrease) in net position before capital appropriations	3,913	(5,840)	12,501
Capital appropriations	<u>19,959</u>	<u>26,036</u>	<u>14,493</u>
Increase in net position	23,872	20,196	26,994
Net position, beginning of year	<u>138,227</u>	<u>118,031</u>	<u>91,037</u>
Net position, end of year	<u>\$ 162,099</u>	<u>138,227</u>	<u>118,031</u>

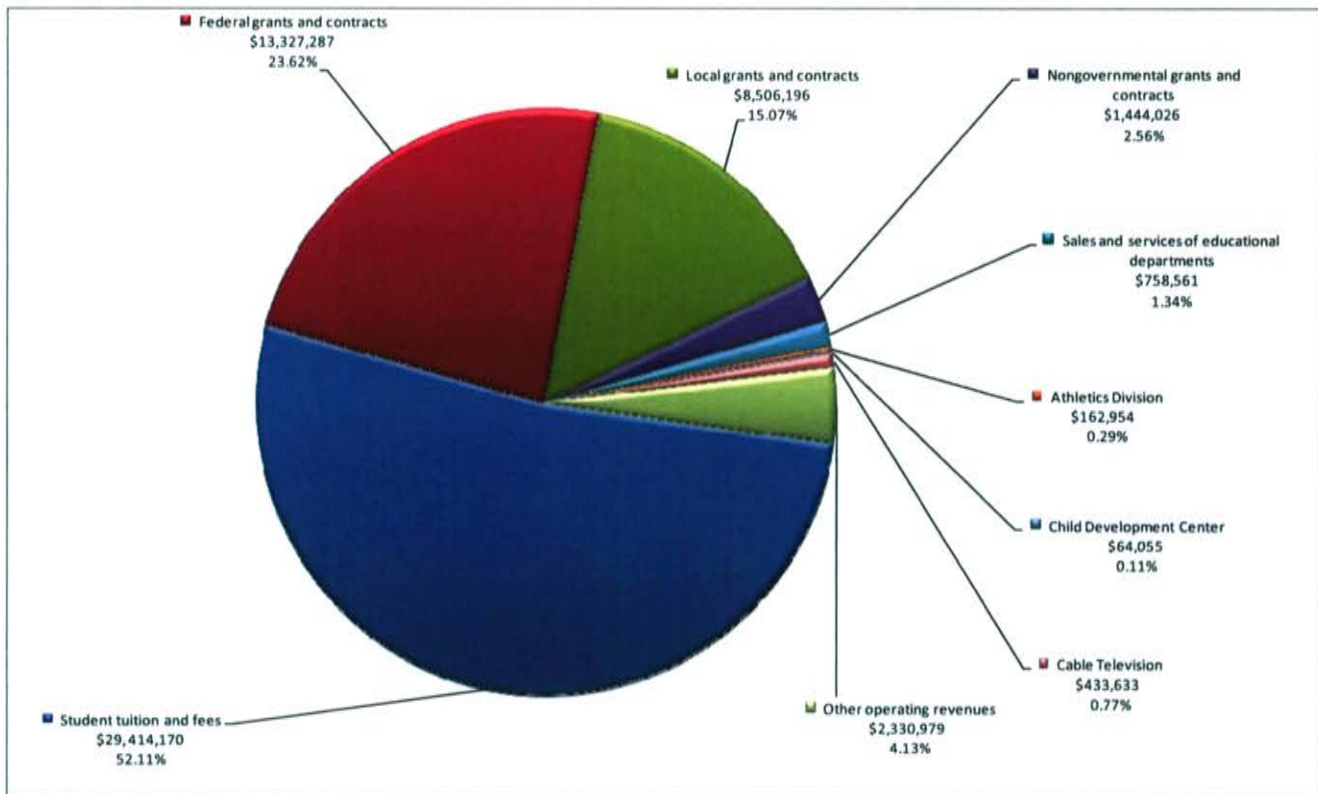
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Management's Discussion and Analysis

September 30, 2013 and 2012

OPERATING REVENUES BY SOURCE

\$56 million in FY 2013



The decrease in operating revenue of approximately \$0.3 million (1%) from FY 2012 to FY 2013 is primarily due to a \$2.4 million increase in tuition and fees revenue due to increases in UDCCC's nonresident tuition rate. This was offset by the \$2.8 million decrease in grant revenue.

Net nonoperating revenue increased by approximately \$4.4 million primarily because of the additional appropriation of \$9.9 million from the primary government offset by a \$3.7 million decrease in investment income and other nonoperating revenues. The University had less returns on its investment portfolio in FY 2013 compared to FY 2012 when the markets experienced significant gains as a result of unfavorable market conditions in FY 2011.

The decrease in operating revenue of approximately \$11.7 million (17%), from FY 2011 to FY 2012 is primarily due to a decrease in other operating revenue. In FY 2011, there was \$7 million in prior year cost recovery transactions and revenue from building rental which did not recur in FY 2012. Net nonoperating revenue decreased by approximately \$12.2 million primarily because there was no extinguishment of debt activity in FY 2012, which was \$16.1 million in FY 2011.

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Management's Discussion and Analysis

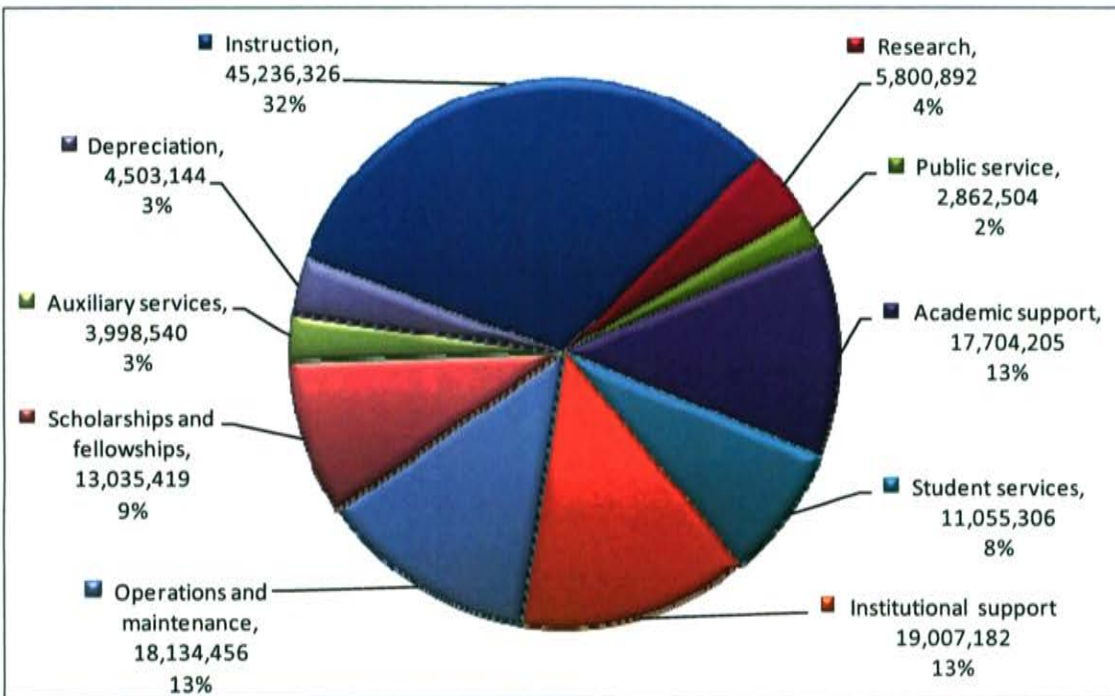
September 30, 2013 and 2012

Table 3 – Expenses by Function for the Years Ended September 30, 2013 and 2012 (\$000):

Expenses by function	FY 2013		FY 2012		Increase/(decrease)	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent change
Instruction	\$ 45,236	32%	\$ 48,653	33%	\$ (3,417)	(7)%
Research	5,801	4	6,903	5	(1,102)	(16)
Public service	2,863	2	3,392	2	(529)	(16)
Academic support	17,704	13	17,668	12	36	0
Student services	11,055	8	8,519	6	2,536	30
Institutional support	19,007	13	20,623	14	(1,616)	(8)
Operations and maintenance	18,135	13	19,207	13	(1,072)	(6)
Scholarships and fellowships	13,035	9	14,199	10	(1,164)	(8)
Auxiliary services	3,999	3	3,545	2	454	13
Depreciation	4,503	3	4,325	3	178	4
	<u>\$ 141,338</u>	<u>100%</u>	<u>\$ 147,034</u>	<u>100%</u>	<u>\$ (5,696)</u>	<u>(4)%</u>

OPERATING EXPENSES BY FUNCTION

\$141 million in FY 2013



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Total expenses decreased by approximately \$5.7 million (4%), from FY 2012 to FY 2013. The decrease is primarily caused by a \$3.4 million (7%) decrease in instruction and a \$1.6 million (8%) decrease in institutional support expense. This is offset by an increase of \$2.5 million (30%) in student services. These decreases in expenditures are mainly attributed to the right sizing measures taken by the University's management during FY 2013. The \$2.5 million expense increase in student services is primarily due to a one time increase in the department's purchase of noncapitalizable equipment and other student related services funded with the resources that became available because of the debt forgiveness by the DC government.

Table 4 – Expenses by Function for the Years Ended September 30, 2012 and 2011 (\$000):

Expenses by function	FY 2012		FY 2011		Increase/(decrease)	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent change
Instruction	\$ 48,653	33%	\$ 51,899	34%	\$ (3,246)	(6)%
Research	6,903	5	6,137	4	766	12
Public service	3,392	2	3,692	2	(300)	(8)
Academic support	17,668	12	21,110	14	(3,442)	(16)
Student services	8,519	6	9,494	6	(975)	(10)
Institutional support	20,623	14	17,698	12	2,925	17
Operations and maintenance	19,207	13	18,995	12	212	1
Scholarships and fellowships	14,199	10	15,386	10	(1,187)	(8)
Auxiliary services	3,545	2	3,427	2	118	3
Depreciation	4,325	3	4,802	3	(477)	(10)
	<u>\$ 147,034</u>	<u>100%</u>	<u>\$ 152,640</u>	<u>100%</u>	<u>\$ (5,606)</u>	<u>(4)%</u>

Total expenses decreased by approximately \$5.6 million (4%), from FY 2011 to FY 2012. The decrease is primarily caused by a 16% (\$3.4 million) decrease in academic support and a 6% (\$3.2 million) decrease in instructional expense. This is offset by an increase of \$2.9 million (17%) in institutional support. The decrease in expenditures are a direct correlation to a drop in student enrollment numbers in the Flagship, or the University, excluding the law school and University of the District of Columbia Community College (UDCCC).

Enrollment

The University maintains an open admissions policy for its Community College and a rolling admission policy for its Flagship. The total official student enrollment for the Fall 2013 and 2012 semesters is 5,353 and 5,490 students, respectively, representing a decrease of 2.5% from the Fall 2012 enrollment of 5,490 students. In Fall 2013 and 2012, the student body was comprised of 73.6% and 72.6% District residents, 11.5% and 10.9% Metro area residents and 14.9% and 16.5% nonresidents, respectively. In Fall 2013, District students comprised 77% and 48.7% of the University's total undergraduate and graduate enrollment, respectively. Full time equivalent enrollments are 3,631 for Fall 2013 and 3,667 for Fall 2012.

Total tuition and fee revenue increased by \$2.3 million from \$27.1 million in FY 2012 to \$29.4 million in FY 2013. The increase is primarily related to UDCCC's nonresident student tuition rate increases.

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Management's Discussion and Analysis

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Capital Improvement Program

The University participates in the District's Capital Improvement Program. Accordingly, the University trustees, the District Council and the Congress of the United States have approved a 6-year capital improvement plan totaling \$50.9 million, for FY 2008 through FY 2013, 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.

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 rates 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.

During FY 2013, the University was mandated by the District to "right-size" and streamlines its operations. The right-sizing exercise reduced 69 full time positions. In addition, the University chose to eliminate 28 other positions to further reduce costs.

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 39 2nd floor, Washington, D.C. 20008.

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Statements of Net Position
September 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents (note 3)	\$ 29,383,063	29,495,268
Accounts receivable, net (note 4)	4,701,884	4,915,282
Grants and contracts receivable, net (note 4)	4,901,123	5,131,203
Receivable from the District of Columbia	8,914,579	7,061,000
Receivable from the other component units	—	341,624
Accrued interest receivable	64,335	31,124
Other current assets	292,368	241,790
Total current assets	48,257,352	47,217,291
Noncurrent assets:		
Investments (note 5)	37,773,676	38,225,753
Notes receivable, net (note 4)	800,087	846,573
Capital assets, net (note 6)	137,481,264	120,690,430
Long-term receivables	1,411,874	673,633
Total noncurrent assets	177,466,901	160,436,389
Total assets	225,724,253	207,653,680
Liabilities		
Current liabilities:		
Accounts payable	11,479,955	11,667,112
Accrued payroll	7,542,527	7,416,382
Litigation contingencies (note 8)	5,805,450	4,726,681
Compensated absences	3,872,263	3,906,351
Unearned revenue	12,582,311	11,782,261
Due to the District of Columbia	18,587,001	26,951,451
Other current liabilities	2,772,028	1,714,495
Total current liabilities	62,641,535	68,164,733
Noncurrent liabilities:		
Refundable advances	983,773	1,262,444
Total noncurrent liabilities	983,773	1,262,444
Total liabilities	63,625,308	69,427,177
Net Position		
Investment in capital assets	137,481,264	120,690,430
Restricted:		
Nonexpendable	7,568,086	7,568,086
Expendable:		
Grants and contracts	187,032	187,032
Capital projects	1,849,222	1,518,433
Pre-K enhancement	1,736,702	—
Unrestricted	13,276,639	8,262,522
Total net position	\$ 162,098,945	138,226,503

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
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Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Operating revenues:		
Student tuition and fees, net (note 4)	\$ 29,414,170	27,049,944
Federal grants and contracts	13,327,287	13,854,061
Local grants and contracts	8,506,196	9,685,168
Nongovernmental grants and contracts	1,444,026	2,522,137
Sales and services of educational departments	758,561	931,137
Auxiliary enterprise:		
Athletics division	162,954	79,268
Child development center	64,055	67,632
Cable television	433,633	230,138
Other operating revenues	2,330,979	2,329,343
Total operating revenues	<u>56,441,861</u>	<u>56,748,828</u>
Expenses:		
Operating expenses:		
Salaries	68,558,726	72,230,812
Benefits	14,550,155	15,457,470
Scholarships and fellowships	17,161,091	17,553,110
Contractual services, supplies and other	24,720,513	24,768,924
Utilities and other	11,844,345	12,699,228
Depreciation	4,503,144	4,324,848
Total operating expenses	<u>141,337,974</u>	<u>147,034,392</u>
Operating loss	<u>(84,896,113)</u>	<u>(90,285,564)</u>
Non-operating revenues:		
District of Columbia appropriations	75,404,620	67,362,122
Investment income	2,715,366	5,386,755
Gifts for scholarships	1,210,013	1,529,006
Federal nonoperating grants	9,478,629	10,167,300
Net non-operating revenues	<u>88,808,628</u>	<u>84,445,183</u>
Income/(loss) before other revenues, expenses, gains, or losses	3,912,515	(5,840,381)
Capital appropriations	<u>19,959,927</u>	<u>26,035,548</u>
Change in net position	23,872,442	20,195,167
Net position:		
Net position, beginning	<u>138,226,503</u>	<u>118,031,336</u>
Net position, ending	<u>\$ 162,098,945</u>	<u>138,226,503</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF THE DISTRICT OF COLUMBIA
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Statements of Cash Flows

Years ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Tuition and fees	\$ 29,530,157	27,899,803
Grants and contracts	23,774,501	40,065,291
Payments to vendors	(33,381,664)	(34,661,383)
Payments to employees	(83,016,823)	(82,403,121)
Other payments	(20,642,694)	(31,955,520)
	(83,736,523)	(81,054,930)
Net cash used by operating activities		
Cash flows from noncapital financing activities:		
District of Columbia appropriations – operating	75,404,620	67,362,122
Change in advances to/from District of Columbia	(1,590,550)	10,930,207
Gifts for scholarships	1,210,013	1,529,006
Direct loan receipts	29,619,840	22,087,015
Direct loan payments	(29,619,840)	(22,087,015)
Federal Pell grant	9,478,629	10,167,300
	84,502,712	89,988,635
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities:		
Purchase of capital assets	(21,293,978)	(27,195,372)
Capital appropriations	18,853,009	23,029,818
	(2,440,969)	(4,165,554)
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Proceeds from sales/maturities of long-term investments	30,899,030	10,730,769
Investment Income	989,889	975,385
Purchase of investments	(30,326,344)	(11,369,125)
	1,562,575	337,029
Net cash provided by investing activities		
Net (decrease) increase in cash and cash equivalents	(112,205)	5,105,180
Cash and cash equivalents, beginning	29,495,268	24,390,088
Cash and cash equivalents, ending	\$ 29,383,063	29,495,268
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (84,896,113)	(90,285,564)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	4,503,144	4,324,848
Bad debt expense	3,195,418	2,831,836
Change in:		
Accounts receivable	213,398	(933,653)
Grants receivable	(174,954)	12,642,978
Other current assets	(83,789)	(24,585)
Other noncurrent assets	(738,242)	(377,919)
Notes receivable	46,486	50,217
Accounts payable and accrued liabilities	1,017,756	5,094,226
Unearned revenue	800,049	3,144,459
Other current liabilities	1,057,533	547,493
Refundable advances	(278,671)	21,029
Accrued leave	(34,088)	186,527
Due to District of Columbia	(8,364,450)	(18,276,822)
	(83,736,523)	(81,054,930)
Net cash used by operating activities	\$ (83,736,523)	(81,054,930)

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 over 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 as it is property of the US federal government.

In January 2009, the Board of Trustees approved the creation of a new University System, which now includes the University and the University of the District of Columbia Community College (UDCCC). Beginning in Fall 2009, UDCCC 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. UDCCC 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.

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- The University has the potential to impose a financial burden on, or provide financial benefit to the District.
- 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 discretely presented 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 position 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 position. Net position of the University is segregated into three net position categories depending on the presence or absence of externally imposed restrictions as follows:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. As of September 30, 2013 and 2012, the University had no debt outstanding.

Restricted – Consists of net position restricted for nonexpendable and instructional endowments, which are subject to externally imposed stipulations that the University maintains them permanently. Expendable restricted net position includes restricted expendable net position, 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 position that is not subject to externally imposed stipulations. Unrestricted net position 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 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 unearned 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 accompanying financial statements are presented in accordance with accounting policies generally accepted in the United States of America as prescribed by the GASB.

During fiscal year 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 63 establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The financial reporting impact resulting from the implementation of GASB 63 in the University's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position". GASB 65 amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

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.

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(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 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, 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 unearned 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. The University uses net asset value per share as a basis for determining fair value for limited partnerships. Unrealized and realized gains and losses are included in investment income in the statements of revenues, expenses and changes in net position.

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(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 expensed 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

(l) 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

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- 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.

(m) *Unearned Revenue*

Tuition and fee revenues, as well as program revenues are shown as unearned 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, 2013 and 2012.

(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, 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.

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(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 position.

(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. Employees eligible for such benefits include 166 pre-1987 (Civil Service) and 608 post-1987 (DC Defined Contribution) employees. 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 actuarial liability is not separately determined from the District's. The entire liability is recorded on the books of the District; 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 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 \$78,051 and \$76,715 for post-retirement health premiums paid during FY 2013 and 2012, respectively. Nine (9) retirees and eighteen (18) retirees received post-retirement health benefits during fiscal years ended September 30, 2013 and 2012, 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. The University's portion of the OPEB liability is not separately determined from the District's. The entire liability is recorded on the books of the District; therefore, the University does not record a liability.

(s) *Reclassifications*

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

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(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, the University is allowed to maintain funds generated from its own operations in separate bank accounts. The majority of payments are processed centrally by the District.

The University's Postsecondary Education Fund bank account is the depository account for all gifts and contributions, funds for receipt of services rendered, institutional fees, fines and collections including 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, 2013 and 2012 are reflected in Table 2:

Table 2 – Unrestricted and restricted cash and cash equivalents at September 30, 2013 and 2012

	2013	2012
Cash and cash equivalents:		
Unrestricted:		
Wells Fargo	\$ 333,919	11,883,898
Bank of America	24,117,877	15,382,195
Barclays	3,997,800	—
JP Morgan	—	797,345
Independence Bank	100,366	100,302
Industrial Bank	100,000	100,074
SC Bernstein	—	222,888
Subtotal unrestricted	28,649,962	28,486,702
Restricted:		
Bank of America	649,894	649,894
US Bank	83,207	315,392
SC Bernstein	—	43,280
Subtotal restricted	733,101	1,008,566
Total cash and cash equivalents	\$ 29,383,063	29,495,268

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The University's cash and cash equivalents indicated above which consist of the following at September 30, 2013 and 2012, are reflected in Table 3:

Table 3 – Summary of cash and cash equivalents at September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash and demand deposits:		
Wells Fargo	\$ 333,919	11,883,898
Bank of America	24,767,771	16,032,089
Barclays	3,997,800	—
JP Morgan	—	797,345
US Bank	83,207	315,392
SC Bernstein	—	266,168
Subtotal cash and demand deposits	<u>29,182,697</u>	<u>29,294,892</u>
Certificates of deposit:		
Independence Bank	100,366	100,302
Industrial Bank	100,000	100,074
Subtotal certificates of deposit	<u>200,366</u>	<u>200,376</u>
Total cash and cash equivalents	<u>\$ 29,383,063</u>	<u>29,495,268</u>

As of September 30, 2013 and 2012, the bank balances of cash on deposit were \$29,383,063 and \$29,495,268, respectively with no material reconciling differences noted. The FDIC standard deposit insurance amount is \$250,000 per depositor, per insured bank. Currently Wells Fargo and Bank of America accounts have balances that exceed the insured amount, by \$83,919 and \$24,517,771, respectively and are exposed to the risk of loss.

(4) Receivables and Revenue Adjustments

The student tuition and fees balance of \$29,414,170 and \$27,049,944 are net of scholarships and discounts of \$2,529,847 and \$1,602,813 in FY 2013 and 2012, respectively.

The University's receivable balances at September 30, 2013 and 2012, are reflected in table 4:

Table 4 – Receivable balances at September 30, 2013 and 2012

	<u>2013</u>		
	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Accounts receivable	\$ 12,202,498	(7,500,614)	4,701,884
Grants receivable	4,940,188	(39,065)	4,901,123
Notes receivable	1,623,301	(823,214)	800,087

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		2012	
	Receivable	Allowance	Net
Accounts receivable	\$ 10,674,038	(5,758,756)	4,915,282
Grants receivable	5,170,268	(39,065)	5,131,203
Notes receivable	1,674,739	(828,166)	846,573

(5) Investments

Beginning in December 2012, the University's investment holdings were consolidated and transferred to Barclays from JP Morgan Trust Company (JP Morgan) and Sanford C. Bernstein and Company (Bernstein). As of September 30, 2013, there are no investment holdings held by Bernstein, \$18,933 held by JP Morgan, and approximately \$37.7 million investments held by Barclays. Approximately \$18.1 million in investments were held by JP Morgan and \$20 million by Bernstein at September 30, 2012.

(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. Allowable investments under the ISP are United States equities and fixed income, international equities, real estate, alternative assets, and cash and cash equivalents.

(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 10% of the market value of an investment manager's portfolio on an ongoing basis without written approval of the Chair of the Investment Committee. In addition, the ISP states that no more than 5% of the amount of the investment and endowment funds invested in equities may be invested in any one company unless written approval is obtained from the CFO or his designee. As of September 30, 2013, the University held no individual investment with a value greater than 10% of the total investments of the fund manager's portfolio. Additionally, the University had no investments in any

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one company greater than 5% of the amount of the investment and endowment funds invested in equities.

(c) Interest Rate Risk

The University is exposed to interest rate risk on its fixed income bonds held. Interest rate risk is measured by the average duration for which bonds are held. The ISP states that fixed income investments must be readily marketable and may not include illiquid securities. The ISP does not have a policy on interest rate risk. Interest rate risk is managed by the investment managers. They have discretion within their portfolios to determine the duration position that best maximizes the performance. The current fixed income funds have durations that range from as low as 1.9 to 4.6 years.

(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, 2013 are ranged from AAA to nonrated issues. The investment policy of the University states that no more than 25% of the total amount of the endowment invested in fixed income securities may be invested in securities rated below 'A.' The 25% investment rating rule pertains only to separately managed accounts, as a whole. Presently, as a percentage of the fixed income portion of the portfolio, the amount of the total exposure of fixed income investments rated below an 'A' was 30.23%. Additionally, the amount of the total exposure of fixed income investments not rated was 28.80%.

(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 15% of its value in emerging market equities and 20% in emerging market bonds. No more than 40% of the international component of the equity portfolio may be invested in a single foreign country. As of September 30, 2013 and 2012, 18.2% and 16.7%, respectively, was invested in international securities.

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(g) Derivative and Alternative Investments

The University's investment portfolio does not include any outright purchase of derivatives. Some derivatives exposure exists within the investment portfolio; however the derivative position is managed by the investment manager and not the District staff. The ISP authorizes no more than 5% of the total market value of the endowment may be invested with any single fund manager in the alternative asset class. Additionally, the ISP authorizes no more than 26% of the total market value be invested in alternative trading strategies asset class. As of September 30, 2013 and 2012, 6.96% and 2.24%, respectively, invested in the alternative investment class with a single fund manager. As of September 30, 2013 and 2012, 29.4% and 4.6% of investments (includes \$4 million held with Barclays which is reported as cash and cash equivalents), respectively, were held in the alternative trading strategies asset class.

The University's investments at September 30, 2013 and 2012 are summarized in Table 5:

Table 5 – Summary of University Investments

	Fair market value	
	2013	2012
Unrestricted, noncurrent investments	\$ 30,205,590	30,657,667
Nonexpendable, endowment investments	7,568,086	7,568,086
Total investments at fair market value	<u>\$ 37,773,676</u>	<u>38,225,753</u>

University investments by type held at September 30, 2013 and 2012

	Fair market value	
	2013	2012
Fixed income	\$ 9,595,471	11,314,668
Equities and other investments	15,674,490	25,147,404
Alternative investments – limited partnerships	12,503,715	1,763,681
	<u>\$ 37,773,676</u>	<u>38,225,753</u>

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(6) Capital Assets

Capital Assets activity for the year ended September 30, 2013, is summarized in Table 6 below:

Table 6 – Capital assets activity for the year ended September 30, 2013

	<u>Balance at October 1, 2012</u>	<u>Additions</u>	<u>Dispositions /transfers</u>	<u>CIP transfers in (out)</u>	<u>Balance at September 30, 2013</u>
Capital assets subject to depreciation:					
Furniture and fixtures	\$ 307,328	—	—	—	307,328
Equipment	11,785,550	1,143,011	—	—	12,928,561
Library books	21,491,607	—	—	—	21,491,607
Buildings and improvements	198,819,765	11,525,406	—	7,968,042	218,313,213
Total historic cost	232,404,250	12,668,417	—	7,968,042	253,040,709
Less accumulated depreciation	<u>(135,388,945)</u>	<u>(4,503,144)</u>	<u>—</u>	<u>—</u>	<u>(139,892,089)</u>
Subtotal, depreciable capital assets, net	<u>97,015,305</u>	<u>8,165,273</u>	<u>—</u>	<u>7,968,042</u>	<u>113,148,620</u>
Capital assets not subject to depreciation:					
Land	7,531,544	—	—	—	7,531,544
Construction in progress	16,143,581	8,625,561	—	(7,968,042)	16,801,100
Capital assets, net	<u>\$ 120,690,430</u>	<u>16,790,834</u>	<u>—</u>	<u>—</u>	<u>137,481,264</u>

In FY 2013, the University received \$18.9 million in cash from the District for capital expenditures under capital appropriation to fund ongoing renovation and construction on the main campus, notably the new student center, the law school building and mechanic and electrical systems.

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Capital Assets activity for the year ended September 30, 2012, is summarized in Table 6 below:

Table 6 – Capital assets activity for the year ended September 30, 2012

	<u>Balance at October 1, 2011</u>	<u>Additions</u>	<u>Dispositions /transfers</u>	<u>CIP transfers in (out)</u>	<u>Balance at September 30, 2012</u>
Capital assets subject to depreciation:					
Furniture and fixtures	\$ 307,328	—	—	—	307,328
Equipment	11,194,667	561,219	(44,918)	74,582	11,785,550
Library books	21,491,607	—	—	—	21,491,607
Buildings and improvements	175,904,732	13,771,636	—	9,143,397	198,819,765
Total historic cost	208,898,334	14,332,855	(44,918)	9,217,979	232,404,250
Less accumulated depreciation	<u>(131,109,015)</u>	<u>(4,324,848)</u>	<u>44,918</u>	<u>—</u>	<u>(135,388,945)</u>
Subtotal, depreciable capital assets, net	77,789,319	10,008,007	—	9,217,979	97,015,305
Capital assets not subject to depreciation:					
Land	7,531,544	—	—	—	7,531,544
Construction in progress	12,499,043	12,862,517	—	(9,217,979)	16,143,581
Capital assets, net	<u>\$ 97,819,906</u>	<u>22,870,524</u>	<u>—</u>	<u>—</u>	<u>120,690,430</u>

(7) Retirement Programs

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

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

(a) Defined Benefit Pension Plan

Civil Service Retirement System (CSRS)

Career service employees hired prior to October 1987 are covered by the Civil Service Retirement System (CSRS), a cost-sharing multiple-employer public employee retirement system administered by the federal government's Office of Personnel Management (OPM). The CSRS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. The OPM issues a publicly available financial report that includes financial statements and required supplementary information for CSRS, which may be obtained at www.opm.gov.

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The District contributes 7% of each covered employee's annual salary to the CSRS on behalf of the University. The contribution requirements of plan members are established (and may be amended) by the OPM. The District contributions on behalf of the University for the years ended September 30, 2013, 2012 and 2011 were \$108,802, \$142,237 and \$122,442, respectively.

(b) *Defined Contribution Pension Plans*

District Retirement Program – 401(a)

Career service employees hired on or after October 1, 1987, are covered by the defined contribution pension plan of the District's Retirement System. The District sponsors the plan under the provisions of D.C. Code 1-627 with a qualified trust under Internal Revenue Code (IRC) Section 401(a).

The University contributes 5% of the 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). Employees do not contribute to this plan. Contributions are fully vested after five years of continuous service. The University's contributions were \$95,108 and \$112,907 for the years ended September 30, 2013 and 2012, respectively.

Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF)

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 FY 2013 payroll for all employees was approximately \$68.6 million, of which employees with total payroll of approximately \$63.7 million were covered under the plan. The pension cost for the years ended September 30, 2013 and 2012, was \$4,053,485 and \$4,427,353, respectively. Generally, employees are fully vested immediately after start of contribution in both their contributions and in the University's contributions. Approximately 635 employees were covered by this plan during the year.

(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 the 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, and the University has no liability to the plan.

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(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 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 at no cost to the University.

(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) Litigation

The University is a party to a number of legal actions. Liabilities have been accrued for these cases amounting to approximately \$5.8 million and \$4.7 million for FY 2013 and 2012, 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, 2013 and 2012, various claims and law suits against the University were settled and the University made settlement payments in the amount of \$1,330,000 and \$214,038, respectively. In the opinion of management, based on the information currently available, the expected outcome of legal actions will not have a materially adverse effect on the University's financial statements. A summary of open claims is as follows:

	<u>Accrued liabilities</u>	<u>Estimated range of loss</u>	
		<u>Lower end</u>	<u>Upper end</u>
Likelihood of loss:			
Probable	\$ 5,805,450	2,819,500	8,412,500
Reasonably possible	—	224,200	6,388,400

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(d) Lease Commitments

The University leases certain equipment and facilities under operating leases expiring at various dates through September 2018 and beyond. The University uses several buildings owned by the District and Federal governments, as well as several privately owned buildings.

During FY 2013, the University had a lease agreement with Avalon bay communities to lease space for the Athletic Department. The University also leased equipment from various companies. Total rental expense during the years ended September 30, 2013 and 2012, for all operating leases was \$5,352,371 and \$5,294,527, respectively.

The future annual minimum lease payments under noncancelable operating lease agreements as of September 30, 2013, that have an initial or remaining lease term in excess of one year are shown in Table 8:

Table 8 – Operating Lease Commitments

Year ending September 30:	
2014	\$ 2,520,043
2015	2,929,654
2016	3,112,705
2017	3,190,479
2018	3,270,197
Beyond	<u>34,110,406</u>
Total	<u>\$ 49,133,484</u>

