

**OLD DOMINION UNIVERSITY**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2007**

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit of Old Dominion University for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;
- no internal control matters that we consider to be material weaknesses; and
- one instance of noncompliance required to be reported under Government Auditing Standards.

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## COMPLIANCE FINDING AND RECOMMENDATION

### Improve Employment Eligibility Verification Process

The University is not having employees properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security. The guidance requires the employee to complete, sign, and date the form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the form within three business days of employment.

In our sample of ten I-9 forms completed, we found one or more errors on seven of the forms as follows:

- One employee did not sign and date the form before or on their first day of employment;
- On four of the forms, the documentation required in Section 2 of the form was not reviewed and verified within three business days of employee's first day of work; and
- On five forms, the reviewer failed to properly fill out the information regarding the verification documents, such as document title, issuing authority, document number, and expiration date.

We recommend that the Human Resources Department review the process to complete the I-9 forms, train staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure all new employees are legally entitled to work in the United States. Their increased enforcement makes having a good process in place to complete I-9 forms even more important.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(unaudited)

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the University's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2007. Comparative numbers, where presented, are for the fiscal year ended June 30, 2006. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying Financial Statements, and Notes to Financial Statements. University management is responsible for all of the financial information presented, including this discussion and analysis.

Institutional Profile

Old Dominion University promotes the advancement of knowledge locally, nationally, and internationally. It develops in students a respect for critical reasoning and a genuine desire for learning. It fosters the extension of the boundaries of knowledge through research and scholarship and is committed to the preservation and dissemination of a rich cultural heritage. Old Dominion University is old enough to value tradition yet young enough to facilitate change. In a spirit of creative experimentation, innovation, research, and technology, the University is ready to meet the challenges of the twenty-first century.

More than 21,600 undergraduate and graduate students comprise the Old Dominion University student body. Students currently choose from 68 baccalaureate programs, 60 master's programs, 2 education specialist programs, and 35 doctoral programs. With over 12,500 full time and over 9,100 part time students, the University's scheduling is flexible enough to address the varied needs of individual students including those participating in the distance learning program and a worldwide military population.

Statement of Net Assets

The Statement of Net Assets presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a snapshot of the University's financial position at year-end. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>Percentage Difference</u>
<u>Assets:</u>				
Current	\$ 68,161,593	\$ 58,146,943	\$10,014,650	17%
Capital, net of accumulated depreciation	360,270,734	270,780,578	89,490,156	33%
Other non-current	<u>75,844,964</u>	<u>79,526,145</u>	<u>(3,681,181)</u>	(5%)
Total assets	<u>504,277,291</u>	<u>408,453,666</u>	<u>95,823,625</u>	23%
<u>Liabilities:</u>				
Current	62,296,252	48,342,597	13,953,655	29%
Non-current	<u>192,745,064</u>	<u>131,759,560</u>	<u>60,985,504</u>	46%
Total liabilities	<u>255,041,316</u>	<u>180,102,157</u>	<u>74,939,159</u>	42%
<u>Net Assets:</u>				
Invested in capital assets, net of related debt	178,934,141	164,050,243	14,883,898	9%
Restricted	42,271,732	33,352,256	8,919,476	27%
Unrestricted	<u>28,030,102</u>	<u>30,949,010</u>	<u>(2,918,908)</u>	(9%)
Total net assets	<u>\$249,235,975</u>	<u>\$228,351,509</u>	<u>\$20,884,466</u>	9%

Total University assets increased \$95,823,625 or 23 percent during fiscal year 2007. The growth in assets was a result of an increase in capital and current assets. Capital assets increased \$89,490,156 primarily due to capitalization of buildings relating to new capital leases. The rise in current assets was directly related to an increase in prepaid assets for simulation equipment and monies due from the Commonwealth for interest earnings. Total University liabilities increased \$74,939,159. The rise in liabilities was a result of additional debt for related construction projects and assumption of new capital leases for the University Village apartments.

#### Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents a summary of revenue and expense activity which resulted in the change from beginning to ending net assets. The purpose of this statement is to present the University's operating and non-operating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission. Salaries and fringe benefits for faculty and staff are the largest type of operating expense.

Non-operating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are non-operating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>Percentage Difference</u>
Operating revenues:				
Student tuition and fees, net of scholarship allowances of \$14,170,461 and \$12,568,561	\$ 72,205,093	\$ 64,974,566	\$ 7,230,527	11%
Federal grants and contracts	15,825,248	14,883,485	941,763	6%
State, local and nongovernmental grants	5,998,121	6,369,632	(371,511)	(6%)
Auxiliary enterprises, net of scholarship allowances of \$6,977,655 and \$5,368,562	58,202,673	47,815,260	10,387,413	22%
Other operating revenues	<u>3,945,965</u>	<u>5,350,238</u>	<u>(1,404,273)</u>	(26%)
Total operating revenues	<u>156,177,100</u>	<u>139,393,181</u>	<u>16,783,919</u>	12%
Operating expenses:				
Instruction	97,351,129	88,581,935	8,769,194	10%
Research	20,027,587	14,746,886	5,280,701	36%
Public service	501,435	449,734	51,701	12%
Academic support	34,696,704	31,401,355	3,295,349	11%
Student services	10,060,757	8,356,319	1,704,438	20%
Institutional support	22,353,908	18,520,732	3,833,176	21%
Operation and maintenance	20,047,122	17,902,468	2,144,654	12%
Depreciation	21,580,407	17,874,181	3,706,226	21%
Scholarships and fellowships	6,917,284	6,886,699	30,585	1 %
Auxiliary activities	<u>44,490,792</u>	<u>38,610,742</u>	<u>5,880,050</u>	15%
Total operating expenses	<u>278,027,125</u>	<u>243,331,051</u>	<u>34,696,074</u>	14%
Operating loss	<u>(121,850,025)</u>	<u>(103,937,870)</u>	<u>(17,912,155)</u>	17%
Net nonoperating revenues and expenses	<u>128,445,545</u>	<u>106,733,345</u>	<u>21,712,200</u>	20%
Income before other revenues, gains or losses	<u>6,595,520</u>	<u>2,795,475</u>	<u>3,800,045</u>	136%
Other revenues	<u>18,474,614</u>	<u>14,996,737</u>	<u>3,477,877</u>	23%
Increase in net assets	<u>25,070,134</u>	<u>17,792,212</u>	<u>7,277,922</u>	41%
Net assets-beginning of year (as restated)	<u>224,165,841</u>	<u>210,559,297</u>	<u>13,606,544</u>	7 %
Net assets-end of year	<u>\$249,235,975</u>	<u>\$228,351,509</u>	<u>\$20,884,466</u>	9%

Total operating revenue increased by \$16,783,189 or 12 percent from the prior fiscal year. The growth in revenue was expected given the rise in both in state and out of state tuition rates. An increase in auxiliary enterprise revenue was the result of increases in fees and the assumption of the village and the opening of two new dormitories. Non-operating revenue increased by \$21,712,200. The largest growth was the result of increased state appropriations for base adequacy. The University also experienced an increase in gifts and investment income.

### Statement of Cash Flows

The Statement of Cash Flows provides relevant information that aids in the assessment of the University's ability to generate cash to meet present and future obligations and detailed information reflecting the University's sources and uses of cash during the fiscal year. The statement is presented in four defined categories: operations, non-capital financing, capital financing, and investing activities.

Cash flow from operating reflects the sources and uses to support the essential mission of the University. The primary sources are tuition and fees (\$82.8 million) and auxiliary enterprises (\$65.3 million). The primary uses are payments to employees, including salaries, wages, and fringe benefits (\$162.4 million), and payments to vendors (\$56.4 million).

Cash flow from non-capital financing reflects non-operating sources and uses of cash. The primary sources are state appropriations (\$121.0 million) and gifts and grants (\$7.5 million). The primary use is to support cash requirements of operations.

Cash flow from capital financing activities reflects the activities related with the acquisition and construction of capital assets including related debt payments. The primary source is proceeds from issuance of bonds and investment income (\$11.2 million). The primary uses are purchases of capital assets (\$49.7 million) and principal paid on capital debt (\$8.8 million).

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities	\$(90,784,747)	\$(91,996,518)
Cash flows from non-capital financing activities	128,550,232	107,216,044
Cash flows from capital financing activities	(36,967,160)	11,654,549
Cash flows from investing activities	<u>(312,012)</u>	<u>6,145,837</u>
Net change in cash	<u>\$ 486,313</u>	<u>\$ 33,019,912</u>

### Capital Asset and Debt Administration

Overall, funds invested in capital assets reflect the ongoing campus construction. Major capital projects include Quad Student Housing, Athletic Facility, Indoor Tennis Court, Orchid Conservatory, and renovations to Batten Arts and Letters, Student Housing, Health and Physical Education, Physical Science and Technology buildings. Major additions to capitalized assets include buildings (\$108,776,385), and equipment (\$6,943,384).

The University's long-term debt increased (\$63,173,357). The increase is primarily the net result of the issuance of note payables for capital projects, capital leases, and payment of existing debt. As calculated, the net investment in plant to plant debt ratio is 1.02.



Overall, uncompleted construction and other related contractual commitments increased from \$22,240,402 at June 30, 2006, to \$26,338,282 at June 30, 2007. Further information relating to capital assets, construction, and capital debt is included in the Notes to the Financial Statements in Notes 6, 8, and 9.

### Economic Outlook

The University budget is consistent with the criteria set forth in the University Strategic Plan and the Code of Virginia higher education institutional performance standards as follows: access, affordability, breadth of academic programs, academic standards, student retention and timely graduation, articulation agreements and dual enrollment, economic development, research, patents and licenses, elementary and secondary education, the six-year financial plan, financial and administrative efficiency standards, and campus safety. The University has defined the following priorities to address these diverse needs:

- Ensure the quality of academic, teaching, and research programs;
- Enhance direct services for students;
- Continue implementation of the 2005-2009 Strategic Plan;
- Build the appropriate infrastructure support especially as it relates to accomplishing the goals of the strategic plan;
- Recognize students' financial capabilities and limitations;
- Reallocate or redirect resources, where possible, to support academic priorities and raise additional funds;
- Support research centers/targeted activities;
- Support educational assessment initiatives, marketing, and student housing staffing; and
- Minimize the addition of other user and service fees to students.

The University proposed 2007-2008 budget increase of 6.5 percent was due to additional general fund support and a tuition and fee increase. The University will advance the institution's strategic agenda by improving faculty and staff salaries to retain and recruit a well-qualified workforce. Funding allocations have been made to continue the Commonwealth Higher Education Research Initiative for the University's expansion of modeling and simulation research and teaching. Also, the Commonwealth added \$1.5 million for the Virginia Coastal Energy Research Consortium to implement research and development of renewable energy resources, with an initial focus on offshore winds, waves, and marine biomass.

The University addressed the recent five percent general fund budget cut by reducing discretionary spending, identifying ways to perform processes more efficiently, abolishing several positions, such as the Vice President for Student Affairs, and eliminating nonproductive and inefficient programs or services. The University is committed to protecting its core programs in instruction and research, and keeping tuition costs low to remain accessible and affordable to students. Strategic initiatives are continually evaluated and modified and those that do not lead to significant measurable results are amended or abolished. The University is responsive to the rapidly changing higher education environment and follows the objectives outlined in the University's Strategic Plan and the Six-Year Academic and Financial Plans. The University will continue to maintain its solid financial foundation and is well positioned to continue its pursuit of excellence in teaching, research, and public service.

## **FINANCIAL STATEMENTS**

OLD DOMINION UNIVERSITY  
STATEMENT OF NET ASSETS  
As of June 30, 2007

ASSETS	<u>Old Dominion University</u>	<u>Component Units</u>
Current assets:		
Cash and cash equivalents (Note 3)	\$ 45,132,820	\$ 16,087,452
Accounts receivable (Net of allowance for doubtful accounts \$248,317) (Note 5)	9,870,893	14,757,709
Contributions receivable (Net of allowance for doubtful collections \$613,887) (Note 12)	-	2,013,107
Due from the Commonwealth (Note 9)	5,907,683	-
Travel advances	-	22,959
Prepaid expenses	5,725,878	550,791
Inventory	571,858	-
Notes receivable (Net of allowance for doubtful accounts \$21,373)	952,461	-
Other assets	-	105,194
Total current assets	<u>68,161,593</u>	<u>33,537,212</u>
Noncurrent assets:		
Restricted cash and cash equivalents (Note 3)	42,179,606	-
Endowment investments (Note 3)	11,484,795	-
Investments (Note 12)	-	3,364,448
Other long-term investments (Notes 3 and 12)	20,304,911	181,135,952
Contributions receivable (Net of allowance for doubtful collections \$200,462) (Note 12)	-	4,697,815
Notes receivable (Net of allowance for doubtful accounts \$65,012)	1,875,652	-
Unamortized bond issuance expense	-	2,064,609
Nondepreciable capital assets (Notes 6 and 12)	58,709,739	16,398,799
Capital assets (Notes 6 and 12)	<u>301,560,995</u>	<u>57,489,950</u>
Total noncurrent assets	<u>436,115,698</u>	<u>265,151,573</u>
Total assets	<u>504,277,291</u>	<u>298,688,785</u>

	<u>Old Dominion University</u>	<u>Component Units</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses (Note 7)	30,299,558	6,633,357
Deferred revenue	7,518,890	4,494,220
Obligations under securities lending (Note 3)	10,206,913	-
Deposits held in custody for others	1,918,926	40,660
Other liabilities	-	12,955,262
Line of credit	-	743,328
Long-term liabilities - current portion (Notes 8 and 12)	<u>12,351,965</u>	<u>2,009,739</u>
Total current liabilities	<u>62,296,252</u>	<u>26,876,566</u>
Noncurrent liabilities (Notes 8 and 12)	<u>192,745,064</u>	<u>82,557,126</u>
Total liabilities	<u>255,041,316</u>	<u>109,433,692</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	178,934,141	237,109
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	5,711,592	-
Permanently restricted	-	103,415,278
Expendable:		
Scholarships and fellowships	4,601,319	-
Research	3,776,351	-
Loans	3,158,805	-
Capital projects	14,687,307	-
Temporarily restricted	-	76,714,879
Departmental uses	10,336,358	-
Unrestricted	<u>28,030,102</u>	<u>8,887,827</u>
Total net assets	<u>\$ 249,235,975</u>	<u>\$189,255,093</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

OLD DOMINION UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2007

	<u>Old Dominion University</u>	<u>Component Units</u>
Operating revenues:		
Student tuition and fees (Net of scholarship allowances of \$14,170,461)	\$ 72,205,093	\$ -
Gifts and contributions	-	9,305,788
Federal grants and contracts	15,825,248	-
State grants and contracts	2,478,363	-
Indirect cost	-	6,817,565
Sponsored research	-	28,574,090
Nongovernmental grants and contracts	3,519,758	-
Auxiliary enterprises (Net of scholarship allowances of \$6,977,655)	58,202,673	-
Other operating revenues	<u>3,945,965</u>	<u>10,818,397</u>
Total operating revenues	<u>156,177,100</u>	<u>55,515,840</u>
Operating expenses (Note10):		
Instruction	97,351,129	2,316,971
Research	20,027,587	33,818,421
Public service	501,435	-
Academic support	34,696,704	3,146,851
Student services	10,060,757	-
Institutional support	22,353,908	11,191,974
Operation and maintenance	20,047,122	117,269
Depreciation	21,580,407	2,475,202
Student aid	6,917,284	1,209,509
Auxiliary activities	<u>44,490,792</u>	<u>-</u>
Total operating expenses	<u>278,027,125</u>	<u>54,276,197</u>
Operating income/(loss)	<u>(121,850,025)</u>	<u>1,239,643</u>

	<u>Old Dominion University</u>	<u>Component Units</u>
Nonoperating revenues (expenses):		
State appropriations (Note 11)	124,081,647	-
Gifts	7,429,922	-
Investment income (net of investment expenses of \$218,277)	6,654,078	18,873,594
Other	(571,606)	-
Interest of capital asset - related debt	(6,113,150)	-
Payments to Commonwealth from state appropriations	(3,033,719)	-
Payments to grantors	<u>(1,627)</u>	<u>-</u>
Net nonoperating revenue	<u>128,445,545</u>	<u>18,873,594</u>
Income before other revenues, expenses, gains, and losses	<u>6,595,520</u>	<u>20,113,237</u>
Capital appropriations	8,457,067	-
Bond issuance expense	(22,966)	-
Contributions from primary government	6,175,660	-
Capital gifts	3,864,853	-
Contributions to permanent endowments	<u>-</u>	<u>4,819,612</u>
Total other revenues, expenses, gains, and losses	<u>18,474,614</u>	<u>4,819,612</u>
Increase in net assets	<u>25,070,134</u>	<u>24,932,849</u>
Net assets - beginning of year, restated (Note 2)	<u>224,165,841</u>	<u>164,322,244</u>
Net assets - end of year	<u>\$ 249,235,975</u>	<u>\$ 189,255,093</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

OLD DOMINION UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2007

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Cash flows from operating activities:

Student tuition and fees	\$ 82,787,526
Grants and contracts	21,288,792
Auxiliary enterprises	65,343,248
Other receipts	3,630,767
Payments to employees	(125,984,416)
Payments to fringe benefits	(36,402,164)
Payments for services and supplies	(56,425,559)
Payments for travel	(4,437,051)
Payments for scholarships and fellowships	(30,829,042)
Payments for noncapitalized improvements and equipment	(9,842,598)
Loans issued to students	(500,000)
Collections of loans from students	<u>585,750</u>

Net cash used by operating activities (90,784,747)

Cash flows from noncapital financing activities

State appropriations	124,081,647
Payments to Commonwealth from state appropriations	(3,033,719)
Gifts and grants for other than capital purposes	7,512,970
William D. Ford direct lending receipts	55,588,434
William D. Ford direct lending disbursements	(55,588,434)
PLUS loans receipts	7,366,451
PLUS loans disbursements	(7,366,451)
Refund to the federal government	(1,627)
Agency receipts	2,181,348
Agency payments	<u>(2,190,387)</u>

Net cash provided by noncapital financing activities 128,550,232

Cash flows from capital financing activities:

Proceeds from capital debt and investments	11,248,246
Capital appropriations	8,457,067
Contributions from primary government	8,139,253
Bond premium	557,682
Capital gifts	1,247,251
Purchase of capital assets	(49,709,802)
Bond issuance expense	(22,966)
Principal paid on capital debt, leases and installments	(8,818,016)
Interest paid on capital debt, leases and installments	<u>(8,065,875)</u>

Net cash provided by capital financing activities (36,967,160)

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Cash flows from investing activities:	
Proceeds from sales and maturities of investments	2,186,986
Interest on investment and cash management	1,368,138
Purchase of investments	<u>(3,867,136)</u>
Net cash provided by investing activities	<u>(312,012)</u>
Net increase in cash	486,313
Cash and cash equivalents - beginning of the year	<u>86,826,113</u>
Cash and cash equivalents - end of the year	<u>\$ 87,312,426</u>
<b>RECONCILIATION OF NET OPERATING (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Operating loss	\$ (121,850,025)
Adjustments to reconcile net income/(loss) to net cash used by operating activities	
Depreciation expense	21,580,407
Changes in assets and liabilities:	
Receivables, net	337,430
Prepaid expenses	(4,514,062)
Inventory	28,525
Accounts payable and accrued expenses	12,640,980
Deposits	497,223
Deferred revenue	<u>494,775</u>
Net cash used by operating activities	<u>\$ (90,784,747)</u>
Non-cash investing, capital and financing activities	
Assets acquired through assumption of debt	\$ 61,540,000
Increase in receivables related to nonoperating income	\$ 44,766

The accompanying Notes to Financial Statements are an integral part of this statement.



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## **NOTES TO FINANCIAL STATEMENTS**

OLD DOMINION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

1. SUMMARY OF SIGNFICANT ACCOUNTING POLICIES

A. Reporting Entity

Old Dominion University (the University) is a modern comprehensive university that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth which includes all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The University includes all entities over which the university exercises or has the ability to exercise oversight authority for financial reporting purposes. Under Governmental Accounting Standards Board (GASB) Statement 39 standards, the Old Dominion University Educational and Real Estate Foundation, the Old Dominion University Intercollegiate Foundation, and the Old Dominion University Research Foundation (the Foundations) are included as component units of the University. These foundations are legally separate and tax-exempt organizations formed to promote the achievements and further the aims and purposes of the University.

The Educational and Real Estate Foundation receives, administers, and distributes gifts for the furtherance of educational activities and objectives of the University. The Intercollegiate Foundation receives, administers, and distributes gifts for the furtherance of educational and athletic activities of the University. For additional information on these two foundations, contact Foundation Offices at 129 Koch Hall, Norfolk, Virginia 23529. The Educational and Real Estate and Intercollegiate Foundations have adopted December 31 as their year-end. All amounts reflected are as of December 31, 2006. The Research Foundation coordinates and accounts for substantially all grants and contracts awarded for research at the University. For additional information contact the Research Foundation at 4111 Monarch Way, Suite 204, Norfolk, Virginia 23508.

Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources, or income thereon, that the Foundations hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundations can only be used by or for the benefit of the University, the Foundations are considered component units of the University and are discretely presented in the financial statements.

B. Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's*

*Discussion and Analysis of Public College and Universities.* The financial statement presentation required by GASB Statements 34 and 35 provides a comprehensive entity-wide look at the University's financial activities and replaces the fund-group perspective previously required.

GASB Statements 34 and 35 standards are designed to provide information that responds to the needs of three groups of primary users of the general purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. Under this guidance, the University is required to include a management's discussion and analysis (MD&A), basic financial statements, and notes to the financial statements.

The Foundations are private, nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundations' financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

For reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, its statements have been presented using the economic resource measurement focus and the accrual basis of accounting; whereby, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of related cash flows. All intra-agency transactions have been eliminated.

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply the FASB pronouncements issued after the applicable date.

D. Cash and Cash Equivalents

In accordance with the GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

E. Investments

The University accounts for its investments that are purchased at fair value. Investments received by gift are carried at fair value at date of acquisition in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprises' sales and services. Receivables also include amounts due from the federal, state, and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts.

G. Prepaid Expenses

The University capitalized a specialized simulation system, periodical subscriptions, membership dues, and conference registrations for fiscal year 2008 that were paid in advance as of June 30, 2007.

H. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, and infrastructure assets such as campus lighting. Capital assets are generally defined by the University as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years, including assets acquired under the Higher Education Trust Fund. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Library materials are valued using purchase price for library acquisitions. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements (construction in progress) are capitalized as projects are constructed. Interest expense of \$1,710,028 relating to construction is capitalized net of interest income earned on resources set aside for this purpose for the year ended June 30, 2007. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	5-50 years
Other improvements and infrastructure	15-30 years
Equipment	2-25 years
Library materials	5 years

I. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market, and consist primarily of expendable supplies held for consumption.

J. Non-current Cash and Investments

Cash and investments that are externally restricted to make debt service payments, reserve funds, or purchase or construct capital and other non-current assets, are classified as non-current assets in the Statement of Net Assets.

K. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the period after June 30, 2007, and certain grants that have received advance funding but have not met their restriction prior to year end.

L. Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick, and compensatory leave earned but not taken as of June 30, 2007. The amount reflects all earned vacation leave, sick, and compensatory leave payable under the Commonwealth of Virginia's sick leave pay-out policy and the University's faculty administrators' leave pay-out policy upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

M. Non-current Liabilities

Non-current liabilities include principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year as well as estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

N. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are expensed over the life of the bond. Bond issuance costs are expensed as incurred.

O. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Federal Work-Study, Perkins Loans, Stafford Loans, and Parent Loans for Undergraduate Students (PLUS). Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

P. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the differences between assets and liabilities as net assets rather than fund balance. Accordingly, the University's net assets are classified as follows:

- *Invested in Capital Assets, Net of Related Debt* consists of total investments in capital assets, net accumulated depreciation and outstanding debt obligations.
- *Restricted Net Assets Nonexpendable* includes endowment and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

- *Restricted Net Assets Expendable* represents funds that have been received for specific purposes and the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.
- *Unrestricted Net Assets* represents resources derived from student tuition and fees, state appropriations, unrestricted gifts, interest income, and sales and services of educational departments and auxiliary enterprises.

Q. Classification of Revenues and Expenses

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and nongovernmental grants and contracts.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment and interest income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense toward restricted resources and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

R. Scholarship Allowances

Student tuition and fee revenues and certain other revenues from charges to students are reported net of scholarship allowances in the Statements of Revenue, Expenses, and Changes in Net Assets. Scholarship allowances are the differences between the actual charge for goods and services provided by the University and the amounts that are paid by students and/or third parties on the students' behalf. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship discounts and allowances on a university-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Student financial assistance grants and other federal, state, or nongovernmental programs are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship allowance.

2. RESTATEMENT OF NET ASSETS

Beginning net assets was adjusted to reflect reporting changes.

Net assets as previously reported June 30, 2006	\$228,351,509
Change in reporting for Treasury's Bond reimbursement programs	<u>(4,185,668)</u>
Net assets as of July 1, 2006	<u>\$224,165,841</u>

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the University's cash, cash equivalents, and investments as of June 30, 2007. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University is not exposed to custodial credit risk at June 30, 2007.

Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk. The University does not have a credit rate risk policy.

Concentration of credit risk - The risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than five percent of total investments. The University does not have a concentration of credit risk policy.

Interest rate risk - The risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The University does not have an interest rate risk policy. Interest rate information was organized by investment type and amount using segmented time distribution method.

Foreign currency risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no foreign deposits but does have foreign investments for June 30, 2007. The foreign investments are traded in U.S. dollars. The University does not have a foreign currency risk policy.

The following information is provided with respect to the risks associated with the University's cash, cash equivalents, and investments at June 30, 2007.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for



Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Cash and cash equivalents represent cash with the treasurer, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the United States Securities and Exchange Commission. Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

### Deposits

At June 30, 2007, the carrying value of the University's deposit with banks was \$2,901,336, and bank balance was \$781,081. The carrying value of deposits differs from the bank balance because of reconciling items such as deposits in transit and outstanding checks. Deposits with banks are covered by Federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent excess deposits to a collateral pool in the name of the State Treasury Board. At June 30, 2007, the University's deposits were not exposed to custodial credit risk.

### Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Board's Administration and Finance Committee. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4516, et seq., Code of Virginia. Authorized investments include: US Treasury and agency securities, municipal securities, corporate debt securities of domestic corporations, agency mortgage-backed securities, negotiable certificates of deposit, repurchase agreements, common and preferred equities, equity in land, and mutual and money market funds.

Investments fall into two groups: short and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

### Security Lending Transactions

The University participates in the State Treasury's securities lending program. Collateral held for security lending transactions of \$10,206,913 represents the University's allocated share of cash collateral received and reinvested and securities received by the State Treasury securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR).

## Credit and Concentration of Credit Risks

<u>Type of Investment</u>	<u>Percentage of Investments</u>	<u>Fair Value</u>	<u>Moody's Credit Quality Rating</u>
<u>Cash Equivalents:</u>			
Short-term fund	12.12%	\$ 8,750,500	Unrated
Repurchase agreement:			
Federal National Mortgage Association	13.73%	9,918,554	S&P AAA
Money funds			
CMA government securities	2.13%	1,539,531	Unrated
ML government	0.01%	9,486	Unrated
Centennial Government Trust	0.26%	186,265	Unrated
State Non Arbitrage Program	24.87%	17,961,759	
Securities lending	2.86%	<u>2,066,357</u>	
 Total cash equivalents		<u>40,432,452</u>	
<u>Investments:</u>			
Mutual/money market			
Intermediate term fund	7.79%	5,622,878	Unrated
U. S. Treasury and agency securities*			
U. S. Treasury bond	0.04%	27,931	
Treasury inflation indexed note	0.27%	192,662	
U. S. Treasury strip	0.04%	31,250	S&P AAA
U. S. Treasury note	0.72%	517,887	
Government National Mortgage Association	0.03%	25,165	
<u>Corporate Bonds:</u>			
Merrill Lynch and Company	0.03%	19,177	Aa3
Pitney Bowes Inc.	0.05%	38,122	A1
<u>Municipal Securities:</u>			
Choctaw County Oklahoma Industrial Development Authority	0.03%	20,800	S&P AAA
Northeast Dubois County Indiana School Corporation	0.01%	10,161	S&P AAA
Indiana Bond Bank	0.03%	20,278	S&P AAA
Mississippi Development Bank Special Obligation	0.06%	42,596	S&P AAA
Oregon School Boards Association	0.04%	29,089	S&P AAA
Moorhead Minnesota Economic Development Authority	0.08%	60,450	S&P AAA
Atlanta/Fulton County Georgia Recreation Authority	0.04%	30,170	S&P AAA
Baltimore Maryland Public Improvement General Obligation	0.06%	40,429	S&P AAA
Eastern Iowa Community College District	0.03%	24,859	Aaa
Kentucky Housing Corporation Housing	0.03%	20,207	S&P AAA
<u>Agency Mortgage Backed:</u>			
Federal National Mortgage Association	0.07%	47,575	S&P AAA
Federal Farm Credit Bank	0.06%	39,906	S&P AAA
Federal Home Loan Bank	0.11%	75,911	Aaa
Federal Home Loan Bank	0.08%	60,161	S&P AAA

Federal Home Loan Mortgage Corporation	0.04%	26,498	Aaa
Federal Home Loan Mortgage Corporation	0.10%	69,787	S&P AAA
Common and preferred stock**	2.49%	1,795,680	
Other: **			
Equity interest in land	1.47%	1,064,765	
Mutual funds held by Foundations	18.96%	13,694,756	Unrated
Securities lending	11.27%	<u>8,140,556</u>	
Total investments		<u>31,789,706</u>	
Total cash equivalents and investments	100.00%	<u>\$72,222,158</u>	

\* Credit quality ratings are not required for U.S. Government and agency securities that are explicitly guaranteed by the U.S. Government.

\*\* Credit quality ratings are not required for these investments, which with the exception of "Other" do not have specified maturities.

### Interest Rate Risk: Maturities

<u>Type of Investment</u>	<u>0-3 Months</u>	<u>4-12 Months</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
Cash equivalents:				
Short-Term fund	\$ 8,750,500	\$ -	\$ -	\$ -
Repurchase agreement				
Federal National Mortgage Association	9,918,554	-	-	-
State Non Arbitrage Program	17,961,759	-	-	-
Securities lending	<u>2,066,357</u>	-	-	-
Total cash equivalents	<u>38,697,170</u>	-	-	-
Investments:				
Mutual/money market				
Intermediate Term Fund	-	-	5,622,878	-
CMA Government Securities	1,539,531	-	-	-
ML Government Fund	9,486	-	-	-
Centennial Government Trust	186,265	-	-	-
Securities lending	8,140,556	-	-	-
U. S. Treasury and Agency Securities:				
U. S. Treasury Bond	-	-	-	27,931
Treasury inflation indexed note	-	91,088	101,574	-
U. S. Treasury strip	-	-	31,250	-
U. S. Treasury note	-	46,092	169,971	301,824
Government National Mortgage Association	-	-	-	25,165
Corporate bonds:				
Merrill Lynch and Company	-	-	19,177	-
Pitney Bowes Inc.	-	-	-	38,122
Municipal securities:				
Choctaw County Oklahoma Ind. Dev. Authority	-	20,800	-	-
Northeast Dubois County Indiana School Corp.	-	10,161	-	-
Indiana Bond Bank	-	-	20,278	-
Mississippi Development Bank Special Obl.	-	-	42,596	-
Oregon School Boards Association	-	-	29,089	-

Moorhead Minnesota Economic Dev. Authority	-	-	60,450	-
Atlanta/Fulton County Georgia Rec. Authority	-	-	30,170	-
Baltimore Maryland Public Imp. Gen. Obl.	-	-	-	40,429
Eastern Iowa Community College District	-	-	-	24,859
Kentucky Housing Corporation Housing	-	-	-	20,207
Agency Mortgage Backed:				
Federal National Mortgage Association	-	-	47,575	-
Federal Farm Credit Bank	-	39,906	-	-
Federal Home Loan Bank	-	-	85,952	50,120
Federal Home Loan Mortgage Corporation	-	-	<u>46,552</u>	<u>49,733</u>
 Total	 <u>\$48,573,008</u>	 <u>\$208,047</u>	 <u>\$6,307,512</u>	 <u>\$578,390</u>

#### 4. DONOR RESTRICTED ENDOWMENT

Investments of the University's endowment funds are pooled and consist primarily of gifts and bequests, the use of which is restricted by donor imposed limitations.

The Uniform Management of Institutional Funds Act, Code of Virginia Section 55-268.1 et. seq., permits the spending policy adopted by the Board of Visitors to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. In determining the amount of appreciation to appropriate, the Board is required by the Act to consider such factors as long-term and short-term needs of the institution, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. The amount available for spending is determined by applying a predetermined rate to the twelve-quarter moving average of the market value of each endowment for the period ending on the previous September 30. For fiscal year 2007, the payout percentage was 4.5 percent. The payout percentage is reviewed and adjusted annually as deemed prudent.

At June 30, 2007, net appreciation of \$394,177 is available to be spent, which is reported in the Statement of Net Assets as Restricted for Expendable Scholarship and Fellowships.

#### 5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2007:

Student tuition and fees	\$3,840,187
Auxiliary enterprises	1,736,918
Federal, state, and nongovernmental grants and contracts	3,260,152
Other activities	<u>1,281,953</u>
 Gross receivables	 10,119,210
 Less allowance for doubtful accounts	 <u>248,317</u>
 Net accounts receivable	 <u>\$9,870,893</u>

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2007 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 30,667,773	\$ 483,739	\$ 1,383,698	\$ 29,767,814
Construction in progress	<u>39,097,645</u>	<u>34,827,627</u>	<u>44,983,347</u>	<u>28,941,925</u>
Total nondepreciable capital assets	<u>69,765,418</u>	<u>35,311,366</u>	<u>46,367,045</u>	<u>58,709,739</u>
Depreciable capital assets:				
Buildings	305,833,275	109,023,103	246,718	414,609,660
Infrastructure	1,312,561	-	-	1,312,561
Equipment	55,975,550	8,359,593	1,416,209	62,918,934
Improvements other than buildings	7,068,591	995,192	-	8,063,783
Library books	<u>48,929,822</u>	<u>4,041,880</u>	<u>168,652</u>	<u>52,803,050</u>
Total depreciable capital assets	<u>419,119,799</u>	<u>122,419,768</u>	<u>1,831,579</u>	<u>539,707,988</u>
Less accumulated depreciation:				
Buildings	130,782,708	13,186,021	59,300	143,909,429
Infrastructure	1,312,561	-	-	1,312,561
Equipment	37,848,933	4,901,800	1,310,101	41,440,632
Improvements other than buildings	5,881,509	88,102	-	5,969,611
Library books	<u>42,278,928</u>	<u>3,404,484</u>	<u>168,652</u>	<u>45,514,760</u>
Total accumulated depreciation	<u>218,104,639</u>	<u>21,580,407</u>	<u>1,538,053</u>	<u>238,146,993</u>
Depreciable capital assets, net	<u>201,015,160</u>	<u>100,839,361</u>	<u>293,526</u>	<u>301,560,995</u>
Total capital assets, net	<u>\$270,780,578</u>	<u>\$136,150,727</u>	<u>\$46,660,571</u>	<u>\$360,270,734</u>

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2007:

Employee salaries, wages, and fringe benefits payable	\$ 9,340,090
Retainage payable	1,055,046
Vendors and suppliers accounts payable	<u>19,904,422</u>
Total	<u>\$30,299,558</u>

## 8. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 9), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2007 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
General obligations bonds	\$ 14,924,741	\$ 9,306,352	\$ 2,258,949	\$ 21,972,144	\$ 2,137,024
Revenue bonds	99,385,819	1,251,329	4,028,985	96,608,163	4,295,000
Installment purchases	2,351,500	-	-	2,351,500	107,872
Capital leases	<u>17,310,873</u>	<u>61,552,649</u>	<u>2,649,039</u>	<u>76,214,483</u>	<u>1,948,771</u>
Total long-term debt	<u>133,972,933</u>	<u>72,110,330</u>	<u>8,936,973</u>	<u>197,146,290</u>	<u>8,488,667</u>
Accrued compensated absences	5,550,947	4,622,864	3,794,505	6,379,306	3,863,298
Federal loan program contributions	599,567	100,450	-	700,017	-
Deferred gain on early retirement of debt	341,251	-	72,374	268,877	-
Faculty early retirement plan	<u>-</u>	<u>927,808</u>	<u>325,269</u>	<u>602,539</u>	<u>-</u>
Total long-term liabilities	<u>\$140,464,698</u>	<u>\$77,761,452</u>	<u>\$13,129,121</u>	<u>\$205,097,029</u>	<u>\$12,351,965</u>

## 9. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged General Fund revenues include General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued 9(d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) also issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue, not otherwise obligated, also secures these notes.

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance</u>
General obligation bonds:			
Dormitory, Series 1983A	3.00%	2013	\$ 1,020,000
Dormitory, Series 1983B	3.00%	2013	970,000
Recreation, Series 2003A	2.50% - 5.50%	2010	1,378,879
Smalls, Series 2003A	2.50% - 5.50%	2008	31,533
Parking, Series 2003A	2.50% - 5.50%	2010	1,082,726
Student Center, Series 2003A	2.50% - 5.50%	2011	1,982,140
Dormitory, Series 2002	2.50% - 5.00%	2022	2,090,000
Dormitory, Series 2005	3.50% - 5.00%	2025	4,335,000
Dormitory, Series 2006B	4.00% - 5.00%	2026	<u>8,340,000</u>
Total general obligation bonds			<u>21,230,278</u>
Revenue bonds:			
Classrooms, Series 1997A	4.50% - 5.00%	2018	1,795,000
Classrooms, Series 1999A	4.75% - 5.50%	2010	115,000
Classrooms, Series 2004B	3.00% - 5.00%	2017	4,960,000
Classrooms, Series 2004B	3.00% - 5.00%	2020	565,000
Recreation, Series 1997A	4.50% - 5.00%	2018	935,000
Recreation, Series 1999A	4.75% - 5.50%	2010	130,000
Recreation, Series 2000A	5.00% - 5.75%	2021	4,490,000
Recreation, Series 2001A	3.00% - 5.00%	2022	20,315,000
Recreation, Series 2004B	3.00% - 5.00%	2017	5,165,000
Recreation, Series 2004B	3.00% - 5.00%	2020	665,000
Parking, Series 1997A	4.50% - 5.00%	2018	340,000
Parking, Series 1999A	4.75% - 5.50%	2010	190,000
Parking, Series 2000A	5.00% - 5.75%	2021	2,545,000
Parking, Series 2001A	3.00% - 5.00%	2022	6,220,000
Parking, Series 2003A	2.00% - 5.00%	2024	1,750,000
Parking, Series 2004A	3.00% - 5.00%	2025	3,580,000
Parking, Series 2004B	3.00% - 5.00%	2017	2,375,000
Parking, Series 2004B	3.00% - 5.00%	2020	945,000
Athletic Fac. Exp., Series 2004A	3.00% - 5.00%	2025	2,130,000
Athletic Fac. Exp., Series 2005A	3.50% - 5.00%	2026	3,400,000
Athletic Fac. Exp., Series 2006A	3.00% - 5.00%	2027	975,000
H&PE Renovation, Series 2004A	3.00% - 5.00%	2025	1,775,000
H&PE Renovation, Series 2005A	3.50% - 5.00%	2026	3,405,000
Indoor Tennis Court, Series 2004A	3.00% - 5.00%	2025	1,330,000
Indoor Tennis Court, Series 2005A	3.50% - 5.00%	2026	2,590,000
Indoor Tennis Court, Series 2006A	3.00% - 5.00%	2027	240,000
Dormitory, Series 2005A	3.50% - 5.00%	2026	<u>21,960,000</u>
Total revenue bonds			<u>94,885,000</u>

Installment purchases – Energy Efficiency Program	4.23%	2023	<u>2,351,500</u>
Capital leases	Various	2007-34	<u>76,214,483</u>
Total principal			<u>194,681,261</u>
Bond premium, general obligation bonds			741,866
Bond premium, revenue bonds			<u>1,723,163</u>
Total long-term debt			<u>\$197,146,290</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 8,488,664	\$ 8,560,741
2009	9,066,456	8,163,089
2010	9,475,454	7,722,140
2011	8,854,863	7,257,746
2012	8,244,469	6,822,397
2013-2017	45,675,421	27,973,602
2018-2022	49,219,267	16,908,915
2023-2027	32,063,750	7,605,036
2028-2032	19,661,250	2,727,612
2033-2037	<u>3,931,667</u>	<u>112,697</u>
Total	<u>\$194,681,261</u>	<u>\$93,853,975</u>

A. Equipment Trust Fund Program

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for equipment purchased. Financing agreements for ETF state that the University now owns the equipment from the date of purchase.

The Statement of Net Assets line “Due from the Commonwealth” includes \$3,731,100 for equipment purchased by the University that was not reimbursed by the VCBA at year-end.



B. Defeasance of Debt

During fiscal year 2003, certain 1990B and 1993R General Obligation Bonds were defeased by the University. The net proceeds from the sale of those bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2007, \$4,770,504 of the defeased bonds was outstanding.

C. Assets Purchased Under Capital Leases

At June 30, 2007, assets purchased under capital leases were included in depreciable capital assets in the amount of \$77,248,732. The assets are net of accumulated depreciation.

10. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification which is the basis for amounts shown in the Statement of Cash Flows.

	<u>Salaries, Wages, and Fringe Benefits</u>	<u>Non-Personal Services/Supplies</u>	<u>Scholarships and Fellowships</u>	<u>Plant and Equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 84,200,826	\$10,496,847	\$ -	\$2,653,456	\$ -	\$ 97,351,129
Research	16,063,874	3,811,423	-	152,290	-	20,027,587
Public service	359,188	139,039	-	3,208	-	501,435
Academic support	21,455,366	12,207,301	-	1,034,037	-	34,696,704
Student services	7,877,935	2,141,633	-	41,189	-	10,060,757
Institutional support	18,543,952	2,823,133	-	986,823	-	22,353,908
Operation and maintenance of plant	8,888,642	8,055,574	-	3,102,906	-	20,047,122
Depreciation expense	-	-	-	-	21,580,407	21,580,407
Scholarship and related expenses	-	14,199	6,902,888	197	-	6,917,284
Auxiliary activities	<u>15,577,170</u>	<u>24,724,266</u>	<u>3,067,025</u>	<u>1,122,331</u>	<u>-</u>	<u>44,490,792</u>
Total	<u>\$172,966,953</u>	<u>\$64,413,415</u>	<u>\$9,969,913</u>	<u>\$9,096,437</u>	<u>\$21,580,407</u>	<u>\$278,027,125</u>

11. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

The following is a summary of state appropriations received by the University, including all supplemental appropriations and reversions:

Original legislative appropriation per Chapter 4:	
Educational and general programs	\$106,254,589
Student financial assistance	11,633,849
Supplemental adjustments:	
Central fund appropriation transfers	1,885,263
Eminent scholars	285,474
VIVA Interlibrary loan allocation	22,472
Virginia Modeling, Analysis, and Simulation Center	<u>4,000,000</u>
Adjusted appropriations	<u>\$124,081,647</u>

## 12. COMPONENT UNIT FINANCIAL INFORMATION

The University's component units are presented in the aggregate on the face of the financial statements. Below is a condensed summary of each foundation and the corresponding footnotes. The University has three component units - Old Dominion University Intercollegiate Foundation, Old Dominion University Educational and Real Estate Foundation, and the Old Dominion University Research Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements.

<u>Statement of Net Assets</u>	<u>Old Dominion University Intercollegiate Foundation</u>	<u>Old Dominion University Educational and Real Estate Foundation</u>	<u>Old Dominion University Research Foundation</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 339,057	\$ 11,276,401	\$ 4,471,994	\$ 16,087,452
Accounts receivable	90,316	2,640,406	12,026,987	14,757,709
Contributions receivable, net	742,519	1,270,588	-	2,013,107
Travel advances	-	-	22,959	22,959
Prepaid expenses	16,000	46,539	488,252	550,791
Other assets	<u>28,230</u>	<u>76,964</u>	<u>-</u>	<u>105,194</u>
Total current assets	<u>1,216,122</u>	<u>15,310,898</u>	<u>17,010,192</u>	<u>33,537,212</u>
Noncurrent assets:				
Investments	-	-	3,364,448	3,364,448
Other long-term investments	17,474,016	163,661,936	-	181,135,952
Contributions receivable, net	1,927,390	2,770,425	-	4,697,815
Unamortized bond issuance expense	-	2,064,609	-	2,064,609
Nondepreciable capital assets	-	16,343,997	54,802	16,398,799
Depreciable capital assets	<u>85,994</u>	<u>54,605,726</u>	<u>2,798,230</u>	<u>57,489,950</u>
Total noncurrent assets	<u>19,487,400</u>	<u>239,446,693</u>	<u>6,217,480</u>	<u>265,151,573</u>
Total assets	<u>20,703,522</u>	<u>254,757,591</u>	<u>23,227,672</u>	<u>298,688,785</u>

LIABILITES

Current liabilities:

Accounts payable	385,872	1,759,573	4,487,912	6,633,357
Deferred revenue	-	318,232	4,175,988	4,494,220
Deposits held in custody for others	-	40,660	-	40,660
Agency related payables	-	12,955,262	-	12,955,262
Line of credit	-	743,328	-	743,328
Long-term liabilities – current portion	<u>-</u>	<u>2,009,739</u>	<u>-</u>	<u>2,009,739</u>

Total current liabilities	<u>385,872</u>	<u>17,826,794</u>	<u>8,663,900</u>	<u>26,876,566</u>
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Noncurrent liabilities	<u>274,550</u>	<u>82,282,576</u>	<u>-</u>	<u>82,557,126</u>
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Total liabilities	<u>660,422</u>	<u>100,109,370</u>	<u>8,663,900</u>	<u>109,433,692</u>
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NET ASSETS

Invested in capital assets, net of related debt

	85,994	(2,701,917)	2,853,032	237,109
Permanently restricted	13,253,552	90,161,726	-	103,415,278
Temporarily restricted	5,484,540	61,069,499	10,160,840	76,714,879
Unrestricted	<u>1,219,014</u>	<u>6,118,913</u>	<u>1,549,900</u>	<u>8,887,827</u>

Total net assets	<u>\$20,043,100</u>	<u>\$154,648,221</u>	<u>\$14,563,772</u>	<u>\$189,255,093</u>
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	Old Dominion University Intercollegiate Foundation	Old Dominion University Educational and Real Estate Foundation	Old Dominion University Research Foundation	Total
<u>Statement of Revenues, Expenses, and Changes in Net Assets</u>				

Operating revenues:

Gifts and contributions	\$ 1,525,691	\$ 7,675,347	\$ 104,750	\$ 9,305,788
Indirect cost	-	-	6,817,565	6,817,565
Sponsored research	-	-	28,574,090	28,574,090
Other operating revenues	<u>307,771</u>	<u>8,234,175</u>	<u>2,276,451</u>	<u>10,818,397</u>

Total operating revenue	<u>1,833,462</u>	<u>15,909,522</u>	<u>37,772,856</u>	<u>55,515,840</u>
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Operating expenses:

Instruction	-	2,316,971	-	2,316,971
Research	-	-	33,818,421	33,818,421
Academic support	81,960	3,064,891	-	3,146,851
Institutional support	911,262	6,150,163	4,130,549	11,191,974
Operation and maintenance of plant	-	117,269	-	117,269

Depreciation	43,357	2,431,845	-	2,475,202
Student aid	<u>439,296</u>	<u>770,213</u>	<u>-</u>	<u>1,209,509</u>
Total operating expenses	<u>1,475,875</u>	<u>14,851,352</u>	<u>37,948,970</u>	<u>54,276,197</u>
Operating loss gain/(loss)	<u>357,587</u>	<u>1,058,170</u>	<u>(176,114)</u>	<u>1,239,643</u>
Investment income	1,789,256	16,667,540	416,798	18,873,594
Contributions to permanent endowments	<u>3,522,397</u>	<u>1,297,215</u>	<u>-</u>	<u>4,819,612</u>
Increase in net assets	5,669,240	19,022,925	240,684	24,932,849
Beginning net assets	<u>14,373,860</u>	<u>135,625,296</u>	<u>14,323,088</u>	<u>164,322,244</u>
Ending net assets	<u>\$20,043,100</u>	<u>\$154,648,221</u>	<u>\$14,563,772</u>	<u>\$189,255,093</u>

	Old Dominion University Intercollegiate Foundation	Old Dominion University Educational and Real Estate Foundations	Total
<u>Contributions Receivable</u>			
Receivable due in less than one year,	\$ 960,057	\$1,666,937	\$2,626,994
Less allowance for doubtful accounts	<u>217,538</u>	<u>396,349</u>	<u>613,887</u>
Net current accounts receivable	<u>742,519</u>	<u>1,270,588</u>	<u>2,013,107</u>
Receivable due in greater than 1 year, net of discount (\$933,666)	1,983,792	2,914,485	4,898,277
Less allowance for doubtful accounts	<u>56,402</u>	<u>144,060</u>	<u>200,462</u>
Net noncurrent contributions receivable	<u>1,927,390</u>	<u>2,770,425</u>	<u>4,697,815</u>
Total contributions receivable	<u>\$2,669,909</u>	<u>\$4,041,013</u>	<u>\$6,710,922</u>

## Investments

The Foundations record investments at market except for real estate held for investment, which is recorded at the lower of cost or fair market value.

### Summary Schedule of Investments

	Old Dominion University Intercollegiate Foundation	Old Dominion University Educational and Real Estate Foundation	Old Dominion University Research Foundation	Total
U.S. treasury and agency securities	\$ 1,966,564	\$ 18,271,633	\$2,871,547	\$ 23,109,744
Common and preferred stocks	1,093,896	10,561,398	52,534	11,707,828
Municipal securities	2,150,000	1,650,125	-	3,800,125
Mutual and money market funds	8,237,753	82,605,957	440,367	91,284,077
Real estate	-	259,000	-	259,000
Foreign government obligations	5,000	5,000	-	10,000
Alternative investments	4,020,803	37,348,925	-	41,369,728
Managed investments	<u>-</u>	<u>12,959,898</u>	<u>-</u>	<u>12,959,898</u>
Total	<u>\$17,474,016</u>	<u>\$163,661,936</u>	<u>\$3,364,448</u>	<u>\$184,500,400</u>

## Capital Assets

	Old Dominion University Intercollegiate Foundation	Old Dominion University Educational and Real Estate Foundation	Old Dominion University Research Foundation	Total
Nondepreciable capital assets:				
Land	\$ -	\$ 13,250,896	\$ 54,802	\$ 13,305,698
Construction in progress	<u>-</u>	<u>3,093,101</u>	<u>-</u>	<u>3,093,101</u>
Total nondepreciable capital assets	<u>-</u>	<u>16,343,997</u>	<u>54,802</u>	<u>16,398,799</u>
Depreciable capital assets:				
Buildings	-	58,540,754	1,019,489	59,560,243
Equipment	<u>434,017</u>	<u>3,167,350</u>	<u>13,844,812</u>	<u>17,446,179</u>
Total depreciable capital assets	<u>434,017</u>	<u>61,708,104</u>	<u>14,864,301</u>	<u>77,006,422</u>
Less accumulated depreciation for:				
Buildings	-	5,881,973	725,266	6,607,239
Equipment	<u>348,023</u>	<u>1,220,405</u>	<u>11,340,805</u>	<u>12,909,233</u>
Total accumulated depreciation	<u>348,023</u>	<u>7,102,378</u>	<u>12,066,071</u>	<u>19,516,472</u>
Total depreciable capital assets, net	<u>85,994</u>	<u>54,605,726</u>	<u>2,798,230</u>	<u>57,489,950</u>
Total capital assets, net	<u>\$ 85,994</u>	<u>\$ 70,949,723</u>	<u>\$ 2,853,032</u>	<u>\$ 73,888,749</u>

Long-Term Liabilities

Old Dominion University Intercollegiate Foundation

Trust and annuity obligations \$274,550

Educational and Real Estate Foundations

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>December 31, 2006</u>
Bonds payable:			
Norfolk Redevelopment and Housing Authority Revenue Bonds Series 2005	Variable	2033	\$56,560,000
Norfolk Redevelopment and Housing Authority Revenue Bonds Series 2006	Variable	2031	<u>12,615,000</u>
Total bonds payable			<u>69,175,000</u>
Notes payable			
ODU Inn	6.597%	2011	3,271,432
University Village Apartments	5.60%	2010	4,980,000
Parking Deck – 45 <sup>th</sup> Street	6.20%	2010	<u>1,450,000</u>
Total notes payable			<u>9,701,432</u>
Installment purchases			
Phone installation – Phase I		2007	48,682
Phone installation – Phase II		2008	70,051
Total installment purchases			118,733
Capital lease		2008-2009	122,048
Other long-term liabilities			<u>5,175,102</u>
Total long-term debt			<u>84,292,315</u>
Total component unit long-term liabilities			<u>\$84,566,865</u>

Long-term debt maturities are as follows for bonds payable, notes payable, installment purchases, and capital leases:

2007	\$ 2,009,739
2008	1,836,397
2009	1,889,669
2010	1,977,558
2011	4,568,850
Thereafter	<u>66,835,000</u>
Total	<u>\$79,117,213</u>

### Other Significant Transactions with Old Dominion University

In May 2006, the University entered into a Deed of Lease Agreement with Old Dominion University Real Estate Foundation. The University entered into the agreement in conjunction with the issuance by the Norfolk Redevelopment and Housing Authority of its Variable Rate Demand Revenue Bonds (Old Dominion University Real Estate Foundation 45<sup>th</sup> Street Parking Garage, LLC Project), Series 2006. Under the agreement, the University will repay the aggregate principal for the Series 2006 in the amount of \$12,615,000, including bond issuance costs and the Term Loan in the amount of \$1,450,000. At the expiration of the lease term on August 15, 2031, the Old Dominion University Real Estate Foundation shall transfer the project to the University. As such the University has recorded a capital lease in the amount of \$14,065,000.

August 2006, the University entered into a Deed of Lease Agreement with Old Dominion University Real Estate Foundation. The University entered into the agreement for the Norfolk Redevelopment and Housing Authority of its Variable Rate Demand Revenue Bonds (Old Dominion University Real Estate Foundation Student Housing, LLC University Village Student Housing Project), Series 2005. Under the agreement, the University will repay the aggregate principal for the Series 2005 in the amount of \$56,560,000, and the Taxable Loan in the amount of \$4,980,000. At the expiration of the lease term on August 1, 2033, the Old Dominion University Real Estate Foundation shall transfer the project to the University. As such the University has recorded a capital lease in the amount of \$61,540,000.

Direct payments to the University from the Old Dominion University Educational Foundation, Old Dominion University Intercollegiate Foundation, and the Old Dominion University Research Foundation for the year ended June 30, 2007, totaled \$7,008,371, \$675,175, and \$2,439,008 respectively. This includes gift transfer, payments for facilities, and services.

### Component Unit Subsequent Events

In February 2007, the Intercollegiate Foundation entered into a deferred compensation agreement with a member of the athletic staff that provides for a total deferred compensation of \$100,000, earned ratably over the period 2007 through 2011, plus 4.5 percent interest.

In April 2007, the Intercollegiate Foundation made a disbursement to a member of the athletic staff under an existing deferred compensation arrangement. The amount of the deferred compensation paid was \$299,400.

In its role in the management of the endowments, the Education Foundation enters into agreements with limited partnerships that invest in various alternative investment strategies. These agreements commit the Foundation to invest a specified amount of money over a period of time. After year-end, the Educational Foundation signed agreements to invest an additional \$9,500,000 in various partnerships.

Also, an additional LLC was established for the Tri-Cities Center, the Old Dominion University Real Estate Foundation Tri-Cities Center Project II, LLC for the purpose of aiding the University and an outside developer in developing this project. The Real Estate Foundation owns 99.9 percent of this entity. The Executive Director of the Real Estate Foundation owns the remaining interest.

In addition, the Real Estate Foundation secured a line of credit in February 2007 in the amount of \$7,000,000 for the purpose of purchasing additional properties for future projects.

Furthermore, the Educational Foundation Board has authorized a transfer of up to \$800,000 to assist the Real Estate Foundation in the development of the University Village. The transfer of funds can be made in two annual increments of up to \$400,000 beginning in 2008. In consideration for the approved grant of funds, the Educational Foundation will be provided space and furnishings in the University Bookstore without further charge.

13. COMMITMENTS

At June 30, 2007, the University was a party to construction and other contracts totaling approximately \$80,724,467 of which \$54,386,185 has been incurred.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for a two-year term and the space leases are for varying terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, similar leases will replace these leases. Rental expense was approximately \$3,851,897 for the year ended June 30, 2007.

The University has, as of June 30, 2007, the following future minimum rental payments due under the above leases:

<u>Year ending June 30</u>	<u>Operating lease Obligation</u>
2008	\$ 3,065,181
2009	2,945,878
2010	2,945,493
2011	2,505,647
2012	2,550,361
2013-2017	13,518,411
2018-2022	<u>6,153,478</u>
Total	<u>\$33,684,449</u>

14. RETIREMENT PLANS

A. Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia and therefore participate in the Commonwealth's defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is a multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information related to the plan is available at the statewide level only and can be found in the Commonwealth of Virginia's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2007. The same report contains historical trend



information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$6,686,278 for the year ended June 30, 2007. The retirement contribution rate was 10.94 percent for state employees and 19.96 percent for Virginia Law Officers' Retirement System (VaLORS) for fiscal year 2007. Contributions to VRS were calculated using the base salary amount of approximately \$60,594,781 for the year ended June 30, 2007. The University's total payroll was approximately \$131,003,421 for the fiscal year ended June 30, 2007.

B. Optional Retirement Plan

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. The two providers are TIAA/CREF Insurance Companies and Fidelity Investment Tax-Exempt Services. These are fixed contribution programs where the retirement benefits received are based upon employer contributions of 5.4 percent and employee contribution of five percent, and interest and dividends. Individual contracts issued under the plans provide for full and immediate vesting of both University and employee contributions. Total pension costs under these plans were approximately \$4,586,901 for the year ended June 30, 2007. Contributions to other retirement plans were calculated using the base salary amount of approximately \$44,104,817.

C. Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was \$450,516 for fiscal year 2007.

15. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance program which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of State service and participate in the State's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

16. CONTINGENCIES

The University has received grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2007, the University estimates that no material liabilities will result from such audits or questions.

17. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.



**Walter J. Kucharski, Auditor**

# Commonwealth of Virginia

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

May 30, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Visitors  
Old Dominion University

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **Old Dominion University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of Old Dominion University as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages two through six is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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 an instance of noncompliance that is required to be reported under Government Auditing Standards. An instance of noncompliance entitled "Improve Employment Eligibility Verification Process," is described in the section titled "Compliance Finding and Recommendation."

The University's response to the finding identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

### Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on June 2, 2008.

AUDITOR OF PUBLIC ACCOUNTS

CDH/wdh



VICE PRESIDENT FOR ADMINISTRATION AND FINANCE  
NORFOLK, VIRGINIA 23529-0014  
PHONE: (757) 683-3464

June 6, 2008

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218-1295

Dear Mr. Kucharski:

Old Dominion University has reviewed the internal control finding and recommendation provided by the Auditor of Public Accounts for the fiscal year ending June 30, 2007. The University agrees with your office's finding. The finding is listed below followed by the University's corrective action plan.

**Finding: Improve Employment Eligibility Verification Process**

**Old Dominion University Management Response:**

University management understands the importance of complying with federal regulations concerning employment eligibility. The Department of Human Resources has already taken action to ensure compliance. In January, 2008 Human Resources audited the I-9 forms for classified and hourly employees hired in 2007 to ensure accurate and timely completion of the forms. As a result of this audit, additional information and training was provided to HR staff who process I-9 forms.

Additionally, the University will implement an institutional policy on the Immigration Reform and Control Act to heighten the level of awareness for strict compliance with IRCA. Responsible departments will be clearly identified in the policy. The policy should be in place by July 1, 2008. New employees who do not submit the appropriate documentation within the federally mandated three-day timeframe are terminated automatically by Human Resources, unless the employee produces a receipt within three days proving that appropriate application has been made to obtain documents that were lost, stolen or destroyed.

- Human Resources will coordinate the review of the current I-9 process and procedures with the responsible departments and employees and make adjustments where needed to ensure compliance. The process and procedures will also include action items related to auditing I-9s on a periodic basis. This action should be completed by July 21, 2008.
- To help ensure compliance, Human Resources will develop and implement a Checklist for Completing I-9 Forms to be used by staff for the proper completion of each I-9 Form. This action should be completed by July 21, 2008.

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- Human Resources, in cooperation with International Student and Scholar Services, will conduct training for staff on the requirements for completing the I-9 Form. The initial training should begin around August 1, 2008 and be completed by September 15, 2008. I-9 training will continue to be offered on a regular basis.
- Human Resources staff will conduct quarterly audits of I-9 forms for all employee types, identify any discrepancies, document the findings, take action to correct any discrepancies, and follow-up with staff to provide additional training and information as needed. I-9s for the first quarter of FY09 will be audited in October, 2008.

Please contact me if additional information is needed. On behalf of Old Dominion University, please extend my appreciation to all of your staff for their professional audit work and recommendation.

Sincerely,



Robert L. Fenning  
Vice President for Administration and Finance

OLD DOMINION UNIVERSITY  
Norfolk, Virginia

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