# DISTRICT OF COLUMBIA
# OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 17-1-03GG

February 2017

OIG

## UNIVERSITY OF THE DISTRICT OF COLUMBIA:

### FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS) FOR FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015

*Guiding Principles*

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation * Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration * Diversity * Measurement * Continuous Improvement*

# Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

# Vision

Our vision is to be a world class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

# Core Values

Excellence * Integrity * Respect * Creativity * Ownership * Transparency * Empowerment * Courage * Passion * Leadership

717 14th Street, N.W., Washington, D.C. 20005 (202) 727-2540

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

**Inspector General**

OIG

February 13, 2017

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

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *University of the District of Columbia Financial Statements and Management's Discussion and Analysis (With Report of Independent Public Accountants) for Fiscal Years ended September 30, 2016 and 2015* (OIG No. 17-1-03GG). The audit was conducted by SB & Company, LLC (SBC). SBC submitted this component report as part of our overall contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2016.

On December 29, 2016, SBC issued its opinion on the financial statements and concluded that the financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. However, SBC identified a significant deficiency over reporting and reviewing of compensated absence.

If you have any questions concerning this report, please contact me or Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/fg

Enclosure

cc: See Distribution List

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Mr. Graylin (Gray) Smith, Partner, SB & Company, LLC (via email)

# Basic Financial Statements

## September 30, 2016 and 2015

## (With Report of Independent Public Accountants Therein)

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, 2016 and 2015

(With Report of Independent Public Accountants Therein)

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

## Table of Contents

## UNIVERSITY OF THE DISTRICT OF COLUMBIA
## MEMBERS OF THE BOARD OF TRUSTEES

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**OFFICE OF THE CHIEF FINANCIAL OFFICER**

**Bill Slack**
Deputy Chief Financial Officer
Financial Operations and Systems

**Jeffrey S. DeWitt**
Chief Financial Officer

**Deloras Shepherd**
Associate Chief Financial Officer
Education Cluster

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**Mohamed Ameen**
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**Benjamin Thomas**
Grants Program Manager

Lakeisa Stinson

**Robin Sharps**
Accounts Payable Supervisor

Cheryl Jones-Ables
Monica Lewis

**Charice Gamble**
Cashiers Supervisor

**Internal Audit**
Krishna Saraiya

Special appreciation to:

All fiscal and accounting personnel at the University and the District and its Component Units whose continuous efforts and cooperation to submit accurate, timely financial data made this report possible.

SB & COMPANY, LLC
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# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Mayor, City Council, Board of Trustees, and
Inspector General of University of the District of Columbia
Washington, D.C. 20008

**Report on the Financial Statements**

We have audited the accompanying 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, 2016 and 2015, 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***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the University of the District of Columbia Foundation, Inc. and the District of Columbia School of Law Foundation. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 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 opinion.

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***Opinion***

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University, as of September 30, 2016 and 2015, and the aggregate discretely presented component units of the University, as of September 30, 2016 and 2015, and the respective changes in its financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits 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 December 29, 2016, 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.

Washington, DC
December 29, 2016

SB + Company, LLC

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

Management's Discussion and Analysis

September 30, 2016 and 2015

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, 2016 and 2015, with 2014 for comparative purposes. 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 University is a component unit of the Government of the District of Columbia and an integral part of the District's *Comprehensive Annual Financial Report*. The basic financial statements of the University consist of the University and its component units. The financial position and results of operations of the component units are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board (GASB).

During FY 2016, the University determined that the University of the District of Columbia Foundation, Inc. (the Foundation) and the District of Columbia School of Law Foundation (the School of Law Foundation) resources were significant and required presentation in accordance with GASB Statement Number (No.) 14, *The Financial Reporting Entity*; No. 39 *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*; and No. 61 *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The Foundation and the School of Law Foundation were determined to be discretely presented component units of the University. Separate financial statements are issued for each of the component units and can be obtained from each Foundation. Note 2 (a) provides detailed information on the University's financial reporting entity.

Additionally, the basic financial statements of the University are prepared in accordance with 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 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 University uses several buildings owned by the District and Federal governments, as well as several privately owned buildings. 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 position represents 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 non-operating. 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. 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 present 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 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, 2016, 2015 and 2014 ($000):

| | **2016** | **2015** | **2014** |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ **51,549** | $ 54,769 | $ 60,579 |
| Noncurrent assets: | | | |
| Investments | **42,700** | 38,405 | 41,474 |
| Capital assets, net of depreciation | **207,034** | 195,367 | 156,700 |
| Other | **107** | 107 | 1,195 |
| Total assets | **301,390** | 288,648 | 259,948 |
| Liabilities: | | | |
| Current liabilities | **56,259** | 59,805 | 72,176 |
| Noncurrent liabilities | — | — | 183 |
| Total liabilities | **56,259** | 59,805 | 72,359 |
| Net position: | | | |
| Net investment in capital assets | **207,034** | 195,367 | 156,700 |
| Nonexpendable restricted | **7,568** | 7,568 | 7,568 |
| Expendable restricted | **5,687** | 4,963 | 4,407 |
| Unrestricted | **24,842** | 20,945 | 18,914 |
| Total net position | $ **245,131** | $ 228,843 | $ 187,589 |

Net position increased by $16.3 million or 7.1% from $228.8 million in FY 2015 to $245.1 million in FY 2016. The main driver for the increase was due to an $11.7 million or 6.0% increase in net investment in capital assets due to the completion of the new student center and continued construction activities throughout the University's campus in FY 2016. Additionally, capital projects increased by $.7 million or 20.6% due to revenues received from student center fees, plus a $3.9 million or 18.6% increase in unrestricted in FY 2016.

The increase of approximately $41.3 million or 22.0% in total net position from FY 2014 to FY 2015 is primarily attributed to an increase in amounts invested in capital assets of $38.7 million or 24.7%. In 2015, the University's capital appropriation revenue from the District of $42.8 million increased by 86.8% due to the continued construction activities throughout the University's campus, primarily the new student center building. The majority of the building was completed in FY2015.

Table 2 – Condensed Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended September 30, 2016, 2015 and 2014 ($000):

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Operating revenues: | | | |
| Tuition and fees | $ **34,000** | $ 31,083 | $ 30,457 |
| Federal, local and private grants and contracts | **22,902** | 21,676 | 20,456 |
| Auxiliary enterprises and other sales and services | **749** | 716 | 693 |
| Other | **2,275** | 3,379 | 3,901 |
| Total operating revenues | **59,926** | 56,854 | 55,507 |
| Less operating expenses | **(147,290)** | (139,524) | (134,230) |
| Operating Loss | **(87,364)** | (82,670) | (78,723) |
| Non-operating revenues: | | | |
| District of Columbia appropriations | **71,943** | 73,458 | 66,691 |
| Investment income/(loss) | **5,401** | (1,253) | 3,756 |
| Other gifts/grants | **9,426** | 8,940 | 10,868 |
| Gain on sale of assets | **1,525** | — | — |
| Total no-noperating revenues | **88,295** | 81,145 | 81,315 |
| Increase/(decrease) in net position before capital appropriations | **931** | (1,525) | 2,592 |
| Capital appropriations | **15,357** | 42,779 | 22,898 |
| Increase in net position | **16,288** | 41,254 | 25,490 |
| Net position, beginning of year | **228,843** | 187,589 | 162,099 |
| Net position, end of year | $ **245,131** | $ 228,843 | $ 187,589 |

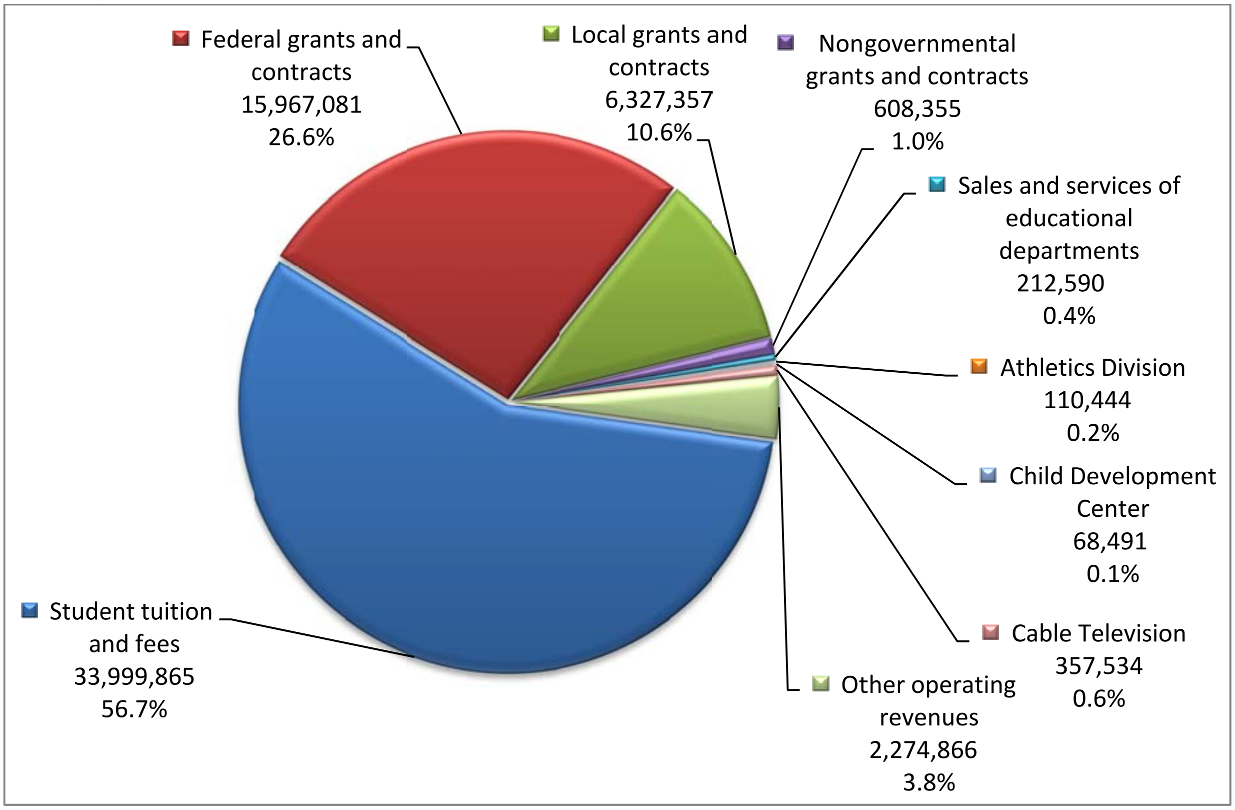
**UNIVERSITY OF THE DISTRICT OF COLUMBIA**
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis

September 30, 2016 and 2015

**OPERATING REVENUES BY SOURCE**

$60 million in FY 2016




The increase in operating revenue of approximately $3.1 million or 5.4% from FY 2015 to FY 2016 is primarily due to an increase in grant revenue as well as student tuition and fees. Student tuition and fees increased by $2.9 million or 9.4% due primarily to an increase in international student enrollment. In addition to the increase of tuition and fees in revenues, federal grants and contracts increased by $.4 million or 2.7%, whereas local grants and contracts increased by $.8 million or 15.2% due to the addition of new grants in FY 2016.

Net non-operating revenues increased by approximately $7.2 million or 8.8% from $81.1 million in FY 2015 to $88.3 million in FY 2016. This increase was primarily due to a $6.7 million or 531.2% increase in investment income which was mainly due to improvements in the market conditions after the Federal Reserve's first increase in interest rate in more than a decade. Additionally, gifts for scholarships increased by $.5 million or 57.5% due primarily to $.7 million received from the Law School in FY 2016 and a $1.5 million increase from the sale of the President's house in FY 2016. The increases were offset by a decrease of $1.5 million or 2.1% in District appropriations.

The increase in operating revenue of approximately $1.3 million or 2.4% from FY 2014 to FY 2015 is primarily due to an increase of $1.2 million in grant revenue.

Net non-operating revenue decreased slightly by approximately $0.2 million or 0.2% in FY 2015 primarily attributed to an investment loss of $1.3 million due to a significant drop in points for invested stocks during the last quarter of the fiscal year and a decrease $1.9 million in Federal non-operating grant revenue. These decreases were offset by an increase of $6.8 million in District appropriations.

Table 3 – Expenses by Function for the Years Ended September 30, 2016 and 2015 ($000):

| | FY 2016 | | FY 2015 | | Increase/(decrease) | |
|---|---|---|---|---|---|---|
| **Expenses by function** | **Amount** | **Percent of total** | **Amount** | **Percent of total** | **Amount** | **Percent change** |
| Instruction | $ **44,552** | **30%** | $ 43,810 | 31% | $ 742 | 2% |
| Research | **5,691** | **4** | 4,910 | 4 | 781 | 16 |
| Public service | **2,605** | **2** | 2,372 | 2 | 233 | 10 |
| Academic support | **18,424** | **12** | 18,031 | 13 | 393 | 2 |
| Student services | **11,522** | **8** | 9,488 | 7 | 2,034 | 21 |
| Institutional support | **23,568** | **16** | 20,278 | 15 | 3,290 | 16 |
| Operations and maintenance | **19,685** | **13** | 19,277 | 14 | 408 | 2 |
| Scholarships and fellowships | **11,397** | **8** | 12,379 | 9 | (982) | (8) |
| Auxiliary services | **3,889** | **3** | 4,439 | 3 | (550) | (12) |
| Depreciation | **5,957** | **4** | 4,540 | 3 | 1,417 | 31 |
| | $ **147,290** | **100%** | $ 139,524 | 100% | $ 7,766 | 6% |

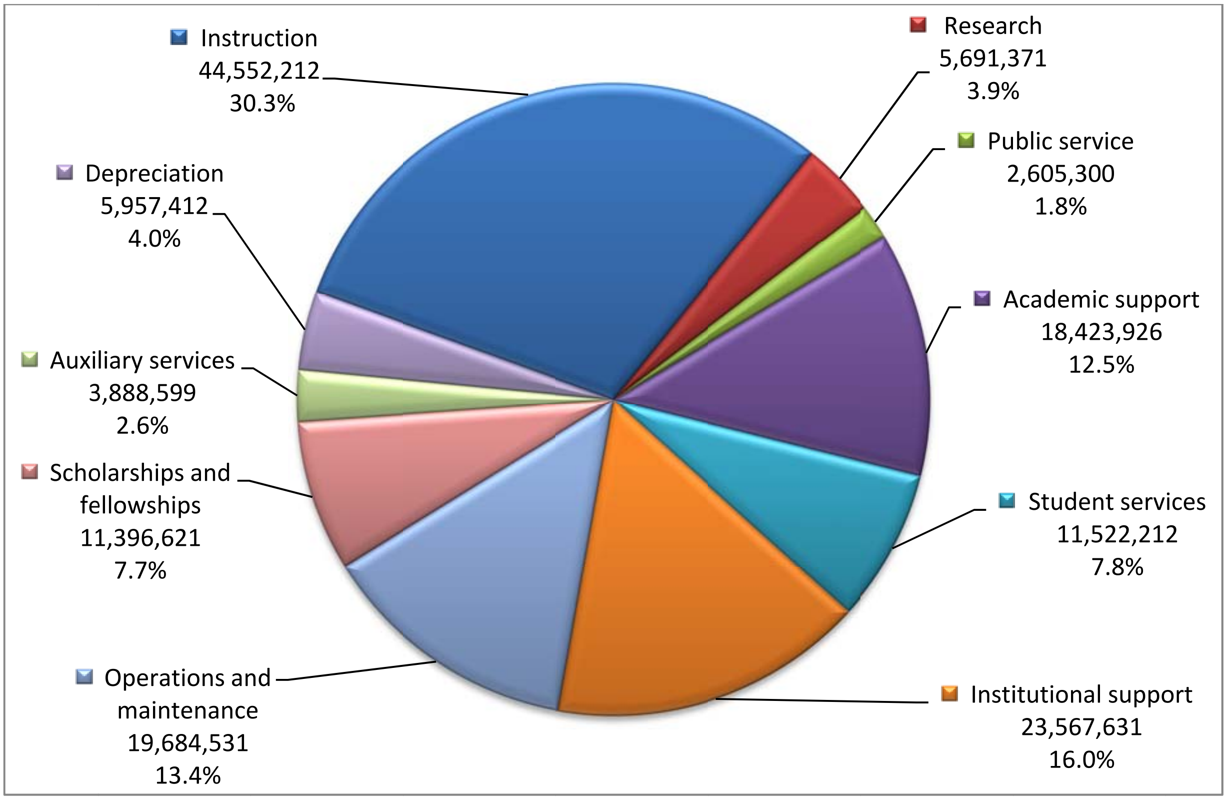
**UNIVERSITY OF THE DISTRICT OF COLUMBIA**
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis

September 30, 2016 and 2015

**OPERATING EXPENSES BY FUNCTION**

$147 million in FY 2016




The $7.8 million or 5.6% increase in expense by functional activities from FY 2015 to FY 2016 is primarily caused by a $2.0 million or 21.4% increase in student services expense, a $3.3 million or 16.2% increase in institutional support expense and $1.4 million or 31.2% increase in depreciation expense. Expenditures increased mostly from the spending on the addition of the new student center and the associated depreciation expense after its completion.

Table 4 – Expenses by Function for the Years Ended September 30, 2015 and 2014 ($000):

| | FY 2015 | | FY 2014 | | Increase/(decrease) | |
|---|---|---|---|---|---|---|
| **Expenses by function** | **Amount** | **Percent of total** | **Amount** | **Percent of total** | **Amount** | **Percent change** |
| Instruction | $ 43,810 | 31% | $ 39,510 | 29% | $ 4,300 | 11% |
| Research | 4,910 | 4 | 4,832 | 4 | 78 | 2 |
| Public service | 2,372 | 2 | 2,867 | 2 | (495) | (17) |
| Academic support | 18,031 | 13 | 15,964 | 12 | 2,067 | 13 |
| Student services | 9,488 | 7 | 7,699 | 6 | 1,789 | 23 |
| Institutional support | 20,278 | 15 | 21,764 | 16 | (1,486) | (7) |
| Operations and maintenance | 19,277 | 14 | 20,419 | 15 | (1,142) | (6) |
| Scholarships and fellowships | 12,379 | 9 | 13,040 | 10 | (661) | (5) |
| Auxiliary services | 4,439 | 3 | 3,646 | 3 | 793 | 22 |
| Depreciation | 4,540 | 3 | 4,489 | 3 | 51 | 1 |
| | $ 139,524 | 100% | $ 134,230 | 100% | $ 5,294 | 4% |

The $5.3 million or 3.9% increase in expense by functional activities from FY 2014 to FY 2015 is primarily caused by a $4.3 million or 11.0% increase in instruction expense and a $2.1 million or 13.0% increase in academic support expense. These increases were offset by a $1.5 million or 7.0% decrease in institutional support. Expenditures primarily increased due to an increase in spending on various needs by Facilities for critical issues, such as snow removal, chemical treatment for boilers, and sprinkler system maintenance. Additionally, there was an increase in spending for the Board of Trustees Alumni election, Presidential search, and Bertie Backus renovations at UDC-CC.

## Enrollment

The University maintains an open admissions policy for its Community College and a rolling admission policy for its Flagship. The undergraduate programs at the University include the Community College and its Flagship. The total student enrollment for the Fall 2016 and 2015 semesters is 4,585 and 5,118 students, respectively, representing a decrease of 10.4% from the Fall 2015 enrollment of 5,118 students. In Fall 2016 and 2015, the student body was comprised of 64.9% and 68.1% District residents, 9.2% and 9.8% Metro area residents and 25.9% and 22.1% nonresidents, respectively. Full time equivalent enrollments are 3,198 for Fall 2016 and 3,481 for Fall 2015.

Total student tuition and fee revenue increased by $2.9 million or 9.4% from $31.1 million in FY 2015 to $34.0 million in FY 2016. Total student tuition and fee revenue increased by $0.6 million or 2.1% from $30.5 million in FY2014 to $31.1 million in FY 2015.

## 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 $69.7 million, for FY 2011 through FY 2016, 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.

**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.

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

## Statements of Net Position

**As of September 30, 2016 and 2015**

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | $ | **29,948,253** | $ | 21,643,317 |
| Accounts receivable, net | | **8,478,422** | | 8,183,797 |
| Grants and contracts receivable, net | | **5,799,879** | | 4,858,768 |
| Receivable from the District of Columbia | | **6,608,603** | | 17,040,846 |
| Accrued interest receivable | | **31,435** | | 26,289 |
| Other current assets | | **682,208** | | 3,015,747 |
| Total Current Assets | | **51,548,800** | | 54,768,764 |
| **Noncurrent assets:** | | | | |
| Investments | | **42,699,371** | | 38,404,471 |
| Capital assets, net | | **207,034,449** | | 195,367,323 |
| Long-term receivables | | **107,456** | | 107,456 |
| Total Noncurrent Assets | | **249,841,276** | | 233,879,250 |
| Total Assets | | **301,390,076** | | 288,648,014 |
| **Liabilities** | | | | |
| **Current liabilities:** | | | | |
| Accounts payable | | **6,737,198** | | 14,624,325 |
| Accrued payroll | | **4,067,498** | | 6,546,854 |
| Litigation contingencies | | **4,289,000** | | 5,687,944 |
| Compensated absences | | **4,248,983** | | 4,126,634 |
| Unearned revenue | | **12,441,981** | | 12,219,068 |
| Due to the District of Columbia | | **22,731,174** | | 15,104,980 |
| Other current liabilities | | **1,743,033** | | 1,495,618 |
| Total Liabilities | | **56,258,867** | | 59,805,423 |
| **Net Position** | | | | |
| Net investment in capital assets | | **207,034,449** | | 195,367,323 |
| Restricted: | | | | |
| Nonexpendable endowments | | **7,568,086** | | 7,568,086 |
| Expendable: | | | | |
| Capital projects | | **4,017,112** | | 3,330,787 |
| Pre-K enhancement | | **1,669,537** | | 1,631,795 |
| Unrestricted | | **24,842,025** | | 20,944,600 |
| Total Net Position | $ | **245,131,209** | $ | 228,842,591 |

The accompanying notes to the financial statements are an integral part of these 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 Position

**Years Ended September 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Revenues** | | |
| **Operating revenues:** | | |
| Student tuition and fees, net | $ **33,999,865** | $ 31,083,170 |
| Federal grants and contracts | **15,967,081** | 15,544,383 |
| Local grants and contracts | **6,327,357** | 5,492,540 |
| Nongovernmental grants and contracts | **608,355** | 639,527 |
| Sales and services of educational departments | **212,590** | 274,460 |
| Auxiliary enterprise: | | |
| Athletics division | **110,444** | 78,075 |
| Child development center | **68,491** | 71,451 |
| Cable television | **357,534** | 292,246 |
| Other operating revenues | **2,274,866** | 3,378,950 |
| Total Operating Revenues | **59,926,583** | 56,854,802 |
| **Expenses** | | |
| **Operating expenses:** | | |
| Salaries | **66,055,585** | 64,806,101 |
| Benefits | **14,773,852** | 13,966,865 |
| Scholarships and fellowships | **16,553,082** | 15,322,158 |
| Contractual services, supplies and other | **29,663,743** | 27,997,995 |
| Utilities and other | **14,286,141** | 12,891,061 |
| Depreciation | **5,957,412** | 4,540,080 |
| Total Operating Expenses | **147,289,815** | 139,524,260 |
| Operating Loss | **(87,363,232)** | (82,669,458) |
| **Non-operating revenues, net:** | | |
| District of Columbia appropriations | **71,942,472** | 73,457,573 |
| Investment income/(loss) | **5,401,283** | (1,252,690) |
| Gifts for scholarships | **1,410,744** | 895,864 |
| Federal non-operating grants | **8,015,126** | 8,043,898 |
| Gain on sale of assets | **1,525,000** | - |
| Total Non-operating Revenues, Net | **88,294,625** | 81,144,645 |
| Income/(loss) before other revenues, expenses, gains, or losses | **931,393** | (1,524,813) |
| Capital appropriations | **15,357,225** | 42,778,544 |
| Change in Net Position | **16,288,618** | 41,253,731 |
| **Net position** | | |
| Net Position, Beginning | **228,842,591** | 187,588,860 |
| Net Position, Ending | $ **245,131,209** | $ 228,842,591 |

The accompanying notes to the financial statements are an integral part of these 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, 2016 and September 30, 2015**

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Tuition and fees | $ **34,514,053** | $ 28,569,900 |
| Grants and contracts | **19,545,698** | 35,322,833 |
| Payments to vendors | **(49,503,471)** | (40,921,638) |
| Payments to employees | **(83,186,445)** | (79,095,266) |
| Other payments | **(7,059,638)** | (23,525,691) |
| Net cash used by operating activities | **(85,689,803)** | (79,649,862) |
| **Cash flows from non-capital financing activities:** | | |
| District of Columbia appropriations - operating | **71,942,472** | 73,457,573 |
| Advances from District of Columbia | **12,262,326** | (5,407,122) |
| Gifts for scholarships | **1,410,744** | 895,864 |
| Direct loan receipts | **23,956,290** | 38,412,375 |
| Direct loan payments | **(23,956,290)** | (38,412,375) |
| Federal Pell grant | **8,015,126** | 8,043,898 |
| Net cash provided by noncapital financing activities | **93,630,668** | 76,990,213 |
| **Cash flows from capital and related financing activities:** | | |
| Purchase and disposition of capital assets | **(17,624,538)** | (43,207,525) |
| Proceeds from sale of assets | **1,525,000** | - |
| Capital appropriations | **15,357,225** | 42,778,544 |
| Net cash used by capital and related financing activities | **(742,313)** | (428,981) |
| **Cash flows from investing activities:** | | |
| Proceeds from sales/maturities of long-term investments | **6,933,844** | 17,134,474 |
| Investment income | **3,002,912** | 676,918 |
| Purchase of investments | **(8,830,372)** | (19,026,523) |
| Net cash provided/(used) by investing activities | **1,106,384** | (1,215,131) |
| Net change in cash and cash equivalents | **8,304,936** | (4,303,761) |
| Cash and cash equivalents, beginning | **21,643,317** | 25,947,078 |
| Cash and cash equivalents, ending | $ **29,948,253** | $ 21,643,317 |
| **Reconciliation of operating loss to net cash provided by operating activities:** | | |
| Operating loss | $ **(87,363,232)** | $ (82,669,458) |
| Adjustments to reconcile operating loss to net cash: | | |
| Depreciation | **5,957,412** | 4,540,080 |
| Bad debt expense | **4,451,629** | 3,032,111 |
| Effect of Operating Non-cash Changes in: | | |
| Accounts receivable | **(3,531,044)** | (5,111,275) |
| Grants and contracts receivable | **(2,789,183)** | 14,748,267 |
| Accrued interest receivable | **(5,146)** | 17,414 |
| Other current assets | **2,333,539** | (2,740,285) |
| Other noncurrent assets | - | 1,074,513 |
| Notes receivable | - | 12,670 |
| Accounts payable and accrued liabilities | **(11,765,427)** | (338,621) |
| Compensated absences | **122,349** | (201,816) |
| Unearned revenue | **222,913** | 119,208 |
| Due to the District of Columbia | **6,428,972** | (11,759,093) |
| Other current liabilities | **247,415** | (190,199) |
| Refundable advances | - | (183,378) |
| Net cash used by operating activities | $ **(85,689,803)** | $ (79,649,862) |

The accompanying notes to the financial statements are an integral part of these statements.

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

**(Discretely Presented Component Units)**

**STATEMENTS OF FINANCIAL POSITION**
**As of September 30, 2016 and 2015**

| | University of the District of Columbia Foundation, Inc. | | University of the District of Columbia School of Law Foundation | | Total | |
|---|---|---|---|---|---|---|
| **ASSETS** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| **Current assets** | | | | | | |
| Cash and cash equivalents | $ **708,210** | $ 927,715 | $ **146,059** | $ 185,628 | $ **854,269** | $ 1,113,343 |
| Investments | **5,940,647** | 4,570,941 | **9,565,990** | 8,558,503 | **15,506,637** | 13,129,444 |
| Accounts receivable | **21,393** | 643 | **-** | - | **21,393** | 643 |
| Other receivables | **-** | - | **40,200** | 38,488 | **40,200** | 38,488 |
| Prepaid | **-** | - | **4,279** | 2,513 | **4,279** | 2,513 |
| Other current assets | **273** | 7,140 | **-** | - | **273** | 7,140 |
| **Total Current assets** | **6,670,523** | 5,506,439 | **9,756,528** | 8,785,132 | **16,427,051** | 14,291,571 |
| **Noncurrent assets** | | | | | | |
| Artwork collection | **440,992** | 440,992 | **-** | - | **440,992** | 440,992 |
| **Total Noncurrent assets** | **440,992** | 440,992 | **-** | - | **440,992** | 440,992 |
| **Total Assets** | $ **7,111,515** | $ 5,947,431 | $ **9,756,528** | $ 8,785,132 | $ **16,868,043** | $ 14,732,563 |
| **LIABILITIES & NET ASSETS** | | | | | | |
| **Current Liabilities** | | | | | | |
| Accounts payable | $ **-** | $ 1,660 | $ **-** | $ - | $ **-** | $ 1,660 |
| Accrued expenses | **-** | - | **1,737** | 11,560 | **1,737** | 11,560 |
| **Total Liabilities** | **-** | 1,660 | **1,737** | 11,560 | **1,737** | 13,220 |
| **Net Assets** | | | | | | |
| Unrestricted | **1,309,910** | 975,529 | **750,640** | 963,631 | **2,060,550** | 1,939,160 |
| Temporarily restricted | **3,316,493** | 2,686,005 | **3,191,454** | 2,127,998 | **6,507,947** | 4,814,003 |
| Permanently restricted | **2,485,112** | 2,284,237 | **5,812,697** | 5,681,943 | **8,297,809** | 7,966,180 |
| **Total Net Assets** | **7,111,515** | 5,945,771 | **9,754,791** | 8,773,572 | **16,866,306** | 14,719,343 |
| **Total Liabilities & Net Assets** | $ **7,111,515** | $ 5,947,431 | $ **9,756,528** | $ 8,785,132 | $ **16,868,043** | $ 14,732,563 |

The accompanying notes to the financial statements are an integral part of these statements.

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

**(Discretely Presented Component Units)**

**STATEMENTS OF ACTIVITIES**

**For the Years Ended September 30, 2016 and 2015**

| | University of the District of Columbia Foundation, Inc. | | University of the District of Columbia School of Law Foundation | | Total | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| **REVENUE & SUPPORT** | | | | | | |
| Contributions | $ **1,726,257** | 1,065,788 | $ **1,283,033** | $ 1,063,697 | $ **3,009,290** | $ 2,129,485 |
| Special event revenue | **3,170** | 5,275 | **-** | - | **3,170** | 5,275 |
| In-kind revenue | **22,625** | - | **-** | - | **22,625** | - |
| Other | **18,854** | 26,357 | **21,825** | 5,644 | **40,679** | 32,001 |
| Grants | **-** | - | **217,000** | 267,500 | **217,000** | 267,500 |
| Interest & dividends | **114,327** | 106,832 | **157,422** | 180,982 | **271,749** | 287,814 |
| Net realized and unrealized gains/(losses) on investments | **334,803** | (58,055) | **612,256** | (6,321) | **947,059** | (64,376) |
| Clinic fee award | **-** | - | **14,000** | 30,000 | **14,000** | 30,000 |
| Total Revenue & support | **2,220,036** | 1,146,197 | **2,305,536** | 1,541,502 | **4,525,572** | 2,687,699 |
| **EXPENSES** | | | | | | |
| Program services | **409,893** | 169,700 | **1,224,328** | 991,030 | **1,634,221** | 1,160,730 |
| Scholarship & fellowship | **264,538** | 137,958 | **-** | - | **264,538** | 137,958 |
| Management & general | **367,819** | 382,680 | **92,989** | 94,330 | **460,808** | 477,010 |
| Fundraising | **12,042** | - | **7,000** | 2,583 | **19,042** | 2,583 |
| Total Expenses | **1,054,292** | 690,338 | **1,324,317** | 1,087,943 | **2,378,609** | 1,778,281 |
| **Change in Net Assets** | **1,165,744** | 455,859 | **981,219** | 453,559 | **2,146,963** | 909,418 |
| **Net Assets - Beginning of Year** | **5,945,771** | 5,489,912 | **8,773,572** | 8,320,013 | **14,719,343** | 13,809,925 |
| **Net Assets - End of Year** | $ **7,111,515** | $ 5,945,771 | $ **9,754,791** | $ 8,773,572 | $ **16,866,306** | $ 14,719,343 |

The accompanying notes to the financial statements are an integral part of these statements.

## (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 U.S. 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 (UDC-CC). Beginning in Fall 2009, UDC-CC served the 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 institution provides new opportunities to DC citizens, employers, the University, and the District of Columbia. UDC-CC 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.

During FY 2016, the University adopted GASB No. 72 *Fair Value Measurement and Application*. This Statement establishes investment valuation techniques that are appropriate for specific investment categories in the measurement of fair value. Required disclosures are made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Note 5 includes these updated disclosures.

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;
- the University is fiscally dependent on the District; and
- it would be misleading to exclude the University from the District's financial statements.

GASB Statement No.14 *The Financial Reporting Entity* as amended by GASB No. 39 *Determining Whether Certain Organization Are Component Units* and GASB No. 61 *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34* define the financial reporting entity as an entity that consists of the primary government, the University of the District of Columbia, and all of its component units. Component units are legally separate organizations which have a fiscal dependency and financial benefit or burden relationship with the primary government and other organizations for which the significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete.

A complete copy of the audited financial statements for the University of the District of Columbia Foundation, Inc. (the Foundation) and the District of Columbia School of Law Foundation (School of Law Foundation) are available at the Foundation offices located on the campus of the University.

#### *Discretely Presented Component Units*

In accordance with GASB No. 61, the Foundation and the School of Law Foundation are legally separate entities and are reported as discretely presented component units in the financial statements based on the nature and significance of their relationship to the University.

The Foundation was incorporated on March 15, 1978, under the District of Columbia's Nonprofit Corporation Act. The purpose of the Foundation is to solicit funds for student scholarships, and to advance and benefit the programs and mission of the University of the District of Columbia. The Foundation is funded primarily from private contributions and investment income.

The School of Law Foundation was established on December 9, 1993. It operates exclusively for the benefit of the University of the District of Columbia David A. Clarke School of Law (the "School of Law"), and accepts and holds contributions for the benefit of the School of Law. The School of Law Foundation expects to receive support in the form of contributions from alumni of the School of Law, family and friends of Joseph L. Rauh, members of the legal community and members of the general public. The School of Law Foundation will apply income and principal from contributions for the sole benefit of the School of Law. Specifically, the School of Law Foundation expects to apply contributions to support the School of Law by (1) supporting programs that promote excellence in legal education, and (2) providing financial support for the students, faculty, programs, and facilities of the School of Law.

The School of Law Foundation has established a separate fund to support the establishment of an endowed chair, the Joseph L. Rauh Chair of Public Interest Law. In the unlikely event that the School of Law (now named the UDC David A. Clarke School of Law) is forced to cease operations, the directors of the School of Law Foundation will use the Rauh Fund to establish a Joseph L. Rauh Chair of Public Interest Law at another law school pursuant to the by-laws of the Foundation.

### *(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 follows GASB standards of accounting and financial reporting.

Financial statements of the component units of the University are presented in accordance with GAAP prescribed by the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial reporting entity for these differences.

A majority of the revenues the University receives are from third party grantors. Revenue from government and private grant and contract agreements are recognized as it is earned when expenses are incurred in accordance with the agreements. Any funding received in advance of expenses is recorded as refundable advances on the statement of net position.

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, 2016 and 2015, 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.

Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation is incurred.

***(c) Application of Accounting Standards***

The accompanying financial statements are presented in accordance with GAAP as prescribed by GASB.

Based on the explanations previously provided, when both restricted and unrestricted resources are available for use, the University's policy is to use restricted resources first, and then unrestricted resources, as they are needed.

***(d) Services Provided by/to 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; this is recorded as due to the District of Columbia. 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.

Amounts owed to the University relating to the capital appropriations from the District and services provided by the University, for grants and contracts are recorded as receivables from the District of Columbia.

***(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 Non-operating Revenues and Expenses***

Operating revenues and expenses are generally associated with those activities that relate directly to the core activities of instruction, research, and public service that form the essence of the University's mission (e.g. tuition and fees, Federal and private grants and contracts, auxiliary income). Included in non-operating revenues are District 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 define the District appropriations as non-operating 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 net of an allowance for doubtful account. An allowance for doubtful accounts is provided based upon management's judgment including such factors as previous collection history and characterization of the respective receivables. 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.

### *(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)

| Category | Depreciation/amortization period |
|---|---|
| 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 non-faculty employees may carry over a maximum of 240 hours of annual leave beyond December 31 of each calendar year. Carryover of annual leave in excess of 240 hours is permitted with the approval of appropriate University officials. The accrued annual leave balance is payable to administrative and other non-faculty employees upon termination of employment.

In accordance with the provisions of the 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.

The University reports a liability for compensated absences that is strictly limited to leave that:

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

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

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

Administrative and other non-faculty University employees earn annual and sick leave during the year at varying accrual rates, depending on the employee's classification and years of service.

The University records 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.

Tuition and fees revenues are proportionately earned in 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.

***(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, 2016 and 2015.

***(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.

***(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. Tuitions and fees revenue in the statements of revenues, expenses, and changes in net position is reflected net of these allowances.

***(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 20 pre-1987 (Civil Service) and 33 post-1987 (DC Defined Contribution) employees. The cost of providing such benefits to employees hired on or prior to September 30, 1987 is borne by the U.S. Federal government and the University has no liability for this cost. Pursuant to the D.C. Code 1-622, employees hired on or after October 1, 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 bears responsibility for the cost relating to employees hired on or after October 1, 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 records such costs as expenses/expenditures when premiums are paid.

***(r) Other Post-Employment Benefits (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 on or prior to September 30, 1987 is borne by the U.S. 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 $82,290 and $90,400 for post-retirement health premiums paid during FY 2016 and 2015, respectively. Eight (8) retirees and eight (8) retirees received post-retirement health benefits during fiscal years ended September 30, 2016 and 2015, 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.

***(t) New Accounting Pronouncements to be Implemented in the Future***

The University will adopt by the required effective dates the new accounting standards issued by the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. In addition, this Statement establishes standards for recognizing and measuring liabilities/assets, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

This Statement also details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. Statement No. 75 also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the specific criteria presented in this statement.

The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2017, the University's fiscal year 2018.

***(u) Subsequent Events***

The University evaluated the subsequent events and transactions through December 29, 2016, the date these financial statements were available for issue, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure, except as disclosed above.

## (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 as state restricted funds.

The University's cash and cash equivalents as of September 30, 2016 and 2015 are reflected in Table 2:

Table 2 – Unrestricted and restricted cash and cash equivalents as of September 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents: | | |
| Unrestricted: | | |
| Wells Fargo | $ **20,085,629** | $ 11,228,894 |
| Barclays | **3,905,093** | 5,181,120 |
| Independence Bank | **100,639** | 100,539 |
| Industrial Bank | **100,402** | 100,150 |
| US Bank | **69,841** | 70,032 |
| Subtotal unrestricted | **24,261,604** | 16,680,735 |
| Restricted: | | |
| Wells Fargo | **5,686,649** | 4,962,582 |
| Total cash and cash equivalents | $ **29,948,253** | $ **21,643,317** |

The University's cash and cash equivalents indicated previously which consist of the following as of September 30, 2016 and 2015, are reflected in Table 3:

Table 3 – Summary of cash and cash equivalents as of September 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Cash and demand deposits: | | |
| Wells Fargo | $ **25,772,278** | $ 16,191,476 |
| Barclays | **3,905,093** | 5,181,120 |
| US Bank | **69,841** | 70,032 |
| Subtotal cash and demand deposits | **29,747,212** | 21,442,628 |
| Certificates of deposit: | | |
| Independence Bank | **100,639** | 100,539 |
| Industrial Bank | **100,402** | 100,150 |
| Subtotal certificates of deposit | **201,041** | 200,689 |
| Total cash and cash equivalents | $ **29,948,253** | $ 21,643,317 |

As of September 30, 2016 and 2015, the bank balances of cash on deposit were $31,497,798 and $23,770,501. The FDIC standard deposit insurance amount is $250,000 per depositor, per insured bank. Currently, the Wells Fargo account has a balance that exceeds the insured amount, by $25,522,278, and is collateralized by the District or by its agent in the District's name. The Barclays account has a balance that exceeds the insured amount, by $3,655,093, and consists of cash held as investments which are normally in money market products; therefore, do not require collateralization.

## (4) Receivables and Revenue Adjustments

The student tuition and fees balance of $33,999,865 and $31,083,170 are net of scholarships and discounts of $1,945,645 and $1,414,836 in FY 2016 and 2015, respectively.

The University's receivable balances as of September 30, 2016 and 2015 are reflected in Table 4:

Table 4 – Receivable balances as of September 30, 2016 and 2015:

| | 2016 | | |
|---|---|---|---|
| | **Receivable** | **Allowance** | **Net** |
| Accounts receivable | $ 12,194,346 | $ (3,715,924) | $ 8,478,422 |
| Grants receivable | 5,817,867 | (17,988) | 5,799,879 |

| | 2015 | | |
|---|---|---|---|
| | **Receivable** | **Allowance** | **Net** |
| Accounts receivable | $ 8,729,070 | $ (545,273) | $ 8,183,797 |
| Grants receivable | 4,960,236 | (101,468) | 4,858,768 |
| Notes receivable | 274,889 | (274,889) | — |

## (5) Investments

Investments held by Barclays/Stifel as of September 30, 2016 and 2015 were approximately $46.5 million and $43.5 million, respectively.

### *(a) Investments Authorized*

The purpose of the University of the District of Columbia Endowment Policy is to provide direction for the investment, expenditure and management of the University of the District of Columbia's (UDC) endowment funds, consistent with the best interest of the University and the philosophy and practices of the Chief Financial Officer of the District of Columbia. The University's endowment fund includes land grand funds appropriated by Congress under the First Morrill Act (P.L. 90-354); gifts, bequests, and other funds directed to be held to support the University program/activities; and funds assigned by the Board of Trustees to function as an endowment. Endowment funds are to be used to support the mission of the University.

The policy applies to all endowment funds of the University, which consist of the following:

- UDC Land Grant Fund: Pursuant to the First Morrill Act of 1862, each eligible state received a total of 30,000 acres of federal land to be used toward establishing and funding educational institutions. Federal City College (FCC), one of the University's predecessor institutions, was considered a land-grant college, and in lieu of the donation of public lands for the endowment, FCC received $7,241,706. Fund restrictions are as follows: (i) The capital shall remain forever undiminished; (ii) No portion of the fund, including interest, may be applied to the purchase, construction, preservation or repair of any building or buildings; (iii) all expenses of management and taxes shall be paid by the District. The UDC Land Grant Fund shall not be co-invested with any other UDC endowment funds.

- Post-Secondary Education Fund: Contributions and gifts received by the University and funds in receipt for services. The fund also includes the proceeds from the sale of the University's radio station, WDCU. Other sources of funds donated to the university for Endowment purposes will be consolidated into this Fund unless designated as restricted by the donor. The Post-Secondary Education Fund is an unrestricted fund.

### *(b) Asset Allocation / Exposures*

It is a fundamental policy of the CFO or CFO's designee that the investment portfolios of the University's endowment funds should be diversified to reduce the risk of undue exposure to any one sector or security. The asset allocation is based upon on the underlying investment strategy of the manager and not the structure of the investment vehicle. Accordingly, endowment funds must be allocated with the following parameters approved by the CFO or CFO's designee:

| ASSET CLASS | ALLOCATIONS | | |
|---|---|---|---|
| | Minimum | Target | Maximum |
| Cash + Short Bonds | 0% | 8% | 20% |
| Developed Government Bonds | 0% | 9% | 20% |
| Investment Grade Bonds | 0% | 4% | 20% |
| High Yield + Emerging Market Bonds | 0% | 8% | 25% |
| Developed Market Equities | 20% | 38% | 45% |
| Emerging Market Equities | 5% | 10% | 15% |
| Commodities | 0% | 5% | 10% |
| Real Estate | 0% | 4% | 15% |
| Alternative Trading Strategies | 0% | 14% | 30% |

Exception outside of any minimum or maximum range, due potentially to market conditions or other considerations, will be assessed by the CFO or the CFO's designee and a written justification will be provided regarding the allocation.

### *(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 Investment Policy Statement states that fixed income investments must be readily marketable and may not include illiquid securities. 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.

### *(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 the end of the University's fiscal year ranged from AAA to nonrated issues. The Investment Policy Statement targets an exposure to developed government bonds of 9% (maximum: 20%), to investment grade bonds of 4% (maximum: 20%), and high-yield/emerging markets bonds of 8% (maximum: 25%). On September 30, 2016, the actual exposure to each of these asset classes was 7.0%, 4.7% and 4.8% respectively.

### *(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. The University had no custodial credit risk exposure during the fiscal year.

### *(f) 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 Investment Policy Statement authorizes that no more than 30% of the total market value of the endowment may be invested in the alternative asset class. The target exposure is 14%. As of September 30, 2016, 14.7% was invested in alternative strategies.

Table 5 – Summary of University Investments as of September 30, 2016 and 2015:

| | **Fair Market Value** | |
|---|---|---|
| **Asset Classes** | **2016** | **2015** |
| Cash & Short Maturity Bonds | **$ 2,042,134** | $ 3,869,969 |
| Developed Government Bonds | **3,278,157** | 3,346,449 |
| Investment Grade Bonds | **2,185,124** | 2,098,584 |
| High Yield & Emerging Market Bonds | **2,242,394** | 1,839,963 |
| Developed Markets Equities | **20,608,818** | 18,353,857 |
| Emerging Markets Equities | **4,902,166** | 4,199,564 |
| Commodities | **2,031,039** | 2,109,641 |
| Real Estate | **2,416,424** | 1,985,136 |
| Alternatives Trading Strategies | **6,835,604** | 5,701,949 |
| **Total** | **$ 46,541,860** | $ 43,505,112 |

Included in the investment balances as of September 30, 2016 and 2015, is cash and cash equivalents of $3,905,093 and $5,181,120 respectively. The cash and cash equivalent amounts are included in various categories as some cash is held by managers and included in the asset class based on industry standard.

| | 2016 | 2015 |
|---|---|---|
| Cash and Cash Equivalents | **$ 3,905,093** | $ 5,181,120 |
| Accrued Interest Receivable | **31,435** | 26,288 |
| Investments | **42,605,332** | 38,297,704 |
| | **$ 46,541,860** | $ 43,505,112 |

A reconciliation of the investments to the Statements of Net Position is presented below:

| | 2016 | 2015 |
|---|---|---|
| IBM Stock | **$ 94,039** | $ 106,767 |
| Investments | **42,605,332** | 38,297,704 |
| | **$ 42,699,371** | $ 38,404,471 |

***(g) Fair Value Measurements***

Government Accounting Standards Board Statement number 72 (GASB 72), Fair Value Measurements and Application, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – inputs-other than quoted prices included within Level 1 - that are observable for the asset or liability, either directly or indirectly (For example, quoted prices for similar assets or liabilities in active markets).
- Level 3 – unobservable inputs (including the University's own assumptions in determining the fair value of investments).

An asset or a liability categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following tables present the University's assets measured at fair value on a recurring basis as of September 30, 2016 and 2015, by the GASB 72 valuation hierarchy (in dollars).

The University's assets measured at fair value on a recurring basis as of September 30, 2016:

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | September 30, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investments by fair value level** | | | | |
| Equity securities | | | | |
| Developed markets equities | $ 16,547,189 | $ 16,547,189 | $ - | $ - |
| Emerging markets equities | 253,165 | 253,165 | - | - |
| Real estate equities | 2,754,969 | - | 2,754,969 | - |
| Total equity securities | 19,555,323 | 16,800,354 | 2,754,969 | - |
| Fixed income securities | | | | |
| Developed government bonds | 3,353,335 | - | 3,353,335 | - |
| High yield and emerging markets bonds | 610,282 | - | 610,282 | - |
| Investment grade bonds | 2,190,526 | - | 2,190,526 | - |
| Total fixed income securities | 6,154,143 | - | 6,154,143 | - |
| Mutual Funds | | | | |
| High yield and emerging markets bonds funds | 452,572 | - | 452,572 | - |
| Total mutual funds | 452,572 | - | 452,572 | - |
| Exchange traded funds | | | | |
| Emerging markets equities funds | - | - | - | - |
| Commodities funds | 1,105,049 | - | - | 1,105,049 |
| Total exchange traded funds | 1,105,049 | - | - | 1,105,049 |
| Total investments by fair value level | 27,267,087 | $ 16,800,354 | $ 9,361,684 | $ 1,105,049 |
| **Investments measured at the net asset value (NAV)** | | | | |
| Alternative investments | | | | |
| Emerging markets equity long/short hedge fund | 763,682 | | | |
| Multi-strategy hedge fund | 1,637,186 | | | |
| Global macro hedge fund | 1,870,111 | | | |
| Managed futures hedge fund | 1,391,338 | | | |
| Relative value hedge fund | 1,152,252 | | | |
| Developed markets equities funds | 5,801,254 | | | |
| Emerging markets equity fund | 1,107,748 | | | |
| High yield and emerging market bonds fund | 782,723 | | | |
| Commodities fund | 925,990 | | | |
| Total investment measured at the NAV | 15,432,284 | | | |
| Total investment measured at fair value | **$ 42,699,371** | | | |

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

Notes to Basic Financial Statements

September 30, 2016 and 2015

The University's assets measured at fair value on a recurring basis as of September 30, 2015:

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | September 30, 2015 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investments by fair value level** | | | | |
| Equity securities | | | | |
| Developed markets equities | $ 12,000,385 | $ 12,000,385 | $ - | $ - |
| Emerging markets equities | 143,961 | 143,961 | - | - |
| Real estate equities | 1,998,017 | - | 1,998,017 | - |
| Total equity securities | 14,142,363 | 12,144,346 | 1,998,017 | - |
| Fixed income securities | | | | |
| Developed government bonds | 3,056,778 | - | 3,056,778 | - |
| High yield and emerging markets bonds | 556,311 | - | 556,311 | - |
| Investment grade bonds | 1,996,803 | - | 1,996,803 | - |
| Total fixed income securities | 5,609,892 | - | 5,609,892 | - |
| Mutual Funds | | | | |
| High yield and emerging markets bonds funds | 436,766 | - | 436,766 | - |
| Total mutual funds | 436,766 | - | 436,766 | - |
| Exchange traded funds | | | | |
| Emerging markets equities funds | 1,522,140 | 1,522,140 | - | - |
| Commodities funds | 1,109,641 | - | - | 1,109,641 |
| Total exchange traded funds | 2,631,781 | 1,522,140 | - | 1,109,641 |
| Total investments by fair value level | 22,820,802 | $ 13,666,486 | $ 8,044,675 | $ 1,109,641 |
| **Investments measured at the net asset value (NAV)** | | | | |
| Alternative investments | | | | |
| Emerging markets equity long/short hedge fund | 719,642 | | | |
| Multi-strategy hedge fund | 1,542,774 | | | |
| Global macro hedge fund | 1,762,267 | | | |
| Managed futures hedge fund | 1,311,103 | | | |
| Relative value hedge fund | 1,085,805 | | | |
| Developed markets equities funds | 5,466,711 | | | |
| Emerging markets equity fund | 1,957,782 | | | |
| High yield and emerging market bonds fund | 737,585 | | | |
| Commodities fund | 1,000,000 | | | |
| Total investment measured at the NAV | 15,583,669 | | | |
| Total investment measured at fair value | **$ 38,404,471** | | | |

Equity Securities: This investment category consists of common stock and preferred stock issued by both U.S. and international corporations. In addition, it includes common stock for real estate corporations both in the commercial and residential sectors. Developed market equities are mainly public companies in developed markets as defined by their inclusion in the MSCI World Index. Emerging market equities are mainly public companies in emerging markets as defined by their inclusion in the MSCI Emerging Markets Index. Common stocks and preferred stock are traded actively on exchanges and price quotes for these shares are readily available. These assets are classified in level 1 of the fair value hierarchy.

Fixed Income Securities: This investment category consists of U.S. Treasuries, U.S. Government bonds, asset backed securities, corporate bonds and municipal bonds. Developed government bonds are fixed income instruments with maturities longer than three years, issued by developed sovereigns and government related agencies which include U.S. government bonds, US municipal bonds and non-U.S. government bonds. Investment grade bonds are fixed income securities issued by corporations in developed markets with credit ratings of BBB- or better. High yield and emerging markets bonds represent fixed income securities issued by corporations with credit ratings of BB+ or lower, emerging markets sovereigns and government related agencies, and emerging markets corporations. These assets are valued based on obtaining market pricing and other observable market inputs for similar securities from a number of industry standard data providers or a broker quote in a non-active market. These assets are classified as level 2 investments.

Mutual Funds: This investment category consists of open-ended mutual funds that are registered with the Securities and Exchange Commission. The mutual funds are invested in high yield and emerging markets bonds and represent fixed income securities issued by corporations with credit ratings of BB+ or lower, emerging markets sovereigns and government related agencies, and emerging markets corporations. These mutual funds publish a daily NAV and transact at that price. The mutual funds held are deemed to be actively traded and support classification of the fair value measurement as Level 2 in the fair value hierarchy.

Exchange Traded Funds (ETFs): This investment category consists of funds that invest in emerging market equities and commodities. Emerging market equities funds include investments in mainly public companies in emerging markets as defined by their inclusion in the MSCI Emerging Markets Index. ETF shares are traded on a national stock exchange and at market prices that may or may not be the same as the net asset value ("NAV") of the shares. ETF trade both at end of trading day NAV per share or Intraday Value (market price) that fluctuates throughout the trading day. An ETF's market price is generally maintained close to the ETF's end-of-day NAV because of the arbitrage function inherent to the structure of the ETF. These investments are actively traded and are classified as level 1 in the fair value hierarchy.

Commodities Fund: The investment objectives of the fund are to provide a partial price hedge with an attractive risk/return profile, as compared to other products using a commodity index or a pool of commodities. Partial or complete redemption may be made, upon five (5) days' prior written notice, on the last business day of each calendar month or at such times and on such terms as the General Partner of the fund may, in his/her sole discretion, allow. The valuation techniques and inputs categorization within the valuation hierarchy is based upon Level 3; and uses the income approach, where the advisor considers a list of factors to determine whether there has been significant decrease in the relation to normal market activity.

Investments Traded at the NAV: These investments category consists of 10 funds that include hedge funds and other funds/products that employ dynamic trading strategies aiming at achieving absolute returns. These alternative investment funds are organized as limited partnerships that are not traded on an exchange and these funds that do not redeem shares on a daily basis. The funds have varying restrictions on liquidity and transferability. The fair values of the investments in this type have been determined using the NAV per share of the investments. The funds have varying redemption restrictions such as lock ups or gates. A lock-up period is a window of time when investors of a hedge fund or another closely held investment vehicle are not allowed to redeem or sell shares. A gate is a restriction placed on a hedge fund limiting the amount of withdrawals from the fund during a redemption period. These investments have redemption frequency that range from monthly to quarterly and a redemption notice period that ranges from 5 to 90 calendar days. The details of the funds are as follows:

September 30, 2016:

| | Fair Value | Unfunded Commitments | Redemption Frequency (If Currrently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Emerging markets equity long/short hedge fund[1] | $ 763,682 | $ - | Quarterly | 90 days |
| Multi-strategy hedge fund[2] | 1,637,186 | - | Quarterly | 90 days |
| Global macro hedge fund[3] | 1,870,111 | - | Quarterly | 90 days |
| Managed futures hedge fund[4] | 1,391,338 | - | Monthly | 60 days |
| Relative value hedge fund[5] | 1,152,252 | - | Quarterly | 90 days |
| Developed markets equities funds[6] | 5,801,254 | - | Monthly | 5 days |
| Emerging markets equity fund[7] | 1,107,748 | - | Monthly | 30 days |
| High yield and emerging market bonds fund[8] | 782,723 | - | Monthly | 5 days |
| Commodities fund[9] | 925,990 | - | Monthly | 5 days |
| Total Investments measured at the NAV | $ 15,432,284 | | | |

September 30, 2015:

| | Fair Value | Unfunded Commitments | Redemption Frequency (If Currrently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Emerging markets equity long/short hedge fund[1] | $ 719,642 | $ - | Quarterly | 90 days |
| Multi-strategy hedge fund[2] | 1,542,774 | - | Quarterly | 90 days |
| Global macro hedge fund[3] | 1,762,267 | - | Quarterly | 90 days |
| Managed futures hedge fund[4] | 1,311,103 | - | Monthly | 60 days |
| Relative value hedge fund[5] | 1,085,805 | - | Quarterly | 90 days |
| Developed markets equities funds[6] | 5,466,711 | - | Monthly | 5 days |
| Emerging markets equity fund[7] | 1,957,782 | - | Monthly | 30 days |
| High yield and emerging market bonds fund[8] | 737,585 | - | Monthly | 5 days |
| Commodities fund[9] | 1,000,000 | - | Monthly | 5 days |
| Total Investments measured at the NAV | $ 15,583,669 | | | |

1. Emerging markets equity long/short hedge fund: The Fund's overall investment objective is to seek above average returns through an opportunistic event-driven value strategy. Generally, shares of a particular series may be redeemed as of the last day of each calendar month, upon written notice received by the feeder Fund at least 90 days prior to the effective date of the redemption. The portion of the shares that may be redeemed as of any date (the Redemption Date) will be determined as follows: investors may redeem up to 25%, 33 1/3%, 50% and 100% (the Applicable Percentage), respectively, of the NAV of the shares of the respective relevant series as of any four successive month end Redemption Dates. If, on any month end Redemption Date, a shareholder requests to redeem less than the Applicable Percentage for such Redemption Date or if, after requesting to redeem the Applicable Percentage for a particular month end Redemption Date, a shareholder fails to make a redemption request of the next Applicable Percentage as of any of the next three successive month end Redemption Dates, then, in each case, the Applicable Percentage for the subsequent month end Redemption Date for which such shareholder makes a redemption request will be reset to 25%. The Board of Directors of the fund may suspend the right of any Shareholder to redeem shares from the feeder fund at such time as the Board of Directors suspends the determination of NAV. The fair value of the investment in this fund is determined using the NAV per share (or its equivalent) of the investment.

2. Multi-strategy hedge fund: This is a multi-strategy fund whose objectives include long-term outperformance of the Standard & Poor's 500 Index ("S&P 500"), low volatility relative to the S&P 500, low correlation to public equity and debt markets, and minimal draw-downs. Redemption of any investment may not be made less than six months after the date on which such investment was made (the "Lock-Up Period"), subject to waiver by the fund's General Partner in its sole discretion. Following the Lock-Up Period, generally, investors may make redemptions as of the last business day of any fiscal

quarter upon proper written notice as noted in the table above. The fair value of the investment in this fund is determined using the NAV per share (or its equivalent) of the investment.

3. Global macro hedge fund: This fund is focused on investing in G10 Economies, where the Fund employs a combination of global macro and relative value trading strategies predominately in the fixed income and foreign exchange markets. The investment has a potential 10% fund-level gate contingent on underlying fund invoking its 10% gate. Additionally, the fund has a 5% soft lock for 12 months. After 12 months, 5% on withdrawals in excess of 25% of highest capital account balance or number of shares held over the previous 12 months. The fair value of the investment in this fund is determined using the NAV per share (or its equivalent) of the investment.

4. Managed futures hedge fund: This fund seeks to provide consistent long-term appreciation of assets through implementation of a systematic trading model or portfolio of systematic trading models; that trade in a number of debt, equity, foreign exchange and commodity instruments, and derivative contracts relating to those instruments including swaps, indices, forwards, futures and option contracts. The investment may be redeemed as of the last day of any month provided that each capital contribution is subject to an initial 12 month lock-up. Written notice of withdrawal must be received by the placement agent by close of business at least 60 calendar days plus 5 business days prior to the target redeem day. Partial withdrawals may be denied if, immediately thereafter, the value of such investor’s interests would be less than $250,000. The fair value of the investment in this fund is determined using the NAV per share (or its equivalent) of the investment.

5. Relative value hedge fund: This investment consists of one fund that pursues multiple strategies to diversify risk and reduce volatility. The investment has a Potential 25% Fund-level gate contingent on the underlying fund invoking its 25% gate. Additionally, the fund has a 6-month hard lock-up period that investors are not allowed to redeem or sell shares. The fair value of the investment in this fund is determined using the NAV per share (or its equivalent) of the investment.

6. Developed markets equities funds: This investment category is comprised of two funds whose objectives are to seek long-term growth of capital by investing primarily in publicly traded corporate equities in the developed international equity markets. Participating Shares may be redeemed monthly with 5 days prior written notice, on the last business day of each calendar month or at such times and on such terms as the Board of Directors of the funds may, in their sole discretion, allow. The fair value of these investment in these funds is determined using the NAV per share (or its equivalent) of the investments.

7. Emerging markets equity fund: The Fund’s investment objective is to produce long-term capital growth. The Fund seeks to achieve its investment objective by primarily investing in a diversified portfolio of equity securities and equity-related securities which are, or for which the underlying securities are, traded in emerging markets. Redemptions in aggregate by Shareholders on any Dealing Day (First Business Day of each month) may be limited to 20% of the number of Shares within each Share Class then in issue at the end of the previous Dealing Day. In the event that aggregate requests are received for redemptions exceeding 20% of the number of Shares within any Share Class in issue at the end of the previous Dealing Day, any non-redeemed balance of Shares over the said 20% level shall be held over on a pro-rata basis until the next Dealing Day where they shall be redeemed in priority to new redemption

requests received in respect of such Dealing Day. No issue or redemption of Shares will take place during any period when the calculation of the Net Asset Value is suspended. The fair value of the investment in this fund is determined using the NAV per share (or its equivalent) of the investment.

8. High yield and emerging market bonds fund: The investment objectives of this fund are to achieve favorable income-oriented returns from a globally diversified portfolio of primarily developing market debt or debt-like securities and preservation and enhancement of principal. Participating Shares may be redeemed monthly with 5 days prior written notice, on the last business day of each calendar month or at such times and on such terms as the Board of Directors of the fund may, in their sole discretion, allow. The fair value of the investment in this fund is determined using the NAV per share (or its equivalent) of the investment.

9. Commodities Fund: The investments objectives of the fund are to provide a partial price hedge with an attractive risk/return profile as compared to other products using a commodity index or a pool of commodities. Partial or complete redemption may be made, on 5 days' prior written notice, on the last business day of each calendar month or at such times and on such terms as the General Partner of the fund may, in their sole discretion, allow. The fair value of the investment in this fund is determined using the NAV per share (or its equivalent) of the investment.

## (6) Capital Assets

Capital Assets activity for the year ended September 30, 2016, is summarized in Table 6 below:

Table 6 – Capital assets activity for the year ended September 30, 2016:

| | Balance at October 1, 2015 | Additions | Dispositions /Transfers | CIP Transfers in (out) | Balance at September 30, 2016 |
|---|---|---|---|---|---|
| **Capital assets subject to depreciation:** | | | | | |
| Furniture and fixtures | $ 307,328 | $ 75,064 | $ - | $ - | $ 382,392 |
| Equipment | 13,989,746 | 773,723 | (23,744) | - | 14,739,725 |
| Library books | 21,491,607 | 15,000 | - | - | 21,506,607 |
| Buildings and improvements | 297,121,305 | 12,008,178 | (304,482) | 3,944,046 | 312,769,047 |
| **Total historic cost** | 332,909,986 | 12,871,965 | (328,226) | 3,944,046 | 349,397,771 |
| **Less accumulated depreciation** | (148,921,066) | (5,957,412) | 328,226 | - | (154,550,252) |
| Subtotal, depreciable capital assets, net | 183,988,920 | 6,914,553 | - | 3,944,046 | 194,847,519 |
| **Capital assets not subject to depreciation:** | | | | | |
| Land | 7,531,544 | - | (75,000) | - | 7,456,544 |
| Construction in progress | 3,846,859 | 4,827,573 | - | (3,944,046) | 4,730,386 |
| **Capital assets, net** | $ 195,367,323 | $ 11,742,126 | $ (75,000) | $ - | $ 207,034,449 |

In FY 2016, the University completed 77% of its ongoing renovation and construction on the main campus, primarily the new student center, which opened in January 2016.

Capital Assets activity for the year ended September 30, 2015, is summarized in Table 7 below:

Table 7 – Capital assets activity for the year ended September 30, 2015:

| | Balance at October 1, 2014 | Additions | Dispositions /Transfers | CIP Transfers in (out) | Balance at September 30, 2015 |
|---|---|---|---|---|---|
| **Capital assets subject to depreciation:** | | | | | |
| Furniture and fixtures | $ 307,328 | $ - | $ - | $ - | $ 307,328 |
| Equipment | 13,496,531 | 493,215 | - | - | 13,989,746 |
| Library books | 21,491,607 | | - | - | 21,491,607 |
| Buildings and improvements | 225,391,546 | 40,380,164 | | 31,349,595 | 297,121,305 |
| **Total historic cost** | 260,687,012 | 40,873,379 | - | 31,349,595 | 332,909,986 |
| **Less accumulated depreciation** | (144,380,986) | (4,540,080) | - | - | (148,921,066) |
| Subtotal, depreciable capital assets, net | 116,306,026 | 36,333,299 | - | 31,349,595 | 183,988,920 |
| **Capital assets not subject to depreciation:** | | | | | |
| Land | 7,531,544 | - | - | - | 7,531,544 |
| Construction in progress | 32,862,307 | 2,334,147 | - | (31,349,595) | 3,846,859 |
| **Capital assets, net** | $ 156,699,877 | $ 38,667,446 | $ - | $ - | $ 195,367,323 |

## (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.

The contributions of 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 contributions for the years ended September 30, 2016 and 2015 were $93,944 and $81,487, 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 $109,559 and $78,802 for the years ended September 30, 2016 and 2015, 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 2016 payroll for all employees was approximately $66.1 million, of which employees with total payroll of approximately $62.1 million were covered under the plan. The pension cost for the years ended September 30, 2016 and 2015 were $3,833,268 and $3,890,322, respectively. Generally, employees are fully vested immediately after start of contribution in both their contributions and in the University's contributions. Approximately 705 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.

## (8) Commitments and Contingencies

### *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.

### *(a) 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.

### *(b) Litigation*

The University is a party to a number of legal actions. Liabilities have been accrued for these cases amounting to approximately $4.3 million and $5.7 million as of September 30, 2016 and 2015, 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, 2016 and 2015, various claims and law-suits against the University were settled and the University made settlement payments in the amount of $1,199,267 and $1,920,361 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.

### *(c) Lease Commitments*

The University leases certain equipment and facilities under operating leases expiring at various dates through September 2021 and beyond. The University uses several buildings owned by the District and Federal governments, as well as several privately owned buildings.

The University currently has a lease agreement with AvalonBay Communities to lease space for the athletic department. The University also leases equipment from various companies. Total rental expense during the years ended September 30, 2016 and 2015, for all operating leases was $7,094,549 and $6,641,819, respectively.

The future annual minimum lease payments under non-cancelable operating lease agreements as of September 30, 2016, that have an initial or remaining lease term in excess of one year are shown in the table below:

Table 8 – Operating lease commitments

| **Year ending September 30:** | | **Amount** |
|---|---|---|
| 2017 | $ | 3,363,765 |
| 2018 | | 3,443,808 |
| 2019 | | 3,525,947 |
| 2020 | | 3,467,032 |
| 2021 | | 3,635,402 |
| Beyond | | 23,083,381 |
| Total | $ | 40,519,335 |

## (9) Discretely Presented Component Units

Based on significant balances reported in the University's discretely presented component units' Statements of Financial Position, the note disclosures, as reported in the separately issued financial statements, are presented as follows.

**University of the District of Columbia Foundation, Inc. (Foundation)**

***Fair Value Measurement***

The following table presents the Foundation's financial assets measured at fair value on a recurring basis consistent with the fair value hierarchy provisions of FASB ASC 820. The Foundation's balances at September 30 were as follows:

**2016**

| | (Level 1) | (Level 2) | (Level 3) | Total |
|---|---|---|---|---|
| **Cash** | **$ 57,523** | **$ -** | **$ -** | **$ 57,523** |
| **Equities** | **4,115,359** | **-** | **-** | **4,115,359** |
| **Fixed Income** | **1,767,765** | **-** | **-** | **1,767,765** |
| **Total Investments** | **$ 5,940,647** | **$ -** | **$ -** | **$ 5,940,647** |

**2015**

| | (Level 1) | (Level 2) | (Level 3) | Total |
|---|---|---|---|---|
| Cash | $ 151,766 | $ - | $ - | $ 151,766 |
| Equities | 3,135,904 | - | - | 3,135,904 |
| Fixed Income | 1,283,271 | - | - | 1,283,271 |
| Total Investments | $ 4,570,941 | $ - | $ - | $ 4,570,941 |

***Investments***

The cost and market values of investments as of September 30, 2016 and 2015 are summarized as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Cost | Market Value | Cost | Market Value |
| Cash | **$ 57,523** | **$ 57,523** | $ 151,766 | $ 151,766 |
| Securities | **5,473,607** | **5,883,124** | 4,417,157 | 4,419,175 |
| | **$ 5,531,130** | **$ 5,940,647** | $ 4,568,923 | $ 4,570,941 |

Investment returns were the following for the years ended September 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Interest and dividends | $ **114,327** | $ 106,832 |
| Net realized/unrealized Gains/(losses) on Investments | **334,803** | (58,055) |
| Management fees | **(27,818)** | (27,691) |
| Total | $ **421,312** | $ 21,086 |

Investments were categorized as follows as of September 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Non-Endowment | $ **1,731,109** | $ 883,759 |
| Endowment | **4,209,538** | 3,687,182 |
| Total | $ **5,940,647** | $ 4,570,941 |

### *Temporarily Restricted Net Assets*

Temporarily restricted net assets consisted of the following as of September 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Annual Endowment Earnings | $ **1,048,900** | $ 725,402 |
| Artwork Collection | **440,992** | 440,992 |
| Scholarship & Academic Programs | **1,826,601** | 1,519,611 |
| Total | $ **3,316,493** | $ 2,686,005 |

### *Annual Assessments*

Effective July 1, 2001, the Board of Directors (Board) authorized an annual assessment to provide for the administration of the Foundation's activities. During the year ended September 30, 2008, certain funds were charged at 0.66% monthly (where permitted by the donor) based on fund balances at the beginning of each quarter. In September 2008, the Foundation's Board elected to set the assessment fees at 4% annually, which was effective from October 1, 2008. On January 12, 2012, the Foundation's Board voted to discontinue the practice of assessing fees on the accounts. On December 12, 2013, the Foundation's Board reinstated the policy to assess the accounts at 2% annually, with specific guidelines. The funds set aside as a result of these assessments are used for general operating purposes.

***Artwork Collection***

The Foundation’s Collection, which was acquired primarily through contributions, comprises approximately eighty-two objects related to historical and modern history and art, including paintings, sculptures, works on paper, ethnographic material and photographs. The Collection is held for exhibition, education and research and is administered and stored in accordance with a formal collection management policy. The Foundation has recorded Collection balances of $440,992 at September 30, 2016 and 2015. The Foundation does not include in its recorded Collection balance the values of loaned art work.

***Endowments***

The Foundation’s endowment consists of approximately seventeen individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as quasi-endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of relevant law*

The District has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Accordingly, the Board of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the organization and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the organization
7) The investment policies of the organization.

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

Notes to Basic Financial Statements

September 30, 2016 and 2015

The endowment net assets composition as of September 30, 2016, by type of fund was as follows:

| | Board Designated Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment funds | $ 200,000 | $ 1,524,426 | $ 2,485,112 | $ 4,209,538 |

Changes in net assets for the year ended September 30, 2016, as it relates to endowment funds were as follows:

| | Board Designated Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net asset Beginning of year | $ 200,000 | $ 1,202,945 | $ 2,284,237 | $ 3,687,182 |
| Investment income | - | 82,086 | - | 82,086 |
| Net realized and unrealized Appreciation | - | 336,744 | - | 336,744 |
| **Total Investments Returns** | - | 418,830 | - | 418,830 |
| Contributions | - | - | 200,875 | 200,875 |
| Advisory Fees | - | (21,168) | - | (21,168) |
| Assessment | - | (23,173) | - | (23,173) |
| Expenditures | - | (53,008) | - | (53,008) |
| **Endowment net Assets end of year** | $ 200,000 | $ 1,524,426 | $ 2,485,112 | $ 4,209,538 |

The endowment net assets composition as of September 30, 2015, by type of fund was as follows:

| | Board Designated Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment funds | $ 200,000 | $ 1,202,945 | $ 2,284,237 | $ 3,687,182 |

Changes in net assets for the year ended September 30, 2015, as it relates to endowment funds were as follows:

| | Board Designated Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net asset Beginning of year | $ 200,000 | $ 1,019,963 | $ 2,245,537 | $ 3,465,500 |
| Investment income | - | 106,695 | - | 106,695 |
| Net realized and unrealized Appreciation | - | (58,055) | - | (58,055) |
| **Total Investments Returns** | - | 48,640 | - | 48,640 |
| Contributions | - | 516,343 | 38,700 | 555,043 |
| Advisory Fees | - | (27,692) | - | (27,692) |
| Assessment | - | (46,381) | - | (46,381) |
| Expenditures | - | (307,928) | - | (307,928) |
| **Endowment net Assets end of year** | $ 200,000 | $ 1,202,945 | $ 2,284,237 | $ 3,687,182 |

*Return objectives and risk parameters*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the original donated amount while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of an amount consistent with the markets annually. Actual returns in any given year may vary from this amount.

*Strategies employed for achieving objectives*

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on consumer growth and energy equity-based investments to achieve its long-term return objectives within prudent risk constraints.

*Spending policy and how the investment objectives relate to spending policy*

The Foundation has a policy of appropriating for distribution each year five percent of its endowment fund's average fair value. In establishing this policy, the Foundation is considering the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a reasonable rate annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

***Related Party Transactions***

*Contributed Services*

Certain administrative costs of the Foundation, such as salaries and occupancy, are borne by the University. The University contributed $82,119 and $79,727 of the Foundation's salary expenditures for the years ended September 30, 2016 and 2015, respectively, for individuals performing management and administrative functions. Occupancy costs are not material and therefore, are not included in the Foundation's financial statements. These contributions are reflected in the statements of activities and changes in net assets in accordance with FASB ASC No. 958-605-50-1.

*Other*

Amounts of $264,538 and $137,958 were paid to the University towards scholarships and other student program benefits for fiscal years 2016 and 2015, respectively. Accounts payable of $0 and $1,660 at September 30, 2016 and 2015, respectively, relate to amounts due to the University for tuition, fees and other charges of students who were awarded scholarships by the Foundation.

***Concentration of Risk***

The Foundation maintains its cash in financial institutions where, at times, balances may exceed the federally insured limit of $250,000. At September 30, 2016 and 2015, the uninsured cash balances totaled $539,657 and $636,504, respectively. The Foundation has not experienced any losses on such accounts.

**University of the District of Columbia School of Law Foundation (School of Law Foundation)**

***Investments***

The School of Law Foundation has invested in money market funds, government securities and mutual funds through Morgan Stanley Smith Barney in the amount of $9,565,990 and $8,558,503 as of September 30, 2016 and September 30, 2015, respectively. All investments of the School of Law Foundation are Level 1 investments.

The School of Law Foundation earned $157,422 and $180,982 in interest and dividends in 2016 and 2015, respectively, that include $157,399 and $182,874 from Smith Barney in 2016 and 2015, respectively.

***Other Receivables***

Other receivables consist of the following:

- Student Loan Receivables: For fiscal years 2016 and 2015, the students owed $6,972 and $25,883 respectively to the School of Law Foundation. The loans were to be paid upon receipt of the students' guaranteed federal financial aid.
- Advance Receivables: For fiscal years 2016 and 2015, advance receivables of $33,228 and $12,605, respectively consist of advances made to School of Law staff and contractors.

***Accrued Expenses***

Accrued expenses as of September 30, 2016 and September 30, 2015 of $1,737 and $11,560 respectively, consist of unpaid normal operating expenses.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of interest bearing cash accounts in financial institutions that exceed Federal Deposit Insurance Corporation (FDIC) limit of $250,000 per bank.

| | Uninsured | FDIC insured | Total |
|---|---|---|---|
| Wells Fargo | $ - | $ 167,927 | $ 167,927 |

The cash deposit in Wells Fargo was interest bearing.

***Allocation of Functional Expenses***

The costs of providing the various programs and activities have been summarized on a functional basis in the Schedule of Functional Expenses. The costs have been charged to the programs and supporting services on actual basis.

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Mayor, City Council, Board of Trustees, and
Inspector General of University of the District of Columbia
Washington, D.C. 20008

We have audited, 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, the basic financial statements of the University of the District of Columbia (the University) as of and for the year ended September 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2016.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as item 2016-001.

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***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The University's Response to Findings**

The University's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
December 29, 2016

SB & Company, LLC

**Schedule of Findings and Responses**
**For the Year Ended September 30, 2016**

**Finding 2016-001**

**Significant Deficiency over Reporting and Reviewing of Compensated Absence**

***Criteria:***
According to GASB Statement No. 16, University of the District of Columbia (the University) is required to report the compensated absences liability generally to be measured using the pay or salary rates in effect at the balance sheet date.

***Condition:***
The University initially submitted a compensated absence report that was generated directly from its automated personnel data base (PeopleSoft/PSFT) that had not been adequately manually reconciled to address the appropriate level of leave balances for the five employee groups at the University. The initial report overstated the compensated absence accrual by including all employees including those who are not eligible to accrue such leave. The corrected compensated absence accrual was consistent with the amount reported in prior year.

***Cause:***
Due to lack of formal procedures, new personnel and the PSFT inability to properly track and reconcile the five employee groups at University, a report was submitted that had not been reviewed by University human resource department to reconcile the over statements. Certain groups were provided leave when they should not (i.e. students) and another group accrued leave but it does not carry over (grant employees).

***Effect:***
The compensated absence accrual, provided to the auditor, in unaudited trial balance was significantly overstated.

***Recommendation:***
We strongly recommend the University develop a formal written procedure to timely and properly generate the compensated absences report for year-end closing. We also suggest the University work with DC government to generate the proper report for compensated absences and ensure proper employee codes are set up in PeopleSoft to distinguish the different employee types. We recommend including in the formal policy, the proper level of review by the human resource department.

***Auditee Response and Corrective Action Plan:***
The PeopleSoft database configurations currently require the University to manually manipulate its personnel reports. The University is the only entity using PeopleSoft for a semi-monthly pay schedule, while the District's other agency employees (approximately 35K) are compensated on a bi-weekly pay schedule. The University relies upon the District's pay agent, the Office of Pay and Retirement (OPRS) and the Office of the Chief Technology Officer (OCTO) for support and customization of PeopleSoft to support the University's personnel needs. Therefore, in order to minimize the amount of manual effort required to review and update the compensated absences file from PeopleSoft, the University will work more closely with the aforementioned agencies to implement modifications.

The University shared with the auditors its activities to build stronger partnerships and collaborations with those District agencies that can assist in modifying the configuration of PeopleSoft databases so that it can better meet the University's needs. The University will develop formal policies and procedures as well as implement processes that include regularly scheduled routine reporting to address leave accruals rather than relying on an end of the year process for manual adjustments. Consideration and planning is also underway to move employee groups to a standard bi-weekly pay schedule as appropriate. As these efforts evolve, the University expects to improve its personnel processing and reporting, along with updating its standard operating procedures.